

As confidentially submitted to the Securities and Exchange Commission on August 20, 2021  
 This Amendment No. 2 to the draft registration statement has not been publicly filed with the Securities and Exchange Commission and  
 all information herein remains strictly confidential

Registration No. 333-

**UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION**  
 Washington, D.C. 20549  
**FORM S-1**  
 REGISTRATION STATEMENT  
 UNDER  
 THE SECURITIES ACT OF 1933

**ARTERIS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
 (State or other jurisdiction of  
 incorporation or organization)

**3674**  
 (Primary Standard Industrial  
 Classification Code Number)  
**595 Millich Dr. Suite 200**  
**Campbell, CA 95008**  
**Telephone: (408) 470-7300**

**27-0117058**  
 (I.R.S. Employer  
 Identification No.)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**K. Charles Janac**  
**Arteris, Inc.**  
**President and Chief Executive Officer**  
**595 Millich Dr. Suite 200**  
**Campbell, CA 95008**  
**Telephone: (408) 470-7300**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

**Copies of all communications, including communications sent to agent for service, should be sent to:**

**Jack Sheridan**  
**Page Mailliard**  
**Phillip S. Stoup**  
**Latham & Watkins LLP**  
**140 Scott Drive**  
**Menlo Park, CA 94025**  
**Telephone: (650) 328-4600**  
**Facsimile: (650) 463-2600**

**Paul L. Alpern**  
**Arteris, Inc.**  
**Vice President, General Counsel**  
**595 Millich Dr. Suite 200**  
**Campbell, CA 95008**  
**Telephone: (408) 470-7300**

**Eric Jensen**  
**Seth Gottlieb**  
**Richard Segal**  
**Cooley LLP**  
**3175 Hanover Street**  
**Palo Alto, CA 94304**  
**Telephone: (650) 843-5000**  
**Facsimile: (650) 849-7400**

**Approximate date of commencement of proposed sale to the public:**  
**As soon as practicable after this registration statement is declared effective.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>
	Emerging growth company <input checked="" type="checkbox"/>

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 7(a)(2)(B) of the Securities Act.

**CALCULATION OF REGISTRATION FEE**

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)(2)	AMOUNT OF REGISTRATION FEE (3)
Common stock, par value \$0.0001 per share	\$	\$

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Includes the offering price of shares of common stock that may be sold if the option to purchase additional shares of common stock granted by the Registrant to the underwriters is exercised in full. See "Underwriting."

(3) Calculated pursuant to Rule 457(o) based on an estimate of the proposed maximum aggregate offering price.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION. DATED \_\_\_\_\_, 2021.

PRELIMINARY PROSPECTUS

Shares



Arteris, Inc.

Common Stock

This is an initial public offering of shares of common stock of Arteris, Inc. We are offering \_\_\_\_\_ shares of our common stock.

Prior to this offering, there has been no public market for our common stock. It is currently estimated that the initial public offering price per share will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_. We intend to apply to list our common stock on the Nasdaq Global Market under the symbol "AIP."

We are an "emerging growth company" and a "smaller reporting company" as defined in Section 2(a) of the Securities Act of 1933, as amended, and are subject to reduced public company disclosure requirements. See "Prospectus Summary—Implications of Being an Emerging Growth Company and a Smaller Reporting Company."

Investing in our common stock involves a high degree of risk. See "[Risk Factors](#)" beginning on page 18 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Initial public offering price	\$ _____	\$ _____
Underwriting discounts and commissions (1)	\$ _____	\$ _____
Proceeds to us, before expenses	\$ _____	\$ _____

(1) We refer you to "Underwriting" beginning on page 130 for additional information regarding underwriting compensation.

Delivery of the shares of common stock is expected to be made on or about \_\_\_\_\_, 2021.

We have granted the underwriters an option for a period of 30 days to purchase an additional \_\_\_\_\_ shares of our common stock. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be \$ \_\_\_\_\_, and the total proceeds to us, before expenses, will be \$ \_\_\_\_\_.

Jefferies

Cowen

BMO Capital Markets

Northland Capital Markets

Rosenblatt Securities

\_\_\_\_\_, 2021.

## TABLE OF CONTENTS

---

	<u>PAGE</u>
<a href="#">TRADEMARKS, TRADE NAMES AND SERVICE MARKS</a>	1
<a href="#">MARKET AND INDUSTRY DATA</a>	2
<a href="#">PROSPECTUS SUMMARY</a>	3
<a href="#">RISK FACTORS</a>	18
<a href="#">CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</a>	50
<a href="#">USE OF PROCEEDS</a>	51
<a href="#">DIVIDEND POLICY</a>	52
<a href="#">CAPITALIZATION</a>	53
<a href="#">DILUTION</a>	55
<a href="#">UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION FOR MAGILLEM</a>	58
<a href="#">MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	62
<a href="#">BUSINESS</a>	87
<a href="#">MANAGEMENT</a>	107
<a href="#">EXECUTIVE COMPENSATION</a>	114
<a href="#">CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</a>	124
<a href="#">PRINCIPAL STOCKHOLDERS</a>	125
<a href="#">DESCRIPTION OF CAPITAL STOCK</a>	126
<a href="#">SHARES ELIGIBLE FOR FUTURE SALE</a>	132
<a href="#">MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS</a>	134
<a href="#">UNDERWRITING</a>	138
<a href="#">LEGAL MATTERS</a>	146
<a href="#">EXPERTS</a>	147
<a href="#">WHERE YOU CAN FIND MORE INFORMATION</a>	148
<a href="#">INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</a>	F-1

---

Neither we nor the underwriters have authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any related free writing prospectus. We and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered by this prospectus, and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus or in any applicable free writing prospectus is current only as of its date. Our business, financial condition, results of operations and prospects may have changed since that date.

---

## [Table of Contents](#)

**For investors outside the United States:** We have not, and the underwriters have not, done anything that would permit this offering or the possession or distribution of this prospectus or any free writing prospectus in connection with this offering in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside the United States. See “Underwriting.”

As used in this prospectus, unless the context otherwise requires, references to “we,” “us,” “our,” “our business,” the “company,” “Arteris” and similar references refer to Arteris, Inc. and, where appropriate, its consolidated subsidiaries.

**Through and including \_\_\_\_\_, 2021 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer’s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.**

## TRADEMARKS, TRADE NAMES AND SERVICE MARKS

This prospectus includes our trademarks, trade names and service marks, including, without limitation, “Arteris IP®,” “Arteris,®” “FlexNoC®, Ncore®,” “CodaCache®” and our logo, which are protected under applicable intellectual property laws and are our sole property. This prospectus also contains trademarks, trade names and service marks of other companies, which are the property of their respective owners. Solely for convenience, trademarks, trade names and service marks referred to in this prospectus may appear without the ®, ™ or SM symbols, but such references are not intended to indicate, in any way, that we or the applicable owner will not assert, to the fullest extent permitted under applicable law, our or its rights or the right of any applicable licensor to these trademarks, trade names and service marks. We do not intend our use or display of other parties’ trademarks, trade names or service marks to imply, and such use or display should not be construed to imply, a relationship with, or endorsement or sponsorship of us by, these other parties.

## MARKET AND INDUSTRY DATA

This prospectus includes estimates regarding market and industry data. Unless otherwise indicated, such information reflects our estimates based on analysis of multiple sources, including publicly available information, data compiled by professional organizations in the industry, reports from government agencies and reports by market research firms consultants and analysts and information otherwise obtained from other third party sources, including information from IHS Markit's proprietary Semiconductor Market Tracker Forecast—March 2021; Accenture, Gaining the Edge: Semiconductors and the 5G Opportunity, July 2020; Gartner Market Trends: 5G Impact on Smartphone Semiconductors April 2020; IP Nest Design IP Report, Market Share: Semiconductor Design Intellectual Property, Worldwide, 2020; McKinsey & Company, Automotive Software and Electronics 2030, July 2019; McKinsey & Company, McKinsey on Semiconductors, October 2019; McKinsey & Company, McKinsey on Semiconductors, October 2019; Deloitte Global, Semiconductors—the Next Wave Opportunities and winning strategies for semiconductor companies, April 2019; and our internal data and our own knowledge of and experience in the industry and market sectors in which we compete.

In presenting this information, we have made certain assumptions that we believe to be reasonable based on such data and other similar sources and on our knowledge of, and our experience to date in, the markets in which we operate. While we believe the estimated market and industry data included in this prospectus are generally reliable, such information, which is derived in part from management's estimates and beliefs, is inherently uncertain and imprecise, and you are cautioned not to give undue weight to such estimates. Market and industry data are subject to change and may be limited by the availability of raw data, the voluntary nature of the data gathering process and other limitations inherent in any statistical survey of such data. In addition, projections, assumptions and estimates of the future performance of the markets in which we operate are necessarily subject to uncertainty and risk due to a variety of factors, including those described in "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements." These and other factors could cause results to differ materially from those expressed in the estimates made by third parties and by us. Accordingly, you are cautioned not to place undue reliance on such market and industry data or any other such estimates. The content of, or accessibility through, the sources and websites identified herein, except to the extent specifically set forth in this prospectus, does not constitute a part of this prospectus and are not incorporated herein and any websites are an inactive textual reference only.

## PROSPECTUS SUMMARY

*This summary highlights selected information contained in greater detail elsewhere in this prospectus. This summary does not contain all of the information that you should consider before deciding to invest in our common stock. You should read the entire prospectus carefully, including the “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections and our audited financial statements and the related notes included elsewhere in this prospectus before making an investment decision. Some of the statements in this prospectus constitute forward-looking statements that involve risks and uncertainties. See “Cautionary Note Regarding Forward-Looking Statements.”*

### Overview

We are a leading provider of interconnect and other intellectual property (“IP”) technology that manages the on-chip communications in System-on-Chip (“SoC”) semiconductor devices. Our products enable our customers to deliver increasingly complex SoCs that not only process data but are also able to make decisions. Growth in the total addressable market (“TAM”) for our solutions is being driven by the addition of more processors, channels of memory access, machine learning sections, chiplets, additional input/output (“I/O”) interface standards and other subsystems within SoCs. The growth in the numbers of these connected on-chip subsystems place an increasing premium on the interconnect IP’s capability to move data inside complex SoCs. We believe this increase in SoC complexity is creating a significant opportunity for sophisticated SoC system IP solutions, which consist of Network-on-Chip (“NoC”) interconnect IP, IP deployment software and NoC interface IP (consisting of peripheral data transport IPs and control plane networks connected to NoC interconnect IP).

Founded in 2003, we believe we have pioneered and emerged as a global leader in the development of interconnect IP technology for on-chip communication that address the complexity, performance and cost requirements of advanced SoC semiconductors. Over time, we have expanded and scaled our interconnect IP and other IP businesses to provide hardware, software, documentation licenses, support and training under a license fee and a royalty business model, to companies that design and produce semiconductors worldwide. Our IP deployment solutions, which were significantly enhanced by our acquisition of Magillem Design Services SA (“Magillem”) in late 2020, complement our interconnect IP solutions by helping to automate not only the customer configuration of interconnects, but also the process of integrating and assembling all the customer’s IP blocks into an SoC. Products incorporating our IP are used to carry important data inside complex SoCs for sophisticated applications, including automated driving, artificial intelligence/machine learning (“AI/ML”), 5G and wireless communications, data centers, and consumer electronics, among other applications.

Our interconnect IP solutions offer proven connections to multiple industry standard processors such as Arm, RISC-V, CEVA, Synopsys ARC and MIPS, as well as memory controllers, I/O and a variety of IP subsystems, to enable customers to integrate such IP blocks with high levels of efficiency and performance. Our solutions enable customer innovation because they are configurable for each customer’s design flow and SoC development projects, and have wide applicability for many types of complex SoCs. Our products have been designed into billions of SoCs.

Traditional on-chip communication methods, including bus and crossbar, are generally inadequate in handling advanced semiconductor communications for sophisticated applications. Technological advancements have led to increasingly complex SoCs that integrate numerous functions into a single semiconductor device. Massive amounts of wires, challenging timing closure and routing congestion lead to greater die area and chip cost. Increased transistor density and design frequencies create higher power consumption leading to heat dissipation challenges and shorter battery life for electronic devices. These challenges have significantly complicated SoC innovation.

We leveraged our extensive technological expertise to develop a new method for on-chip communication to address these critical semiconductor development challenges. We accomplished this by pioneering the use of

proprietary networking techniques for on-chip communications to remove the inherent architectural limitations of traditional on-chip communications, thereby improving ease of integration, performance, silicon area, and power consumption. In doing so, we enable our customers to achieve their design goals faster, easier and at lower costs. We also offer an interconnect configuration cockpit that intelligently assembles a NoC interconnect from a library of NoC interconnect IP elements. In addition, our IP deployment software enables easier IP integration of our interconnect IPs – among other IP blocks that make up an SoC.

We work directly with our customers throughout the SoC development process and seek to develop long-term, sustainable relationships with them as our technology becomes embedded in their products. We also leverage our long history in interconnect IP designs and are able to serve a broad range of applications and deliver customer-specific features that are useful to our other customers. For example, we are a leader in the market of interconnect for advanced driver assistance systems (“ADAS”) SoCs, which we believe is a result of our quality, reliability, and innovative technology targeted at that business application.

We provide solutions for the global SoC market and we estimate our TAM for SoC system IP solutions to be \$1.1 billion in 2020. We estimate that our TAM will reach \$3.2 billion in 2026, driven by an increasing number of SoC designs and growing complexity, increasing average selling prices of interconnect IP and IP deployment software, and our move deeper into the NoC interface IP market segment. More specifically, we believe our growth will be driven by technology trends requiring more sophisticated on-chip processing in the automotive, AI/ML, 5G and wireless communications, data center and consumer electronic markets. Also, the need for sophisticated SoC system IP products is growing rapidly in order to address the requirements of smaller die size, lower power consumption and higher operation frequency, as well as management of critical net latency in a timely and cost-effective manner. As a result, we believe these trends have led to an increased economic benefit of in-licensing commercial semiconductor design IP.

During 2020, we generated \$31.8 million in revenue, which includes in each period revenue recognized pursuant to substantial up front licensing payments due to how we structured certain customer contracts during these periods, \$2.2 million in cash flows from operating activities, and \$3.3 million in net loss. We expect to incur further net losses in the short term as we invest in our business. As of December 31, 2020, we had Annual Contract Value, which we define for an individual customer agreement as the total fixed fees under the agreement divided by the number of years in the agreement term, of \$37.7 million. Since inception, our interconnect IP solutions have been used in over 500 unique SoC Design Starts, which we define as when customers commence new semiconductor designs using our interconnect IP and notify us. As of June 30, 2021, we had 166 Active Customers for both IP licensing and software products. We define Active Customers as customers who have entered into a license agreement with us that remains in effect in our installed base across multiple applications that are utilizing our SoC system IP solutions in production.

### **Industry Background**

Historically, a chip's complexity was much lower as processors were connected to memories with relatively few peripheral IP block functions. With the rise of machine learning algorithms, such as convolutional neural networks, and semiconductor process technologies at 16 nanometers or smaller geometries, it became possible to build decision-making SoCs for applications such as automated driving and data center advertising acceleration. Integration of processors, accelerators, machine learning subsystems, sophisticated multi-channel memories, and an ever-larger number of interface standards have placed a premium on the ability to move data efficiently inside the SoC and between SoC chiplets.

The slowing of Moore's law and the need for more functionality and performance has necessitated new architectural paradigms and accelerated the move to more advanced process nodes. This has resulted in the adoption of significantly more expensive and complex chip design methods and manufacturing processes, creating a substantial rise in semiconductor design costs. Costs are projected to continue to rise as the number of IP blocks on an SoC are projected to increase more than 20% from 2021 to 2024 according to Semico Research, placing increasing importance on the cost efficiencies provided by SoC system IP solutions. Increasing SoC complexity has also led to increasingly complex IP interconnects, as today's SoCs contain multiple types of data traffic in the same design and a large number of IP blocks in complex SoCs means that



more data traffic must be successfully managed. Further, as SoC size has grown, SoCs are being split into chiplets, which are smaller pieces of silicon packaged together into one SoC unit. Communication between chiplets adds complexity, which increases the value of interconnect IP.

Further, with potentially hundreds of IP blocks coming from a variety of vendors and internal development groups, SoC teams need to manage the IP supply chains with increasingly capable IP deployment software and capable SoC integration methodologies. These developments have driven the semiconductor industry to use IP deployment standards such as IP-XACT that are becoming increasingly sophisticated with each generation and require more sophisticated software to support them.

New applications in markets such as automotive, AI/ML, 5G and wireless communications and data centers have increased the demand for complex SoC designs. Chips used for AI training and inference acceleration have increased in die size, further increasing design costs with new design complexities and performance requirements. Also, new market participants, such as electronic system companies, Internet hyperscalers, and automotive original equipment manufacturers (“OEMs”), have begun internally developing their own chips. The increasing demand from current and new market entrants is increasing the need for SoC system IP solutions.

Because it is difficult, time consuming and expensive to develop state-of-the-art SoC interconnect IP solutions, we believe the development of interconnect IP solutions are increasingly being outsourced to third-party commercial vendors. Commercial interconnect vendors, such as Arteris IP, have the potential to accelerate time-to-market because they engage with a greater variety of SoC applications and a greater variety of designs than the typical internal interconnect teams and are often able to spread interconnect and SoC development costs across a greater number of projects than internal interconnect and design teams.

### **SoC System IP Market**

SoC-type semiconductors consist of pre-made IP blocks that are either licensed from third parties by semiconductor and electronics companies or developed in-house. These IP blocks must be assembled into SoCs as efficiently as possible to address end equipment and OEM customer requirements. Many of these IP blocks, including processors and other functional blocks, such as modems and vision subsystems, perform processing functions and execute complex software stacks. These IP blocks can number in the hundreds on a single chip and generate and consume commands and data, as well as work together as a unit. As SoCs become more complex, there has emerged a class of “system IP and software tools” designed to assemble these IP blocks into a functioning SoC at target cost and performance. We call this the SoC system IP market. The SoC system IP market consists of interconnect IP, IP deployment software and NoC interface IP. In 2020, there were approximately 400 SoC companies and 25 billion SoC units were shipped. Our SoC system IP is used across a broad set of applications, with a market that we estimate is \$1.1 billion in 2020 and will expand to \$3.2 billion in 2026. We believe our 2026 estimated TAM will comprise an approximately \$1.6 billion NoC Interconnect IP market, an approximately \$500 million IP deployment software market and an approximately \$1.1 billion NoC Interface IP market. According to Deloitte, automotive electronics and industrial electronics are expected to be the fastest growing markets in the semiconductor industry, with revenue from consumer electronics, data processing and communication electronics set to grow steadily.

- **Automotive Market.** The automotive market is undergoing technology disruption with the advent of automated driving, electrification, electronic control unit consolidation and vehicle connectivity to the internet. As a result, the number of complex SoCs and MCUs in ADAS vehicles is expected to grow at a compound annual growth rate (“CAGR”) of 33% between 2020 and 2026. These innovations are expected to lead to dramatic increases in the amount spent on semiconductor content in cars from \$92 billion in 2020 to a projected \$129 billion by 2025, according to McKinsey and Company.
- **Artificial Intelligence/Machine Learning Market.** With the advent of AI/ML, semiconductors have changed from being data processors to sophisticated and adaptive decision-making devices. AI/ML SoCs must be “trained” on large data sets that have to be collected from real world data utilizing

“training” SoCs. AI/ML is deployed in cloud data centers for applications such as personalized advertising and credit card fraud detection. AI/ML is also deployed at the edge of networks for applications such as automated driving, cell phones and numerous other applications.

- **5G and Wireless Communications Market.** According to Gartner, 5.8 billion enterprise and automotive IoT endpoints were connected to the internet in 2020. Today, many of these endpoints are connected using 5G wireless communications and we believe that the number of 5G connected endpoints will significantly grow in the future. We believe the transition to 5G will accelerate SoC System IP market growth because the high complexity of 5G chips require more stringent requirements for bandwidth, latency, and power consumption, making an easy-to-integrate, high performance and low power on-chip interconnect a critical requirement. Gartner estimates 5G infrastructure semiconductor revenue will exceed \$1 billion by 2024.
- **Other Applications.** Large scale cloud data centers are augmenting and replacing corporate data centers. This evolution expands the market size and value for enterprise solid state storage systems and the custom ASICs that control them, further strengthening demand for interconnect technologies that improve storage performance and provide data integrity. In addition, hyperscale computing companies like Google, Amazon, Microsoft and Facebook are now creating proprietary chips for their own products that may create opportunities for third-party SoC system IP solutions. The consumer electronics market is also expected to require increasingly complex chips primarily driven by the incorporation of AI/ML processing and 5G communications.

### Industry Challenges

Interconnect IP development is a challenging, time consuming, and expensive process. The need for robust, maintainable interconnect technology becomes increasingly important as chip designs become more complex and larger in size, both driven by advances in semiconductor manufacturing technology. Key interconnect IP development requirements and challenges include:

- **Deep technical expertise and knowledge.** Interconnect development requires an interdisciplinary engineering team with expertise and skill sets across a wide-range of engineering and scientific domains including hardware architecture, design, verification, EDA-class software development, and SystemC modeling, as well as deep understanding of physical design, design methodologies and networking architectures. The design process requires expertise in developing advanced hardware architectures, engineers that have an awareness of the physical implementation and floorplan of the target chip in order to generate an architecture that meets SoC requirements, and in-depth knowledge of graph theory, common interface protocols, data models, and graphical user interfaces.
- **High quality.** Interconnect IP requires a systematic deployment of quality-oriented methodologies, as any customer-level problems in the interconnect will result in SoC project delays or even project failures. Engineering teams creating interconnects must invest heavily not only in skilled engineering resources to develop and verify, but also processes and methodologies that provide early indication of any potential quality issues.
- **Safety standards.** High reliability of the interconnect is a heightened requirement for mission-critical markets including automotive, industrial robotics, medical and space.
- **Long time commitment and high investment cost.** We believe the engineering development cycle for each new interconnect and the market development cycle to establish a significant market position for a customer or for a commercial vendor requires large teams, many years and great expense. Additionally, we believe the investment required by a customer to internally create a configurable interconnect technology for a new SoC can be very expensive compared to the cost of licensing from a proven interconnect IP provider.

Given the above requirements and challenges, developing commercial interconnect IP and software tools requires large engineering teams with advanced skillsets, significant amounts of time, and substantial financial investment. By licensing commercial interconnect IP, companies can free up resources to focus on developing new product capabilities and differentiators. Further, we believe the large investments needed to develop commercial interconnect IP also create barriers to entry for potential commercial competitors.

## Our Solutions and Competitive Strengths

We are a leading provider of interconnect and other IP technology that manages the on-chip communications in SoC semiconductor devices. We believe our SoC system IP is integral to our customers in the automotive, AI/ML, 5G and wireless communications, data centers, consumer electronics and other markets. Our core strengths include:

- **We help accelerate our customers' time to market.** Our interconnect hardware and SoC cockpit software helps accelerate SoC development and integration at several different steps in the SoC design cycle. Our SoC system IP product lines are structured so that our customers can customize the interconnect for their needs, helping accelerate interconnect IP customization for their particular SoC configurations. In addition to interconnect IP productivity features, we offer a combination of automated interconnect configuration software, pre-verified interfaces to IP block protocols, pre-verified interfaces to EDA tools and a pre-verified interconnect IP element library for rapid generation of customer specific interconnect IP products. Our IP deployment solutions also help accelerate SoC development by enabling the IP blocks making up an SoC to be packaged in a standard format called IP-XACT (Institute of Electrical and Electronics Engineers – IEEE 1685), which provides a uniform IP block assembly and reuse methodology.
- **Our products help improve performance of our customers' SoCs.** We believe that using our SoC system IP solutions can result in improved SoC metrics such as higher performance, lower power consumption and smaller die area. We have extensive low power management features and we enable customers to partition their designs into "frequency domains", allowing some domains to run at higher frequencies than others, in order to trade-off performance against SoC power consumption.
- **We enable lower customer research and development and SoC unit costs.** We believe that we enable lower chip research and development costs, lower SoC unit costs and reduce project risk as compared to solutions developed internally or licensed from another vendor. For example, the interconnect IP generally makes up a meaningful proportion of the overall SoC area at the completed SoC stage, and savings of 1 square millimeter of area can potentially offer a significant savings in term sof SoC unit costs. Further, we believe IP and software can save our customers time and money, and enable them to focus on product differentiation and revenue generation.
- **We believe we have grown our product portfolio through robust and focused research and development.** Through our investment in our multidisciplinary engineering team and research and development, we believe we have been the pioneer of using networking technology for on-chip communications and have been licensing such interconnect IP products since 2006. Our strategy is to deliver one new interconnect IP or IP deployment product per year and we have done so since 2013.
- **We have grown our solutions through targeted acquisitions.** We intend to continue to support our robust internal technology development program with synergistic acquisitions. We believe we have the ability to augment our product development with selective acquisitions to strengthen our SoC system IP product portfolio and add complimentary technology, such as with our acquisition of Magillem in 2020.
- **We are able to address mission critical applications.** Currently we are the market leader in the ADAS SoC interconnect IP market segment, capturing 70-80% of the market as of December 31, 2020, according to our analysis. We believe we are positioned to take advantage of the rapid growth of semiconductor content in cars and have over 60 automotive SoC design wins. Our interconnect IP is designed to meet the automotive safety integrity level D ("ASIL D") of the ISO 26262 automotive functional safety standard, which is the highest level, helping to position us as an ideal partner to innovative companies in the advanced automotive SoC market. We believe our solutions make it easier for our automotive semiconductor "tier 1" and OEM customers to collaborate and meet functional safety standards by establishing traceability between requirements, specifications, hardware and software implementation, verification and testing, and quality assurance. Because of this, our IP deployment software is a complement to our interconnect IP in helping our customers meet their ISO 26262 functional safety requirements.

- **We have developed a “connected by Arteris IP” ecosystem to provide a broad set of SoC system IP solutions.** Interconnect IP is the data transport backbone of the SoC, connecting IP blocks such as central processing units (“CPUs”), graphics processing units (“GPUs”) and memory controllers. We work with industry-leading companies who provide these blocks, including IP companies such as Arm Ltd., MIPS Technologies, Inc., Synopsys, Inc., Cadence Design Systems, Inc., Codaip GmbH and other RISC-V IP vendors to support their products and protocols working with our IP deployment solutions and interconnect IP products. By offering an unbiased, standards-based interconnect infrastructure to which other IP vendors can connect, and supporting a broad range of transaction protocols, we believe we have simplified the industry’s development of heterogeneous SoCs while solidifying our role as a neutral, technology-agnostic provider across the semiconductor industry.
- **We believe we benefit from distinct competitive advantages.** We believe our interconnect IP technology benefits from barriers to entry due to our many years of experience and the strength of our proprietary solutions, as well as the significant technical expertise and research costs required to develop a competitive product. Developing interconnect IP requires building and maintaining an interdisciplinary engineering team with expertise and skillsets across a wide range of sciences and domains as well as a deep understanding of semiconductor physical design, design methodologies, and networking architectures. Additionally, strategic patience and focus are required to participate in the market. For example, to go from customer acquisition to the customer shipping its product with our IP interconnect solution embedded, at which point we start earning royalties, can take between two to eight years. Further, with our SoC system IP products embedded in our customers’ SoCs, there are significant switching costs in moving to alternative solutions. We believe that our product quality and technical strength have enabled our high customer retention rate.
- **We offer global support for our SoC system IP customers.** Interconnect IP technology is complex, and our customer support is critical for the successful deployment of our IP in our customers’ designs. We globally support customers throughout their design processes and develop long-term sustainable relationships as our technology becomes embedded in their products.

### **Our Growth Strategy**

Our growth strategy includes the following:

- **Leverage our SoC system IP technology leadership and focused research and development to provide solutions for the semiconductor industry that builds SoCs.** We intend to continue to compete vigorously in the interconnect IP segment and to support, and minimize risks of competing with, our valued partners and customers developing non-interconnect IP block technologies. We intend to remain focused on providing interconnect IP and software technologies for the entire semiconductor industry that build SoCs.
- **Address high growth segments such as automotive, AI/ML, 5G and wireless connectivity, data centers, and consumer electronics.** We intend to maintain our focus on the automotive, AI/ML and 5G and wireless communications markets while expanding further within high growth segments such as data centers and consumer electronics.
- **Expand our customer base through ongoing SoC system IP innovation.** Our goal is to deliver interconnect IP technology and deployment solutions ahead of when the SoC industry requires them. We aim to deliver at least one new interconnect IP or IP deployment product every year, addressing new SoC technology needs. In addition, we plan to continue to work with customers to deliver product enhancement releases for existing products.
- **Expand our customer base through increased investment in sales and marketing.** We plan to continue to expand our global sales and application engineering organization, which has a strong presence in North America, Europe, the Middle East, China, South Korea, Japan, and India.
- **Continue to pursue selective acquisitions and other strategic transactions to acquire complementary solutions and accelerate growth.** We intend to continue to target acquisitions to achieve our objective of making our SoC system IP solutions critical to the next generation of SoC design and development.

## **Our Solutions**

We provide semiconductor interconnect IP and IP deployment solutions to serve our target end-markets, including automotive, AI/ML, 5G and wireless communications, data centers, and consumer electronics. We regularly release new products to address the rapid evolution of SoC technology.

### **Interconnect IP Products**

We believe we offer the semiconductor industry an industry-leading commercially available interconnect IP portfolio. Select offerings of our interconnect IP product portfolio include:

- *FlexNoC*: FlexNoC is a silicon-proven interconnect IP product that has been integrated into hundreds of chip designs. The product's network-on-chip technology converts on-chip communications signals between IP blocks, such as reads from and writes to memory, into digital packets. Packetizing on-chip communications allows the interconnect to be configured for enhanced performance and simplifies the connections of on-chip IP blocks, similar to how the internet eases the simultaneous connectivity of large numbers of computing devices. We also provide optional add-on packages for FlexNoC. FlexNoC started shipping in 2010 and has been incorporated into approximately 2.8 billion SoCs that have been shipped in electronic systems.
- *Ncore*: Ncore is a silicon-proven, cache coherent interconnect IP product that provides scalable, configurable and area efficient characteristics for use across multiple end-markets. In an SoC, cache coherency is a special data traffic class that requires complex interconnect IP features. In a multiprocessor system, cache coherency ensures all processors in the SoC have the same view of memory in order to simplify the task of programming software by making it unnecessary to understand the exact hardware implementation. Ncore uses a messaging protocol to keep data consistent across different processors and directories to keep track of shared data across the coherent sub-system and helps to eliminate the need for cumbersome software to maintain the data coherency. Since initial shipment in 2016, we have launched eight releases of Ncore which have been designed into numerous production cache coherent SoCs.
- *CodaCache*: CodaCache is a last-level cache (or local memory) interconnect IP product, used anywhere in the network-on-chip, for minimization of SoC data latency or improvement of performance. CodaCache is designed to decrease critical net latency of SoCs by minimizing off-chip read/write accesses to separate dynamic random-access memory ("DRAM") chips. Off-chip DRAM access takes many more cycles, thereby increasing latency, compared to having certain data stored in a local on-chip CodaCache memory.
- *PIANO*: Physical Interconnect Aware NoC Optimizer ("PIANO") is a software tool that estimates physical layout effects during the architecture and logic development stages of an SoC interconnect design. At 16 nm process geometries and below, PIANO enhances the ability to design a valid SoC interconnect architecture that could be difficult to layout physically. PIANO also enables input of a SoC floorplan with physical locations of IP blocks, routing channels and blockages.

### **IP Deployment Products**

We provide a suite of IP deployment software solutions that enables the packaging, reuse and integration of most types of IP blocks using the IP-XACT (IEEE 1685) standard. We believe the combination of IP deployment software and SoC interconnect hardware provides more comprehensive SoC integration capabilities to our customers. Our IP deployment product portfolio includes:

- *Specification*: Our IP deployment product suite captures connectivity and memory requirements and executes specifications to predict device behavior to streamline the design phase. The suite enables customers to build the architecture of semiconductor systems, either from the software map or from the hardware block diagram and allows users to build a virtual prototype of an electronic device, and run and debug software on that virtual prototype.
- *Design*: We provide a broad suite of software tools that can accelerate designs with highly configurable and scalable solutions. Our solutions address packaging, connectivity, register configuration,

embedded software, and EDA flows and we believe we provide best-in-class front-end design environments based on worldwide IP-XACT extensible markup language (“XML”) standards through our ready-made design solutions.

- *Documentation:* Our documentation capabilities provide full traceability and consistent product information with content reuse and multi-channel publishing to manage, update, and synchronize content.
- *Design Data Intelligence:* The product suite includes a design environment that enables SoC developers to efficiently view, track, monitor and share their design objects stored on a central server through a thin client web browser and generate real-time, customizable reports on their design data. It also provides a knowledge capture toolset that enables real-time collection and analysis of large volumes of free-format text, enabling our customers to extract the collective intelligence of its teams.

### **Risks Associated with Our Business**

There are a number of risks that you should understand before making an investment decision regarding this offering. These risks are discussed more fully in the section entitled “Risk Factors” following this prospectus summary. If any of these risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, the trading price of our common stock would likely decline, and you may lose all or part of your investment. These risks include, but are not limited to:

- We face significant competition from larger companies and third-party providers that may deploy their resources so they can develop their IP solutions internally;
- We have a history of net losses, and we may not achieve or maintain profitability in the future;
- Because our IP solutions are components of end products, if semiconductor companies in the automotive market, AI/ML market, 5G and wireless communications market, large scale cloud and data center market and consumer electronics market do not incorporate our solutions into their end products, if the end products of our customers do not achieve market acceptance or if growth in these end markets slows down, we may not be able to generate adequate license sales and royalty income from our products;
- We depend on market acceptance of third-party semiconductor IP;
- The success of our business depends on sustaining or growing our licensing revenue and the failure to achieve such revenue would lead to a material decline in our results of operations;
- The nature of the design win process requires us to incur significant expenses without any guarantee that research and development and sales efforts will generate revenue, which could adversely affect our financial results;
- Even if we succeed in securing design wins for our IP interconnect and other solutions and our IP deployment solutions, we may not generate timely or sufficient margins or margins from those wins and our financial results could suffer;
- We continually pursue new IP interconnect and other solutions and IP deployment technology initiatives, and if we fail to successfully carry out these initiatives, our business could be harmed;
- We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively affect our operating results;
- Product errors or defects could expose us to liability and harm our reputation and we could lose market share;
- If we fail to offer high-quality support, our reputation could suffer;
- Our dependence on international customers and operations also subjects us to a range of other additional regulatory, operational, financial and political risks that could adversely affect our financial results;
- If we are unable to protect our proprietary technology and inventions through patents and other IP rights, our ability to compete successfully and our financial results could be adversely impacted;

- We are subject to government regulation, including import, export and economic sanctions laws and regulations that may expose us to liability and increase our costs; and
- We face risks associated with doing business in China.

Before you invest in our common stock, you should carefully consider all the information in this prospectus, including matters set forth under the heading "Risk Factors."

### **Implications of Being an Emerging Growth Company and a Smaller Reporting Company**

As a company with less than \$1.07 billion in revenue during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include:

- we are permitted to include only two years of audited consolidated financial statements in this prospectus in addition to any required interim financial statements, and correspondingly required to provide only reduced disclosure in "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- we are not required to engage an auditor to report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act");
- we are not required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- we may take advantage of extended transition periods for complying with new or revised accounting standards;
- we are not required to submit certain executive compensation matters to stockholder advisory votes, such as "say-on-pay," "say-on-frequency" and "say-on-golden parachutes"; and
- we are not required to disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer's compensation to our median employee compensation.

We have elected to take advantage of certain of these reduced disclosure obligations in the registration statement of which this prospectus is a part and may elect to take advantage of some or all of these reduced reporting and other requirements in the future. As a result, the information we provide to our stockholders may be different than the information you might receive from other public companies in which you hold equity interests.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period, provided in Section 13(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for adopting new or revised accounting standards. As a result, we will be permitted to delay the adoption of new or revised accounting standards until such time as those standards would otherwise apply to private companies. We have elected to take advantage of this extended transition period for complying with new or revised accounting standards until the earlier of the date we (i) are no longer an emerging growth company; or (ii) affirmatively and irrevocably opt out of this extended transition period. As a result, our consolidated financial statements and the reported results of operations contained therein may not be directly comparable to those of other public companies.

We may take advantage of the foregoing provisions until the last day of our fiscal year following the fifth anniversary of the completion of this offering or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company upon the earliest of: (i) the last day of the first fiscal year in which our annual gross revenues are \$1.07 billion or more; (ii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities; or (iii) the date on which we are deemed to be a "large accelerated filer," which will occur as of the end of any fiscal year in



which we (x) have an aggregate market value of our common stock held by non-affiliates of \$700 million or more as of the last business day of our most recently completed second fiscal quarter, (y) have been required to file annual and quarterly reports under the Exchange Act, for a period of at least 12 months and (z) have filed at least one annual report pursuant to the Exchange Act.

We are also a “smaller reporting company” as defined in the Exchange Act. We may continue to be a smaller reporting company even after we are no longer an emerging growth company. We may take advantage of certain of the scaled disclosures available to smaller reporting companies and will be able to take advantage of these scaled disclosures for so long as the market value of our voting and non-voting common stock held by non-affiliates is less than \$250 million measured on the last business day of our second fiscal quarter, or our annual revenue is less than \$100 million during the most recently completed fiscal year and the market value of our voting and non-voting common stock held by non-affiliates is less than \$700 million measured on the last business day of our second fiscal quarter.

As a result, the information in this prospectus and that we provide to our investors in the future may be different than what you might receive from other public reporting companies.

For risks related to our status as an emerging growth company and a smaller reporting company, see “Risk Factors—Risks Related to this Offering and Ownership of Our Common Stock— We are an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.”

### **Corporate Information**

We were incorporated in the State of Delaware in April 2004. Our principal executive offices are located at 595 Millich Dr. Suite 200 Campbell, CA 95008. Our telephone number is (408) 470-7300, and our website address is [www.arteris.com](http://www.arteris.com). The information contained on, or that can be accessed through, our website is not incorporated by reference in this prospectus and does not form a part of this prospectus. You should not consider information contained on our website to be part of this prospectus in deciding whether to purchase shares of our common stock.



## THE OFFERING

Common stock offered by us	shares.
Common stock to be outstanding immediately after this offering	shares (or shares, if the underwriters exercise their option to purchase additional shares of our common stock in full).
Option to purchase additional shares of common stock	The underwriters have a 30-day option to purchase up to additional shares of common stock from us at the public offering price less the underwriting discounts and commissions, as described under the heading "Underwriting."
Use of proceeds	<p>We estimate that the net proceeds from the sale of shares of our common stock in this offering will be approximately \$ million (or approximately \$ million if the underwriters exercise their option to purchase additional shares of our common stock in full), based upon the assumed initial public offering price of \$ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.</p> <p>We intend to use the net proceeds from this offering for working capital and general corporate purposes. See "Use of Proceeds."</p>
Risk factors	Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 17 and the other information included in this prospectus for a discussion of factors you should carefully consider before investing in our common stock.
Proposed Nasdaq Global Market symbol	"AIP"

The number of shares of our common stock to be outstanding after this offering is based on 24,996,570 shares of common stock outstanding as of June 30, 2021, and gives effect to the automatic conversion on a one-for-one basis of all outstanding shares of our preferred stock into 4,471,316 shares of common stock effective immediately prior to the closing of this offering (the "Automatic Conversion"). The number of shares of our common stock to be outstanding after this offering excludes:

- 3,035,578 shares of common stock issuable upon exercise of stock options outstanding as of June 30, 2021, with a weighted-average exercise price of \$0.44 per share;
- 2,887,064 shares of common stock subject to the settlement of Restricted Stock Units ("RSUs") outstanding as of June 30, 2021;
- 890,300 shares of common stock subject to the settlement of RSUs granted subsequent to June 30, 2021;
- shares of common stock reserved for future issuance under our 2021 Incentive Award Plan (the "2021 Plan"), as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the 2021 Plan, which will become effective upon the effectiveness of the registration statement of which this prospectus forms a part, as more fully described in "Executive and Director Compensation—Equity Compensation—2021 Incentive Award Plan"; and

- shares of common stock reserved for future issuance under our Employee Stock Purchase Program (the “ESPP”), as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the ESPP, which will become effective upon the effectiveness of the registration statement of which this prospectus forms a part, as more fully described in “Executive and Director Compensation—Equity Compensation—Employee Stock Purchase Plan”.

Unless otherwise indicated or the context otherwise requires, all information contained in this prospectus assumes:

- the Automatic Conversion;
- no exercise, settlement or termination of outstanding stock options or RSUs after June 30, 2021;
- the filing and effectiveness of our amended and restated certificate of incorporation (the “Post-IPO Certificate of Incorporation”) and the adoption of our amended and restated bylaws (the “Post-IPO Bylaws”), each of which will occur immediately prior to the closing of this offering;
- no exercise of the underwriters’ option to purchase additional shares of our common stock; and
- a -for- stock split of our common stock to be effected prior to the closing of this offering.

## SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The summary statement of income (loss) data presented below for the years ended December 31, 2019 and 2020 and the summary balance sheet data as of December 31, 2020 are derived from our audited consolidated financial statements that are included elsewhere in this prospectus. The summary statement of income (loss) data presented below for the six months ended June 30, 2020 and 2021 and the summary balance sheet data as of June 30, 2021 are derived from our unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited financial statements on the same basis as the audited financial statements and have included, in our opinion, all adjustments consisting only of normal recurring adjustments that we consider necessary for a fair statement of the financial information set forth in those statements. You should read this data together with our financial statements and related notes thereto included elsewhere in this prospectus and the information in the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary financial data included in this section are not intended to replace our financial statements and related notes thereto included elsewhere in this prospectus and are qualified in their entirety by our financial statements and related notes thereto included elsewhere in this prospectus. Our historical results are not necessarily indicative of our future results and our historical results for the six months ended June 30, 2021 are not necessarily indicative of the results that may be expected for the remainder of 2021.

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	2019	2020	2020	2021
	<i>(in thousands, except share and per share data)</i>			
<b>Consolidated Statements of Income (Loss)</b>				
Licensing, support and maintenance	\$ 26,733	\$ 27,408	\$ 8,794	\$ 16,217
Variable royalties and other	4,768	4,404	2,143	1,254
Total revenue	<u>31,501</u>	<u>31,812</u>	<u>10,937</u>	<u>17,471</u>
Cost of revenue	<u>1,862</u>	<u>1,491</u>	<u>891</u>	<u>1,735</u>
Gross profit	29,639	30,321	10,046	15,736
Operating expenses:				
Research and development	10,051	17,020	7,831	12,963
Sales and marketing	9,782	9,749	4,105	4,729
General and administrative	2,533	7,329	2,423	8,012
Total operating expenses	<u>22,366</u>	<u>34,098</u>	<u>14,359</u>	<u>25,704</u>
Income (loss) from operations	7,273	(3,777)	(4,313)	(9,968)
Gain on extinguishment of debt	—	1,593	—	—
Interest and other expense, net	(290)	(50)	(85)	(314)
Income (loss) before provision for income taxes	6,983	(2,234)	(4,398)	(10,282)
Provision for income taxes	1,144	1,026	2,594	344
Net income (loss)	<u>\$ 5,839</u>	<u>\$ (3,260)</u>	<u>\$ (6,992)</u>	<u>\$ (10,626)</u>
Less: Net income attributable to participating securities	(1,221)	—	—	—
Net income (loss) attributable to common stockholders	<u>\$ 4,618</u>	<u>\$ (3,260)</u>	<u>\$ (6,992)</u>	<u>\$ (10,626)</u>
Net income (loss) per share attributable to common stockholders <sup>(1)</sup>				
Basic	<u>\$ 0.27</u>	<u>\$ (0.19)</u>	<u>\$ (0.40)</u>	<u>\$ (0.55)</u>
Diluted	<u>\$ 0.27</u>	<u>\$ (0.19)</u>	<u>\$ (0.40)</u>	<u>\$ (0.55)</u>
Weighted-average shares used in computing per share amounts				
Basic	<u>16,915,855</u>	<u>17,577,846</u>	<u>17,428,227</u>	<u>19,354,965</u>
Diluted	<u>17,413,305</u>	<u>17,577,846</u>	<u>17,428,227</u>	<u>19,354,965</u>
Pro forma net loss per share attributed to common stockholders, basis and diluted (unaudited) <sup>(2)</sup>		<u>\$ (0.15)</u>		<u>\$ (0.48)</u>
Weighted-average shares used to compute pro forma net loss per share attributable to common stockholders, basic and diluted (unaudited) <sup>(2)</sup>		<u>22,049,162</u>		<u>23,826,281</u>

- (1) See Note 4 to our financial statements included elsewhere in this prospectus for further information on the calculations of net loss per share attributable to common stockholders.
- (2) Basic and diluted unaudited pro forma net loss per share attributable to common stockholders for the year ended December 31, 2020 and the six months ended June 30, 2021 gives effect to (i) the Automatic Conversion as if such conversion had occurred as of the beginning of the period; and (ii) the stock-based compensation expense related to RSUs subject to both service-based and performance-based vesting conditions, granted during the six months ended June 30, 2021, for which the performance-based vesting condition becomes probable in connection with this offering, as further described in Notes 2 and 12 to our condensed consolidated financial statements included elsewhere in this prospectus. Basic and diluted unaudited pro forma net loss per share attributable to common stockholders for the year ended December 31, 2020 and the six months ended June 30, 2021 does not give effect to RSUs granted subsequent to June 30, 2021. The table presented below sets forth the calculation of basic and diluted unaudited pro forma net loss per share attributable to common stockholders for the year ended December 31, 2020 and the six months ended June 30, 2021:

	YEAR ENDED DECEMBER 31, 2020	SIX MONTHS ENDED JUNE 30, 2021
	<i>(in thousands, except share and per share data)</i>	
<b>Numerator:</b>		
Net loss attributable to common stockholders	\$ (3,260)	\$ (10,626)
Stock-based compensation expense related to RSUs for which the performance-based vesting condition becomes probable in connection with this offering	0	(833)
Pro forma net loss attributable to common stockholders	\$ (3,260)	\$ (11,459)
<b>Denominator:</b>		
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	17,577,846	19,354,965
Pro forma adjustment to reflect automatic conversion of redeemable convertible preferred stock to common stock in connection with this offering	4,471,316	4,471,316
Pro forma adjustment to reflect vesting of RSUs for which the performance-based vesting condition becomes probable in connection with this offering	0	0
Weighted-average shares used to compute pro forma net loss per share attributable to common stockholders, basic and diluted	22,049,162	23,826,281
Pro forma net loss per share attributable to common stockholders, basic and diluted	\$ (0.15)	\$ (0.48)

	AS OF JUNE 30, 2021		
	ACTUAL	PRO FORMA (1)	PRO FORMA AS ADJUSTED (2)(3)
	<i>(in thousands)</i>		
<b>Consolidated Balance Sheet Data:</b>			
Cash	\$ 14,809	\$ 14,809	\$
Working capital (4)	\$ (5,474)	\$ (5,474)	\$
Total assets	\$ 42,720	\$ 42,720	\$
Term Loan	\$ 249	\$ 249	\$
Redeemable convertible preferred stock	\$ 5,712	\$ —	\$
Additional paid-in-capital	\$ 10,054	\$ 16,595	\$
Accumulated deficit	\$(26,233)	\$ (27,066)	\$
Total stockholders' equity (deficit)	\$(16,189)	\$ (10,477)	\$

- (1) The pro forma balance sheet data gives effect to (i) the Automatic Conversion; (ii) stock-based compensation expense of \$0.8 million as of June 30, 2021 related to RSUs subject to both service-based and performance-based vesting conditions, for which the performance-based vesting condition becomes probable in connection with this offering, as further described in Notes 2 and 12 to our condensed consolidated financial statements included elsewhere in this prospectus, reflected as an increase to additional paid-in capital and accumulated deficit; and (iii) the filing and effectiveness of our Post-IPO Certificate of Incorporation, in each case, immediately prior to the completion of this offering.

## [Table of Contents](#)

- (2) The pro forma as adjusted column in the balance sheet data table above gives effect to (i) the pro forma adjustments described in footnote (1) above; and (ii) the sale and issuance of \_\_\_\_\_ shares of common stock by us in this offering, at the assumed initial public offering price of \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.
- (3) A \$1.00 increase or decrease in the assumed initial public offering price of \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase or decrease, as applicable, the pro forma as adjusted amount of each of our cash and cash equivalents, additional paid-in capital and total stockholders' equity (deficit) by \$ \_\_\_\_\_ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. Similarly, an increase or decrease of 1.0 million shares in the number of shares of common stock offered would increase decrease, as applicable, each of our cash and cash equivalents, additional paid-in capital and total stockholders' equity (deficit) or total capitalization by \$ \_\_\_\_\_ million, assuming the initial public offering price remains the same, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. The pro forma information discussed above is illustrative only and will be adjusted based on the actual initial public offering price, the number of shares we sell and other terms of this offering that will be determined at pricing.
- (4) We define working capital as current assets less current liabilities. See our financial statements and related notes thereto included elsewhere in this prospectus for further details regarding our current assets and current liabilities.

## RISK FACTORS

*Investing in our common stock involves a high degree of risk. Before making your decision to invest in shares of our common stock, you should carefully consider and read carefully all of the risks described below, together with the other information contained in this prospectus, including our financial statements and the related notes and the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this prospectus, before deciding whether to invest in our common stock. We cannot assure you that any of the events discussed below will not occur. These events could have a material and adverse impact on our business, financial condition, results of operations and prospects. Unless otherwise indicated, references to our business being harmed in these risk factors will include harm to our business, reputation, financial condition, results of operations, revenue and future prospects. In such event, the trading price of our common stock could decline, and you could lose all or part of your investment. Additional risks and uncertainties not presently known to us or not believed by us to be material may also negatively impact us.*

### **Risks Related to Our Business and Industry**

***We face significant competition from larger companies and third party providers that may deploy their resources so they can develop their IP solutions internally.***

We are engaged in a competitive segment of the global semiconductor industry. Our competitive landscape is characterized by competition from companies that have greater resources than us. A variety of factors could adversely impact our ability to compete, including rapid technological change in product design and manufacturing, customers that make purchase decisions based on a mix of factors of varying importance and continuous declines in average selling prices ("ASPs"). We compete principally on the basis of technology, product quality and features, license, royalty and usage terms, post-contract customer support, interoperability among products, and price and payment terms.

Often, we compete against larger companies that possess substantial financial, technical, research and development and engineering resources that can be deployed so they can develop their IP solutions internally. In addition, we also compete against other third-party providers of IP integration solutions that similarly possess substantial financial, technical, research and development and engineering resources. Varying combinations of these resources provide advantages to these competitors that enable them to influence industry trends and the pace at which they adapt to these trends. A strong competitive response from one or more of our competitors to our marketplace efforts, or a shift in customer preferences to competitors' products, could result in increased pressure to lower our prices more rapidly than anticipated, increased sales and marketing expense, and/or market share loss. The consolidation of our competitors or collaboration among our competitors to deliver more comprehensive offerings than they could individually may also impact our ability to compete effectively. To the extent our revenue is negatively impacted by competitive pressures and reduced pricing, our business could be harmed.

In addition, our ability to compete in our market is subject to a variety of factors, many of which are beyond our control. The occurrence of any of the below could adversely affect our ability to compete and harm our business:

- Our ability to anticipate and lead critical product development cycles and technological shifts as driven by our target markets, to innovate rapidly and efficiently and to improve our existing solutions.
- Whether any competitor substantially increases its engineering and marketing resources to compete with us in the semiconductor IP deployment software technology arena.
- Whether a new entrant with substantially greater resources decides to enter the markets in which we compete.
- Whether any existing or new competitor bundles its technologies into one package at a discounted price that would make it uneconomical for our customers to license our products separately.
- The challenges of developing, or acquiring externally developed, technology solutions that are adequate and competitive in meeting the rapidly evolving requirements of next-generation design challenges.
- Our ability to compete on the basis of payment terms.
- Decisions by semiconductor companies and/or OEMs to develop IP development internally, rather than license IP from outside vendors due to budget constraints or excess engineering capacity.

## [Table of Contents](#)

- Actions by regulators to limit product availability or the features or contractual terms that either we or our customers can apply to product and service offerings.

We may also be unable to reduce the cost of our products sufficiently to enable us to compete with our competitors. Our cost reduction efforts may not allow us to keep pace with competitive pricing pressures and could adversely affect our gross margins. To the extent we are unable to reduce the prices of our products and remain competitive, our revenue will likely decline, resulting in further pressure on our gross margins, which could harm our business. Many other companies in the IP interconnect space have not been able to continue as a going concern due to intense competition and low margins. See “Business—Competition.”

***We have a history of net losses, and we may not achieve or maintain profitability in the future.***

We have incurred net losses in certain periods historically. While we had net income of \$5.8 million in 2019, we incurred a net loss of \$3.3 million in 2020, and net losses of \$7.0 million and \$10.6 million in the six months ended June 30, 2020 and 2021, respectively, which combined with our history of net losses in periods other than 2019, has resulted in us having an accumulated deficit of \$15.6 million and \$16.2 million as of December 31, 2020 and June 30, 2021, respectively. We have spent significant funds on organizational and start-up activities, to recruit engineers and other employees and to support our research and development. The net losses we incur may fluctuate significantly from quarter to quarter and may increase as a result of the COVID-19 pandemic.

Our long-term success is dependent upon our ability to successfully market our interconnect IP and IP deployment solutions, develop new interconnect IP and IP deployment solutions, earn revenue, obtain additional capital when needed and, ultimately, to maintain profitable operations. We will need to generate significant additional revenue to achieve profitability. It is possible that we will not achieve profitability or that, even if we do achieve profitability, we may not maintain or increase profitability in the future. Our failure to achieve or maintain profitability could negatively impact the value of our common stock.

***Because our IP solutions are components of end products, if semiconductor companies in the automotive market, AI/ML market, 5G and wireless communications market, large scale cloud and data center market and consumer electronics market do not incorporate our solutions into their end products or if the end products of our customers do not achieve market acceptance, we may not be able to generate adequate license sales and royalty income from our products.***

Our IP solutions include technology that manages on-chip communications in SoC semiconductor devices. We do not license our IP solutions and deployment tools directly to end-users; we license our technology primarily to companies in the automotive market, AI/ML market, 5G and wireless communications market, large scale cloud and data center market and consumer electronics market, who then incorporate our technology into the products they sell. As a result, we rely on our customers to incorporate our technology into their end products at the design stage. Once a company incorporates a competitor’s technology or develops the technology internally and incorporates it into its end product, it becomes significantly more difficult for us to sell our technology to that company because changing suppliers involves significant cost, time, effort and risk for the company. As a result, we may not achieve targeted customer acceptance despite incurring significant expenditures to develop new technology.

Moreover, even after a customer agrees to incorporate our technology into its end products, the design cycle is long and may be delayed due to factors beyond our control, which may result in our customers’ product not reaching the market until long after our initial design win, which we define as winning the competitive bid selection process. From initial product design-in to volume production, many factors could impact the timing and/or amount of sales actually realized from the design-in. These factors include, but are not limited to, changes in the competitive position of our customers’ product, our customers’ financial stability, and our customers’ ability to ship products under our customers’ original schedule. Moreover, several external factors affect our customers’ ability to start their own product designs including target product market conditions, our customers’ financial stability, our customers’ competitive positioning and external economic conditions that may prolong the customers’ decision-making process and design cycle.

Further, we do not control the business practices of our customers and we do not influence the degree to which they promote, market or set their product pricing. We therefore cannot assure you that our customers will devote satisfactory efforts to promote their end products, which incorporate our IP technology and deployment solutions.

***We depend on growth in the end markets that use our products. Any slowdown in the growth of these end markets could harm our business.***

Our continued success will depend in large part on general economic growth and growth within our target markets in the automotive market, AI/ML market, 5G and wireless communications market, large scale cloud and data center market and consumer electronics market. Factors affecting these markets could seriously harm our customers and/or end customers and, as a result, harm us, examples of which include:

- Reduced sales of our customers' and/or end customers' products.
- The effects of catastrophic and other disruptive events at our customers' and/or end customers' offices or facilities including, but not limited to, natural disasters, telecommunications failures, cyber-attacks, terrorist attacks, pandemics, epidemics or other outbreaks of infectious disease, including the current COVID-19 pandemic, breaches of security or loss of critical data.
- Increased costs associated with potential disruptions to our customers' and/or end customers' supply chain and other manufacturing and production operations.
- The deterioration of our customers' and/or end customers' financial condition.
- Delays and project cancellations as a result of design flaws in the products developed by our customers and/or end customers.
- The inability of our customers and/or end customers to dedicate the resources necessary to promote and commercialize their products.
- The inability of our customers and/or end customers to adapt to changing technological demands resulting in their products becoming obsolete.
- The failure of our customers' and/or end customers' products to achieve market success and gain broad market acceptance.

Any slowdown in the growth of these end markets could harm our business. For example, a significant element of our growth strategy depends on the increasing adoption of vehicles with more sophisticated automated driving, which will likely require more complex SoCs. If anticipated demand in the end market for these vehicles does not materialize, whether due to consumer demand not materializing, regulatory interventions delaying the deployment of automated driving or other factors beyond our control, it would adversely affect demand for our products from customers and royalty revenue and impact our ability to execute our growth strategy.

***We depend on market acceptance of third-party semiconductor IP.***

The semiconductor IP industry is a relatively small and emerging industry. Our future growth will depend on the level of market acceptance of our third-party licensable IP model, the variety of IP offerings available on the market and the shift in customer preference away from in-house development of semiconductor IP technologies and IP deployment software. Furthermore, the third-party licensable IP model is highly dependent on the market adoption of new services and products, including in the automotive market, AI/ML market, 5G and wireless communications market, large scale cloud and data center market and consumer electronics market. Such market adoption is important because the increased cost associated with ownership and maintenance of the more complex architectures in SoCs needed for the advanced services and products and time to market pressures on our customers may motivate companies to license third-party IP rather than design them in-house.

The trends that would enable our growth are largely beyond our control. Semiconductor customers also may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly-integrated chipsets that embed our technologies or use our deployment software. If these market shifts do not materialize or third-party semiconductor IP does not achieve market acceptance, our business could be harmed.

***The success of our business depends on sustaining or growing our licensing revenue and the failure to achieve such revenue would lead to a material decline in our results of operations.***

Our revenue consists largely of technology license fees and other fees and royalties paid for access to our patented technologies, existing technology and other development and support services we provide to our customers. Our ability to secure and renew the licenses from which our revenue is derived depends on our customers adopting our



technology and using it in the products they sell. Once secured, royalty revenue may be negatively affected by factors within and outside our control, including reductions in our customers' sales prices, sales volumes, our failure to timely complete engineering deliverables and the customers' negotiated contract terms. In addition, our customer acquisition cycle for new licenses and license renewals for existing licensees can be lengthy, typically between two to nine months, and can also be costly and unpredictable. We cannot provide any assurance that we will be successful in signing new license agreements or renewing existing license agreements on equal or favorable terms or at all. If we do not achieve our revenue goals, our results of operations could decline.

***The nature of the design win process requires us to incur significant expenses without any guarantee that research and development and sales efforts will generate revenue, which could adversely affect our financial results.***

We focus on winning competitive bid selection processes, called "design wins," to incorporate our IP interconnect and other solutions in our customers' products. These lengthy technical and commercial selection processes may require us to incur significant expenditures and dedicate valued engineering resources to the development or enhancement of our IP interconnect and other solutions without any assurance that our bids will be selected as the design wins. If we incur such expenditures and fail to be selected in the bid selection process, our operating and financial results may be adversely affected. Further, because of the significant costs associated with qualifying new suppliers, customers are likely to use the same or an enhanced version of semiconductor IP from existing suppliers across a number of similar and successor products for a lengthy period of time. As a result, if we fail to secure an initial design win for any of IP interconnect and other solutions to any particular customer, we may lose the opportunity to make future sales of those solutions to that customer for a significant period of time, or at all, and we may experience an associated decline in revenue relating to those products. Because we expect the ASPs of our products may decline over time, we consider design wins to be critical to our future success.

Further, a significant portion of our revenue in any period may depend on a single product design win with a large customer. As a result, the loss of any key design win or any significant delay in the ramp of volume production of the customer's products into which our product is designed could harm our business. We may not be able to maintain sales to our key customers or continue to secure key design wins for a variety of reasons, and our customers can stop incorporating our products into their product offerings with limited notice to us and suffer little or no penalty.

The loss of a key customer or design win, a reduction in sales to any key customer, a significant delay or negative development in our customers' product development plans, or our inability to attract new significant customers or secure new key design wins could harm our business.

***Even if we succeed in securing design wins for our IP interconnect and other solutions and our IP deployment solutions, we may not generate timely or sufficient margins or margins from those wins and our financial results could suffer.***

After incurring significant design and development expenditures and dedicating engineering resources to achieve a single initial design win for an IP interconnect or other solution, a substantial period of time generally elapses before we generate meaningful revenue from royalties relating to such solution, if at all. The reasons for this delay include, among other things, the following:

- Changing customer requirements, resulting in an extended development cycle for the product.
- Delay in the ramp-up of volume production of the customer's products into which our solutions are designed.
- Delay or cancellation of the customer's product development plans.
- Competitive pressures to reduce our selling price for the customer's end-product.
- The discovery of design flaws, defects, errors or bugs in the products, whether or not those defects, errors or bugs are related to our IP interconnect and other solutions that delay the customer from finishing the product in which our IP solution is incorporated.
- Lower than expected acceptance of the customers' end-products.

Moreover, as noted above, even if a customer selects our IP interconnect and other solutions, we cannot guarantee that this will result in any royalty or future licensing revenue, as the customer may ultimately change or cancel its product plans, or the customer's efforts to market and sell its product may not be successful.

***We continually pursue new IP interconnect and other solutions and IP deployment technology initiatives, and if we fail to successfully carry out these initiatives, our business could be harmed.***

As part of the evolution of our business, we have made substantial investments to develop IP interconnect and other solutions, IP deployment software solutions and enhancements to existing technologies we license through our acquisitions and research and development efforts. Continuing to meet the requirements of smaller die size, lower power consumption, a higher frequency of operation and management of critical net latency in a timely and cost-effective manner for chips used in the automotive market, AI/ML market, 5G and wireless communications market, large scale cloud and data center market and consumer electronics market have resulted in increased SoC design complexity for chips used in these markets. If we are unable to meet these demands for increased SoC design complexity, if we are unable to anticipate technological changes in our industry by introducing new or enhanced IP interconnect and other solutions and/or IP deployment solutions in a timely and cost-effective manner, or if we fail to introduce new technologies that meet market demand, we may lose our competitive position, our products may become obsolete, and our business could be harmed.

Additionally, from time to time, we invest in expansion into adjacent markets, including our recent acquisition of Magillem and our entry into the IP deployment solutions market. Although we believe these solutions are complementary to our IP interconnect solutions, we have less experience and a more limited operating history in offering software that, among other things, manages register configurations of IP blocks, assembles multiple IP blocks into SoC platforms and links design parameters and metadata to documentation, and our efforts in this area may not be successful. Our success in these new markets depends on a variety of factors, including the following:

- Our ability to attract a new customer base, including in industries in which we have less experience.
- Our successful development of new sales and marketing strategies to meet customer requirements.
- Our ability to accurately predict, prepare for, and promptly respond to technological developments in new fields.
- Our ability to compete with new and existing competitors in these new industries, many of which may have more financial resources, industry experience, brand recognition, relevant IP rights, and/or more established customer relationships than we currently do, and they could include free and open-source solutions that provide similar IP deployment solutions.
- Our ability to skillfully balance our investment in adjacent markets with investment in our existing products and services.
- Our ability to attract and retain employees with expertise in new or emerging fields affecting our business.

Difficulties in any of our new product development efforts or our efforts to enter adjacent markets, including delays or disruptions due to factors outside of our control such as any adverse impact resulting from the COVID-19 pandemic, could harm our business.

A fundamental shift in technologies, the regulatory climate or demand patterns and preferences in our existing product markets or the product markets of our customers or end-users could make our current products obsolete, prevent or delay the introduction of new products or enhancements to our existing products or render our products irrelevant to our customers' needs. If our new product development efforts fail to align with the needs of our customers, including due to circumstances outside of our control like a fundamental shift in the product markets of our customers and end users or regulatory changes, our business could be harmed.

Further, we design our IP interconnect solutions to function optimally with various industry-standard core IP transaction protocols including AMBA, ACE, CHI and AXI. Should developers limit access to their IP protocol information or cease cooperation with us for any reason, our ability to support certain processors and IP protocols would be delayed, which could harm our business.

***We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively affect our operating results.***

We currently devote substantial resources to the research and development of new and enhanced interconnect IP and IP deployment solutions. However, we may be required to devote more resources than anticipated to address

design requirements for specific target markets, new competitors, technological advances in the semiconductor industry or by competitors, our acquisitions, our entry into new markets, or other competitive factors. If we are required to invest significantly greater resources than anticipated without a corresponding increase in revenue, our operating results could decline. Additionally, our periodic research and development expenses may be independent of our level of revenue, which could negatively impact our financial results. We expect these expenses to increase in the foreseeable future as our technology development efforts continue, and there can be no guarantee that our research and development investments will result in products that create additional revenue.

We may also decide to increase our research and development investment to seize customer or market opportunities, which could negatively impact our financial results.

***Product errors or defects could expose us to liability and harm our reputation and we could lose market share.***

Software products frequently contain errors or defects, especially when first introduced, when new versions are released, or when integrated with technologies developed by acquired companies. Product errors, including those resulting from third-party suppliers, could negatively affect the performance or interoperability of our IP interconnect and IP deployment solutions, could delay the development or release of new solutions or new versions and could adversely affect market acceptance or perception of our technology. In addition, any allegations of manufacturability issues resulting from use of our IP interconnect and other solutions or semiconductor design efficiency issues resulting from our IP deployment solutions could, even if untrue, adversely affect our reputation and our customers' willingness to license our technology. Any such errors or delays in releasing new products or new versions of products or allegations of unsatisfactory performance could cause us to lose customers, increase our service costs, subject us to liability for damages and divert our resources from other tasks, any one of which could harm our business and operating results.

***If we fail to offer high-quality support, our reputation could suffer.***

Interconnect IP technology is complex, and our customer support is critical for the successful deployment of our IP in our customers' designs, and we have more than 25 corporate and field application engineers in our global support organization. High-quality support is important for customer retention, and the importance of our support function will increase as we expand our business and pursue new customers. If we do not help our customers quickly resolve issues and provide effective ongoing support, our ability to maintain and expand our offerings to existing and new customers could suffer, and our reputation with existing or potential customers could suffer.

***Our dependence on international customers and operations also subjects us to a range of other additional regulatory, operational, financial and political risks that could adversely affect our financial results.***

For 2019 and 2020, 71% and 67%, respectively, of our revenue was derived from sales to customers outside of the United States. In particular, we derived 54.3%, and 44.9% of our revenue in 2019 and 2020, respectively, from customers located in China. We expect our revenue from China to decrease due to the applicable U.S. government trade restrictions. As a result, the economic, political, legal and social conditions in China could harm our business. In addition, we have offices globally with our sales and research and development being conducted in offices located in the San Francisco Bay Area, Texas, France, China, South Korea and Japan. Moreover, conducting business outside the United States subjects us to a number of additional risks and challenges, including:

- Changes in a specific country's or region's political, regulatory or economic conditions.
- A pandemic, epidemic or other outbreak of an infectious disease, including the current COVID-19 pandemic, which may cause us or our distributors, vendors and/or customers to temporarily suspend our or their respective operations in the affected city or country or completely.
- Compliance with a wide variety of domestic and foreign laws and regulations (including those of municipalities or provinces where we have operations) and unexpected changes in those laws and regulatory requirements, including uncertainties regarding taxes, social insurance contributions and other payroll taxes and fees to governmental entities, tariffs, quotas, export controls, export licenses and other trade barriers.
- Unanticipated restrictions on our ability to sell to foreign customers where sales of products and the provision of services may require export licenses or are prohibited by government action, unfavorable foreign exchange controls and currency exchange rates.
- Imposition of tariffs and other barriers and restrictions, including trade tensions such as U.S.-China trade tensions.

## [Table of Contents](#)

- Potential for substantial penalties and litigation related to violations of a wide variety of laws, treaties and regulations, including labor regulations, export control and anti-corruption regulations (including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act).
- Difficulties and costs of staffing and managing international operations across different geographic areas, time zones and cultures.
- Changes in diplomatic and trade relationships.
- Potential political, legal and economic instability, armed conflict, and civil unrest in the countries in which we and our customers are located.
- Difficulty and costs of maintaining effective data security.
- Inadequate protection of our IP.
- Nationalization and expropriation.
- Restrictions on the transfer of funds to and from foreign countries, including withholding taxes and other potentially negative tax consequences.
- Unfavorable and/or changing foreign tax treaties and policies.
- Increased exposure to general market and economic conditions outside of the United States.
- Currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future.
- Increased regulatory uncertainties with respect to our wholly foreign-owned enterprise operating in China.

These factors, individually or in combination, could impair our ability to effectively operate one or more of our foreign facilities or deliver our semiconductor IP or IP deployment solutions, result in unexpected and material expenses, or cause an unexpected decline in the demand for our products in certain countries or regions. For example, one substantial royalty customer became unable to source a key material in 2020 as a result of the trade disputes between the United States and China, and consequently shipment volumes of products containing our interconnect IP have been significantly lower, adversely affecting our royalty revenue. Our failure to manage the risks and challenges associated with our international business and operations could harm our business.

***Downturns or volatility in general economic conditions, including as a result of the current COVID-19 pandemic or any other outbreak of an infectious disease, could harm our business.***

Our revenue, gross margin, and ability to achieve and maintain profitability depend significantly on general economic conditions and the demand for products in the markets in which our customers compete. Weaknesses in the global economy and financial markets, including the current weaknesses resulting from the ongoing COVID-19 pandemic, and any adverse changes in general domestic and global economic conditions that may occur in the future, including any recession, economic slowdown or disruption of credit markets, may lead to, lower demand for products that incorporate our solutions, including in the automotive market, AI/ML market, 5G and wireless communications market, large scale cloud and data center market and consumer electronics market. A decline in end-user demand can affect our customers' demand for our products, the ability of our customers to obtain credit and otherwise meet their payment obligations and the likelihood of customers canceling or deferring existing orders. Our business could be harmed by such actions.

In addition, any disruption in the credit markets, including as a result of the current COVID-19 pandemic, could impede our access to capital. If we have limited access to additional financing sources, we may be required to defer capital expenditures or seek other sources of liquidity, which may not be available to us on acceptable terms or at all. All of these factors related to global economic conditions, which are beyond our control, could harm our business. For a more detailed discussion of the COVID-19 pandemic and its recent and potential impact on our business, see “—Our business has been, and may continue to be, adversely affected by health epidemics, pandemics and other outbreaks of infectious disease, including the current COVID-19 pandemic.”

***The cyclical nature of the semiconductor industry may limit our ability to maintain or improve our revenue.***

The semiconductor industry is highly cyclical and is prone to significant downturns from time to time. Cyclical downturns can result from a variety of market forces including constant and rapid technological change, rapid product obsolescence, price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand, all of which can result in significant declines in semiconductor demand. We have experienced

downturns in the past and may experience such downturns in the future. For example, the industry experienced a significant downturn in connection with the most recent global recession in 2008, and further experienced a downturn in 2020, which may be prolonged as a result of the economic impact of the COVID-19 pandemic. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Recently, downturns in the semiconductor industry have been attributed to a variety of factors, including the current COVID-19 pandemic, ongoing trade disputes among the United States and China, weakness in demand and pricing for semiconductors across applications and excess inventory. Recent downturns have directly impacted our business, as has been the case with many other companies, suppliers, distributors and customers in the semiconductor industry and other industries around the world, and any prolonged or significant future downturns in the semiconductor industry could harm our business. Conversely, significant upturns may suppress customer shipments of royalty-bearing products incorporating our IP solutions due to our customers having limited access to third-party foundry and assembly capacity. In the event of such an upturn, we may not be able to expand our workforce and operations in a sufficiently timely manner, procure adequate resources, or locate suitable third-party suppliers or other third-party subcontractors to respond effectively to changes in demand for our existing products or to the demand for new products requested by our customers, and our business could be harmed.

***Our revenue has been concentrated among a small number of licensees and customers, and if we lose any of these customers and fail to replace them, our revenue may decrease substantially.***

A significant amount of our revenue is derived from a limited number of customers. In 2019 and 2020, sales to Intel Corporation accounted for 16.0% and 15.3%, sales to HiSilicon Technologies Co., Ltd. accounted for 44.2% and 6.5% and sales to SZ DJI Technology Co., Ltd. accounted for 0.9% and 24.7%, respectively, of our revenue. We expect that a relatively small number of customers will continue to account for a substantial portion of our revenue for the foreseeable future.

As a result of this revenue concentration, our results of operations could be adversely affected by the decision of a single key licensee or customer to cease using our technology or products or by a decline in the number of products that incorporate our technology that are sold by a single licensee or customer or by a small group of licensees or customers. We must continue to obtain new significant licensees and to increase our revenue and grow our business.

***Failure to effectively expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our products.***

Our ability to increase our customer base and achieve broader market acceptance of our products and platform capabilities will depend to a significant extent on our ability to expand our global sales and application engineering organization. We plan to continue expanding our sales force, both domestically and internationally. We also plan to dedicate significant resources to sales and marketing programs. All of these efforts will require us to invest significant financial and other resources. Our business will be harmed if our sales and marketing efforts do not generate significant increases in revenue or increases in revenue are smaller than anticipated. We may not achieve anticipated revenue growth from expanding our sales force if we are unable to hire, develop, integrate and retain talented and effective sales personnel, if our new and existing sales personnel, on the whole, are unable to achieve desired productivity levels in a reasonable period of time, or if our sales and marketing programs are not effective.

***We experience a strong seasonality in sales in the fourth calendar quarter of the year. As a result, our results of operations are subject to substantial quarterly fluctuations, which may seriously harm our business.***

We have experienced, and expect to continue to experience, seasonal fluctuations in sales due to the spending patterns of semiconductor customers who license our products. Our total new license agreements have generally been lowest in the first and second calendar quarters. We expect these seasonality trends to continue. As a result, revenue recognized from our total new license agreements are subject to seasonal fluctuations, which may seriously harm our business.

***Substantial portions of our sales are made, and we anticipate will be made, to consumer, automotive, AI/ML and large-scale cloud and data center industry suppliers. Any downturn in any of these the markets could significantly harm our business.***

Of our annual contract value at December 31, 2020, 28.6% was derived from customers supplying to the consumer industry, 22.7% was to customers that supply various systems and components to the automotive industry, 14.3%

## [Table of Contents](#)

was to customers in the AI/ML industry and 12.6% was to customers supplying large scale cloud and data center customers.

Each of these sectors is subject to specific market risks. The consumer sector, for example, is subject to changes in end consumer spending patterns, technology developments and general economic conditions.

We are also exposed to the risks associated with the automotive market. For example, our anticipated future growth is highly dependent on the adoption of autonomous driving technologies, which are expected to have increased sensor and power product content. A downturn in the automotive market could delay automakers' plans to introduce new vehicles with these features, which would negatively impact the demand for our products and our ability to grow our business.

Several industries in which companies incorporate our technology, including the automotive industry and others, may undergo consolidation and reorganization and, in some cases, their suppliers may or have entered bankruptcy. Although we have not experienced any lost business or material bad debt write-offs as a result of such consolidation, such trends could harm our business.

Moreover, as a result of the COVID-19 pandemic and the associated responses by governments of various countries to prevent its spread, the automotive industry, including manufacturers, dealers, distributors and third-party suppliers have been adversely impacted. For example, many automotive manufacturers were forced to suspend manufacturing operations and may be required to do so again. In addition, government-imposed restrictions on businesses, operations and travel and the related economic uncertainty have impacted demand in many global markets. While demand in the automotive industry is dependent on a number of factors, automotive manufacturers expect the impact of COVID-19 to be highly dependent on its duration and severity. The foregoing impacts and other adverse effects on the automotive industry could harm our business, as well as our ability to execute our growth strategy.

***Our business has been, and may continue to be, adversely affected by health epidemics, pandemics and other outbreaks of infectious disease, including the current COVID-19 pandemic.***

Public health threats, such as COVID-19, influenza and other highly communicable diseases or viruses, outbreaks of which have from time to time occurred in various parts of the world in which we operate could adversely impact our operations, as well as the operations of our customers, end users of our products, and our and their respective vendors, suppliers and other business partners. Any of these public health threats and related consequences could adversely affect our financial results.

COVID-19, a potentially deadly respiratory tract infection caused by the SARS-CoV-2 virus, has spread rapidly and enveloped most of the world, causing a global public health crisis. On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The pandemic has resulted in national and local governments in affected countries around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines and other emergency public health measures and have implemented substantial lockdown measures, and additional countries and local governments may enact similar policies. In addition, the federal government and all of the states in the United States, have declared a state of emergency or similar disaster declaration, and many states and other jurisdictions where we have operations have implemented "shelter in place" and "stay-at-home" orders, workplace closures, business curtailments and other similar measures. The measures implemented by various authorities in response to the COVID-19 pandemic have caused us to change our business practices, including those related to where employees work, the distance between employees in our facilities, limitations on in-person meetings between employees and with customers, potential customers, suppliers, service providers and stakeholders, as well as restrictions on business travel to domestic and international locations and to attend trade shows, technical conferences and other events. As a result of these restrictions, the number of Design Starts we had in 2020 was lower than the number of Design Starts in 2019. Further, our revenue remained relatively flat in 2020 as compared to 2019 in part due to generally lower activity in certain of customers' operations during the second and third quarters of 2020 as a result of the COVID-19 pandemic. These restrictions have had, and future prevention and mitigation measures are also likely to have, an adverse impact on global economic conditions, which could further affect our operations. The considerable uncertainty regarding the economic impact of the COVID-19 pandemic is likely to result in sustained market turmoil, which could also harm our business.



## [Table of Contents](#)

These current and potential future measures that could restrict access to our facilities, limit support operations and place restrictions on our workforce, suppliers and other business partners have impacted and may further impact our workforce and operations, the operations of our customers and end users of our products, and those of our respective vendors, suppliers and other business partners. The disruptions to our operations caused by the COVID-19 pandemic may result in inefficiencies, delays and additional costs in our product development, sales, marketing, and customer service efforts that we cannot fully mitigate through remote or other alternative work arrangements. In addition, the severe global economic disruption, including recession, depression or other sustained adverse market impact caused by the COVID-19 pandemic, may cause our customers and end-users of our products to suffer significant economic hardship and potentially even go out of business, which could result in decreased demand for our products and harm our business. To the extent that the COVID-19 pandemic harms our business, it may also heighten many of the other risks discussed in this prospectus. For instance, if the business impacts of the COVID-19 pandemic continue for an extended period, it could cause us to recognize impairments for goodwill and certain long-lived assets including amortizable intangible assets.

The impact of the COVID-19 pandemic continues to evolve and its duration and ultimate disruption to our business and the businesses of our customers and end-users, the overall demand for our products and the related financial impact to us, as well as any similar disruptions that may result from any future pandemic, epidemic or other outbreak of infectious disease, will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the pandemic, its severity, the effectiveness of actions to contain the virus or treat its impact and how quickly and to what extent normal economic and operating conditions can resume, among others. The longer any such disruption continues, however, the more severe and adverse we would expect the effect to be on our business. Even after the COVID-19 pandemic has lessened or subsided, we may continue to experience harm to our business as a result of its global economic impact. As new information regarding the COVID-19 pandemic continues to emerge, it is difficult to predict the full extent to which the disease adversely impacts our financial performance. Additionally, weaker economic conditions generally could result in impairment in value of our tangible or intangible assets and our ability to raise additional capital, if needed.

***We received a Paycheck Protection Program loan, and our application for the PPP Loan could in the future be determined to have been impermissible or could result in damage to our reputation.***

In April 2020, we applied for and received an unsecured \$1.6 million loan under the Paycheck Protection Program (the "PPP Loan"). In December 2020, the PPP Loan was forgiven in full. The Paycheck Protection Program was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), and is administered by the U.S. Small Business Administration (the "SBA").

Our receipt of the PPP Loan or the forgiveness of the PPP Loan could result in adverse publicity. In addition, if we are later determined to have been ineligible to receive the PPP Loan or loan forgiveness, we may be subject to significant penalties, including significant civil, criminal and administrative penalties, we could be required to repay the PPP Loan in its entirety, and our reputation could suffer. A review or audit by the SBA or other government entity or claims under the U.S. False Claims Act could consume significant financial and management resources.

***A significant portion of our revenue comes from licensing fees, which may vary period to period.***

License agreements for our interconnect IP are generally treated as ratable revenue, with revenue being recognized evenly over the license term. However, certain license agreements for our IP interconnect solutions are recognized as point in time revenue, including two agreements resulting in our recognizing revenue of \$10.0 million in 2019 and \$7.4 million in 2020. Additionally, the majority of software license agreements for our IP deployment solutions are generally treated as point in time revenue at the start of the license period, so past revenue may not be indicative of the amount of revenue in any future period. Significant portions of our anticipated future revenue, therefore, will likely depend upon our success in attracting new customers, or continuing or expanding our relationships with existing customers. However, revenue recognized from licensing arrangements vary significantly from period to period, depending on the number and size of deals closed during a quarter, and is difficult to predict. In addition, as we expand our business into new markets, our licensing deals may be smaller in volume but greater in value in volume, which may further fluctuate our licensing revenue quarter to quarter. Our ability to succeed in our licensing efforts will depend on a variety of factors, including the market positioning, performance, quality, breadth and depth of our current and future IP interconnect and other solutions as well as our sales and marketing skills. Our failure to obtain future licensing customers would impede our future revenue growth and could materially harm our business.

## [Table of Contents](#)

As a result of these and other factors, you should not rely on the results of any prior quarterly or annual periods, or any historical trends reflected in such results, as indications of our future revenue or operating performance. Fluctuations in our revenue and operating results could cause our stock price to decline and, as a result, you may lose some or all of your investment.

### ***Royalty rates could decrease for existing and future license agreements, which could materially adversely affect our operating results.***

Royalty payments to us under existing and future license agreements could be lower than currently anticipated for a variety of reasons. Average selling prices for semiconductor products generally decrease over time during the lifespan of a product. In addition, there is significant pressure to maintain low royalty rates in certain markets where the end product may have a low average sales price, such as many consumer electronics products. In addition, there is increasing downward pricing pressures in the semiconductor industry on end products incorporating our technology, especially end products for consumer electronics markets. As a result, notwithstanding the existence of a license agreement, our customers may demand that royalty rates for our products on future or renewal agreements be lower than our historic royalty rates. Furthermore, our competitors may lower the royalty rates for their comparable products to win market share which may force us to lower our royalty rates on future or renewal agreements as well. As a consequence of the above referenced factors, as well as unforeseen factors in the future, the royalty rates we receive for use of our technology could decrease with new or renewed customers, thereby decreasing future anticipated revenue and cash flow. Royalty revenue was 14.6% and 10.9% of our revenue for 2019 and 2020, respectively, and 16.9% and 6.7% respectively of our revenue for the six months ended June 30, 2020 and 2021, respectively. Therefore, a significant decrease in our royalty revenue could materially adversely affect our operating results.

Moreover, royalty rates may be negatively affected by macroeconomic trends (including from the recent COVID-19 pandemic and its world effects) or changes in products mix. Furthermore, consolidation among our customers may increase the leverage of our existing customers to extract concessions from us in royalty rates.

### ***Changing currency exchange rates could harm our business.***

We have operations and assets in the U.S. as well as foreign jurisdictions, and we prepare our consolidated financial statements in U.S. dollars, but a portion of our earnings and expenditures are denominated in other currencies. We therefore must translate our foreign assets, liabilities, revenue and expenses into U.S. dollars at applicable exchange rates. Consequently, fluctuations in the value of foreign currencies relative to the U.S. dollar may negatively affect the value of these items in our financial statements. In addition, since many of our sales in foreign jurisdictions are denominated in U.S. dollars, fluctuations in the value of foreign currencies relative to the U.S. dollar may effectively increase the price of our products in the currency of the jurisdiction in which the sale took place and may result in our products becoming too expensive for non-U.S. customers who do not conduct their business in U.S. dollars. Furthermore, currency exchange rates have been especially volatile in the recent past, and these currency fluctuations may make it difficult for us to predict our results of operations. If the volume of our international operations increases and foreign currency exchange rates change, the impact to our consolidated statements of operations could be significant and may affect the comparability of operating results. The impact from foreign currency transactions during 2020 and the six months ended June 30, 2021 was not material. We do not believe a 10% increase or decrease in foreign exchange rates would have resulted in a material impact to our operating results. To the extent we fail to manage our foreign currency exposure adequately, we may suffer losses in the value of our net foreign currency investment, and our business may be harmed.

### ***We have made acquisitions and in the future expect to pursue acquisitions of and investments in new businesses, products or technologies, joint ventures and other strategic transactions that involve numerous risks and could disrupt and harm our business.***

As part of our business strategy, we make acquisitions of and investments in new businesses, such as our acquisition of Magillem, products and technologies and enter into joint ventures and other strategic relationships in the ordinary course. Our ability to grow our revenue, earnings and cash flow at or above our historic rates depends in part upon our ability to identify and successfully acquire and integrate businesses at acceptable prices, realize anticipated synergies and make appropriate investments that support our long-term strategy. We may not be able to consummate acquisitions at rates similar to the past, which could adversely impact our growth rate and the trading price of our common stock. Promising acquisitions and investments are difficult to identify and complete for a number of reasons, including high valuations, competition among prospective buyers, the availability of affordable funding in



## [Table of Contents](#)

the capital markets and the need to satisfy applicable closing conditions and obtain applicable antitrust and other regulatory approvals on a timely basis and on acceptable terms. In addition, competition for acquisitions and investment may result in higher purchase prices. Changes in accounting or regulatory requirements or instability in the credit markets could also adversely impact our ability to consummate acquisitions and investments on acceptable terms or at all.

In addition, even if we are able to consummate acquisitions and enter into joint ventures and other strategic relationships, these transactions and relationships, including our recent acquisition of Magillem, present a number of potential risks and challenges that could, if not met, disrupt our business operations, increase our operating costs, negatively affect our growth rate and the trading price of our common stock, and may harm our business. In addition, our recent Magillem acquisition as well as any acquisition, investment, joint venture or other strategic transaction we may enter into in the future, involve a number of additional financial, accounting, managerial, operational, legal, regulatory and other risks, which may include, among others:

- Any business, technology, service or product that we acquire or invest in could under-perform relative to our expectations and the price that we paid or not perform in accordance with our anticipated timetable, or we could fail to operate any such business profitably.
- We may incur or assume significant debt in connection with our acquisitions, joint ventures and other strategic relationships, which could also cause a deterioration of our credit ratings, result in increased borrowing costs and interest expense and diminish our future access to the capital markets. Alternatively, we may issue additional equity securities, which could dilute your ownership and voting power.
- Acquisitions, joint ventures and other strategic relationships could cause our financial results to differ from our own or the investment community's expectations in any given period, or over the long-term challenges associated with integrating employees from the acquired company into our organization.
- Pre-closing and post-closing earnings charges could adversely impact operating results in any given period, and the impact may be substantially different from period to period.
- Acquisitions, joint ventures and other strategic relationships could create demands on our management, operational resources and financial and internal control systems that we are unable to effectively address.
- We could experience difficulty in integrating personnel, operations and financial and other controls and systems and retaining key employees and customers.
- We may be unable to achieve cost savings or other synergies anticipated in connection with an acquisition, joint venture or other strategic relationship.
- We may assume unknown liabilities, known contingent liabilities that become realized, known liabilities that prove greater than anticipated, internal control deficiencies or exposure to regulatory sanctions resulting from the acquired company's or investee's activities and the realization of any of these liabilities or deficiencies may increase our expenses, adversely affect our financial position and/or cause us to fail to meet our public financial reporting obligations.
- In connection with acquisitions and joint ventures, we often enter into post-closing financial arrangements such as purchase price adjustments, earn-out obligations and indemnification obligations, which may have unpredictable financial results.
- As a result of our acquisitions, we have recorded significant goodwill and other assets on our consolidated balance sheet and if we are not able to realize the value of these assets, or if the fair value of our investments declines, we may be required to incur impairment charges.
- We may have interests that diverge from those of our joint venture partners or other strategic partners and we may not be able to direct the management and operations of the joint venture or other strategic relationship in the manner we believe is most appropriate, exposing us to additional risk.
- Investing in or making loans to early-stage companies often entails a high degree of risk, and we may not achieve the strategic, technological, financial or commercial benefits we anticipate; we may lose our investment or fail to recoup our loan; or our investment may be illiquid for a greater-than-expected period of time.

Furthermore, potential acquisitions, investments, joint ventures and other strategic transactions, whether or not consummated, may divert our management's attention and require considerable cash outlays at the expense of our existing operations. This, and any of the risks set forth above, could harm our business.

***Our ability to raise capital in the future may be limited and could prevent us from executing our growth strategy.***

Our ability to operate and expand our business depends on the availability of adequate capital, which in turn depends on cash flow generated by our business and the availability of borrowings under our term loan and future debt, equity or other applicable financing arrangements. We believe that our cash flow from operations, existing cash and cash equivalents, and the anticipated net proceeds of this offering will satisfy our anticipated cash requirements for at least the next 12 months. However, we have based this estimate on our current operating plans and expectations, which are subject to change, and cannot assure you that that our existing resources will be sufficient to meet our future liquidity needs. We may require additional capital to respond to business opportunities, challenges, acquisitions or other strategic transactions and/or unforeseen circumstances. The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on numerous factors, including:

- market acceptance of our semiconductor IP and other solutions, and our IP deployment solutions;
- the need to adapt to changing technologies and technical requirements;
- the existence of opportunities for expansion; and
- access to and availability of sufficient management, technical, marketing and financial personnel.

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain additional debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations and our ability to incur additional debt or engage in other capital-raising activities. We have not made arrangements to obtain additional financing and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow and support our business and respond to business opportunities and challenges could be significantly limited.

***We may not be able to effectively manage our growth, and we may need to incur significant expenditures to address the additional operational and control requirements of our growth, either of which could harm our business and operating results.***

In order to succeed in executing our business plan, we will need to manage our growth effectively as we make significant investments in research and development and sales and marketing and expand our operations and infrastructure both domestically and internationally. In addition, in connection with operating as a public company, we will incur additional significant legal, accounting and other expenses that we did not incur as a private company. If our revenue does not increase to offset these increases in our expenses, we may not achieve or maintain profitability in future periods.

To continue to grow and to meet our ongoing obligations as a public company, we must continue to expand our operational, engineering, accounting and financial systems, procedures, controls and other internal management systems. This may require substantial managerial and financial resources, and our efforts in this regard may not be successful. Our current systems, procedures and controls may not be adequate to support our future operations and we may be unable to meet reporting obligation deadlines under the Exchange Act. Unless our growth results in an increase in our revenue that is proportionate to the increase in our costs associated with this growth, our operating margins will be adversely affected. If we fail to adequately manage our growth, improve our operational, financial and management information systems, or effectively motivate and manage our new and future employees, it could harm our business.

***We depend on key and highly skilled personnel to operate our business, and if we are unable to retain our current personnel and hire additional personnel, our ability to develop and market our products could be harmed, which in turn could adversely affect our financial results.***

Our success depends to a large extent upon the continued services of our executive officers, managers and skilled personnel, including our development engineers. In particular, we are highly dependent on the services of K. Charles

## [Table of Contents](#)

Janac, our President, Chief Executive Officer and Chairman, who has been critical in the development and growth of our business and strategic direction, and we do not have key person insurance. From time to time, there may be changes in our executive management team or other key personnel, which could disrupt our business. Generally, our employees are not bound by obligations that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. Moreover, our employees are generally not subject to non-competition agreements. Given these limitations, we may not be able to continue to attract, retain and motivate qualified personnel necessary for our business.

In addition, we recruit from a limited pool of engineers with expertise in SoC design and the competition for such personnel can be intense. The loss of one or more of our executive officers or other key personnel or our inability to locate suitable or qualified replacements could be significantly detrimental to our product development efforts and could harm our business. In addition, we must attract and retain highly qualified personnel, including certain foreign nationals who are not U.S. citizens or permanent residents, many of whom are highly skilled and constitute an important part of our U.S. workforce, particularly in the areas of engineering and product development. Our ability to hire and retain these employees and their ability to remain and work in the U.S. are impacted by laws and regulations, as well as by procedures and enforcement practices of various government agencies. Changes in immigration laws, regulations or procedures may adversely affect our ability to hire or retain such workers, increase our operating expenses and negatively impact our ability to deliver our products and services, any of which would harm our business.

Volatility in, or lack of performance of, our stock price may also affect our ability to attract and retain key personnel. Employees may be more likely to terminate their employment with us if the shares they own or the shares underlying their vested options or restricted stock units have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or, conversely, if the exercise prices of the options that they hold are significantly above the trading price of our common stock. If we are unable to retain our employees, our business could be harmed.

### ***Our management team has limited experience managing a public company.***

Many members of our management team have limited experience managing a publicly-traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage us as a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could harm our business.

### ***Catastrophic events may disrupt our business.***

Our corporate headquarters are located in an area that is an active earthquake zone. In the event of a major earthquake, hurricane or other catastrophic event such as fire, power loss, telecommunications failure, cyber-attack, war, terrorist attack or disease outbreak, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our product development, breaches of data security, or loss of critical data, any of which could have an adverse effect on our future results of operations.

## **Risks Related to Intellectual Property, Information Technology and Data Security and Privacy**

### ***If we are unable to protect our proprietary technology and inventions through patents and other IP rights, our ability to compete successfully and our financial results could be adversely impacted.***

We seek to protect our proprietary technology and innovations, particularly those relating to the design of our products, through patents, trade secrets and other IP rights. As of June 30, 2021, we had 76 total issued patents, pending patent applications and non-expired provisional patent applications worldwide. Of these, we had 32 issued patents, 31 of which are U.S. issued patents and 1 is a U.K. issued patent. The 32 issued patents generally expire between 2035 and 2041. As of June 30, 2021, we had 44 pending non-provisional and provisional patent application filings, including 31 in the United States, 5 in Europe, 6 in China, 1 in Korea and 1 in Japan. Maintenance of patent portfolios, particularly outside of the United States, is expensive, and the process of seeking patent protection is lengthy and costly. While we intend to maintain our current portfolio of patents and to continue

## [Table of Contents](#)

to prosecute our currently pending patent applications and file future patent applications when appropriate, the value of these actions may not exceed their expense. Existing patents and those that may be issued from any pending or future applications may be subject to challenges, invalidation or circumvention, and the rights granted under our patents may not provide us with meaningful protection or any commercial advantage. In addition, the protection afforded under the patent laws of one country may not be the same as that in other countries. This means, for example, that our right to exclusively commercialize a product in those countries where we have patent rights for that product can vary on a country-by-country basis. We also may not have the same scope of patent protection in every country where we do business.

Additionally, it is difficult and costly to monitor the use of our IP. It may be the case that our IP is already being infringed and infringement may occur in the future without our knowledge. Litigation may be necessary to enforce our IP rights. While it is our policy to protect and defend our rights to our IP, we cannot predict whether steps taken by us to enforce and protect our IP rights will be adequate to prevent infringement, misappropriation, or other violations of our IP rights. Any inability to meaningfully enforce our IP rights could harm our ability to compete. Moreover, in any lawsuit we bring to enforce our IP rights, a court may refuse to stop the other party from using the technology at issue on grounds that our IP rights do not cover the technology in question. Further, in such proceedings, the defendant could counterclaim that our IP is invalid or unenforceable and the court may agree, in which case we could lose valuable IP rights. Any litigation of this nature, regardless of outcome or merit, could materially harm our business and hurt our competitive advantage.

***If we are unable to protect our proprietary technology and inventions through trade secrets, our competitive position and financial results could be adversely affected.***

As noted above, we seek to protect our proprietary technology and innovations, particularly those relating to our products, as patents, trade secrets and other forms of IP. Additionally, while software and other forms of our proprietary works may be protected under copyright law, in some cases we have chosen not to register any copyrights in these works, and instead, primarily rely on protecting our software as a trade secret. In the United States, trade secrets are protected under the federal Economic Espionage Act of 1996 and the Defend Trade Secrets Act of 2016 (the "Defend Trade Secrets Act"), and under state law, with many states having adopted the Uniform Trade Secrets Act (the "UTSA") and several of which that have not. In addition to these federal and state laws inside the United States, under the World Trade Organization's Trade Related-Aspects of IP Rights Agreement (the "TRIPS Agreement"), trade secrets are to be protected by World Trade Organization member states as "confidential information." Under the UTSA and other trade secret laws, protection of our proprietary information as trade secrets requires us to take steps to prevent unauthorized disclosure to third parties or misappropriation by third parties. In addition, the full benefit of the remedies available under the Defend Trade Secrets Act requires specific language and notice requirements present in the relevant agreements, which may not be present in all of our agreements. While we require our officers, employees, consultants, distributors, and existing and prospective customers and collaborators to sign confidentiality agreements and take various security measures to protect unauthorized disclosure and misappropriation of our trade secrets, we cannot assure or predict that these measures will be sufficient. The semiconductor industry is generally subject to high turnover of employees, so the risk of trade secret misappropriation may be amplified. If any of our trade secrets are subject to unauthorized disclosure or are otherwise misappropriated by third parties, our competitive position may be materially and adversely affected.

***Our ability to compete successfully depends in part on our ability to commercialize our IP solutions without infringing the patent, trade secret or other IP rights of others.***

To the same extent that we seek to protect our technology and inventions with patents, trade secrets and other IP rights, our competitors and other third parties do the same for their technology and inventions. We have no means of knowing the content of patent applications filed by third parties until they are published. It is also difficult and costly to continuously monitor the IP portfolios of our competitors to ensure our technologies do not violate the IP rights of any third parties.

The semiconductor industry is ripe with patent assertion entities and is characterized by frequent litigation regarding patent and other IP rights. From time to time, we receive communications from third parties that allege that our products or technologies infringe their patent or other IP rights. As a public company with an increased profile and visibility, we may receive similar communications in the future. Lawsuits or other proceedings resulting from allegations of infringement could subject us to significant liability for damages, invalidate our proprietary rights and

## [Table of Contents](#)

harm our business. In the event that any third-party succeeds in asserting a valid claim against us or any of our customers, we could be forced to do one or more of the following:

- discontinue selling access to certain technologies that contain the allegedly infringing IP which would result in a decline in our revenue and could result in breach of contract claim by our affected customers and damage to our reputation;
- stop receiving payment from a customer that can no longer sell the end-product if it contains allegedly infringing IP;
- seek to develop non-infringing technologies, which may not be feasible;
- incur significant legal expenses;
- pay substantial monetary damages to the party whose IP rights we may be found to be infringing; and/or
- we or our customers could be required to seek licenses to the infringed technology that may not be available on commercially reasonable terms, if at all.

If a third-party causes us to discontinue the use of any of our technologies, we could be required to design around those technologies. This could be costly and time consuming and could have an adverse effect on our financial results. Any significant impairments of our IP rights from any litigation we face could harm our business and our ability to compete in our industry.

***We may not be able to continue to obtain licenses to third-party software and IP on reasonable terms or at all, which may disrupt our business and harm our financial results.***

We license third-party software and other IP for use in product research and development and, in several instances, for inclusion in our products such as our license with Qualcomm for FlexNoC. We also license third-party software, including the software of our competitors, to test the interoperability of our products with other industry products and in connection with our professional services. Our third-party licenses typically limit our use of IP to specific uses and for specific time periods, and include other contractual obligations with which we must comply. Moreover, certain IP rights may be licensed to us on a non-exclusive basis, and accordingly, the owners of such IP are free to license such rights to third parties, including our competitors, on terms that may be superior to those offered to us, which could place us at a competitive disadvantage. These licenses may need to be renegotiated or renewed from time to time, or we may need to obtain new licenses in the future. For example, we may be required to renegotiate or seek a waiver to or consent under our license with Qualcomm with respect to our FlexNoc product in the event of certain changes of control (as defined in our agreements with Qualcomm) and there can be no guarantee we would be successful in such endeavor. Such provision could prevent us from pursuing a robust sales process in the event of a sale of the company, if Qualcomm refuses to provide consent or waive such change in control provision. In such an event, a change in control could cause us to lose our license with Qualcomm and our valuation could be adversely affected. See "Business—Material Agreement—Qualcomm Agreements." Third parties may stop adequately supporting or maintaining their technology, or they or their technology may be acquired by our competitors. If we are unable to obtain licenses to these third-party software and IP on reasonable terms or at all, we may not be able to sell or support the affected products, our customers' use of the products may be interrupted, and/or our product development processes and professional services offerings may be disrupted, which could in turn harm our financial results, our customers, and our reputation. Further, if we or our third-party licensors were to breach any material term of a license, such a breach could, among other things, prompt costly litigation, result in the license being invalidated and or result in fines and other damages. If any of the following were to occur, it could harm our business and our reputation.

We also cannot be certain that our licensors are not infringing the IP rights of others or that our licensors have sufficient rights to the IP to grant us the applicable licenses. Although we seek to mitigate this risk contractually, we may not be able to sufficiently limit our potential liability. If we are unable to obtain or maintain rights to any of this IP because of IP infringement claims brought by third parties against our licensors or against us, our ability to develop, maintain and support our products and technology incorporating that IP could be severely limited and our business could be harmed. Furthermore, regardless of outcome, infringement claims may require us to use significant resources and may divert management's attention.

## [Table of Contents](#)

Some of our products and technology, including those we acquire, may include software licensed under open-source licenses. Use and distribution of open-source software, where applicable, may entail greater risks than use of third-party commercial software, as open-source licensors generally do not provide support, warranties, indemnification or other contractual protections regarding infringement claims or the quality of the code. To the extent that our technology may in the future depend upon the successful operation of open-source software, any undetected errors or defects in this open-source software could prevent the deployment or impair the functionality of such technologies and injure our reputation.

Moreover, some open-source software licenses, if applicable, could require users who distribute open-source software as part of their proprietary software to publicly disclose all or part of the source code to such software and make available any derivative works or modifications of the open-source code on unfavorable terms or at no cost. If we were to combine our proprietary software with open-source software in a certain manner, we could, under certain circumstances, be required to comply with such license terms. Although we have tools and processes to monitor and restrict our use of open-source software, the risks associated with open-source usage may not be eliminated and may, if not properly addressed, result in unanticipated obligations that could harm our business.

***Any dispute regarding our IP may require us to indemnify certain customers, the cost of which could severely harm our business.***

In any potential dispute involving our patents or other IP, our customers could also become the target of litigation. While we generally do not indemnify our customers, some of our agreements provide for indemnification, and some require us to provide technical support and information to a customer that is involved in litigation involving use of our technology. In addition, we may be exposed to indemnification obligations, risks and liabilities that were unknown at the time that we acquired assets or businesses for our operations. Any of these indemnification and support obligations could result in substantial and material expenses. In addition to the time and expense required for us to indemnify or supply such support to our customers, a customer's development, marketing and sales of licensed semiconductors, mobile communications and data security technologies could be severely disrupted or shut down as a result of litigation, which in turn could severely harm our business as a result of lower or no royalty payments.

***We have been and in the future may be subject to incidents, disruptions or breaches of our information technology systems that could damage our reputation and our business, expose us to liability and materially and adversely affect our results of operations, potentially irreparably.***

In conducting our business, we routinely collect and store sensitive data, including proprietary technology and information about our business and our customers, suppliers and business partners, including our customers' proprietary chip design architecture information, personal information and sensitive information owned by our customers. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Increasingly, companies are subject to a wide variety of attacks on their networks and information technology infrastructure on an ongoing basis. Traditional computer "hackers," malicious code (such as viruses, and worms), phishing attempts, employee theft or misuse, denial of service attacks, and sophisticated nation-state and nation-state supported actors engage in intrusions and attacks that create risks for our (and our third-party service providers') products and services, internal networks, infrastructure, and cloud deployed products and the information each stores and processes (such products, services, networks, infrastructure, and cloud resources collectively "Resources"). Although we have implemented security measures to prevent such attacks, our Resources have been and may in the future be breached due to the actions of outside parties, employee error, malfeasance, a combination of these, or otherwise, and as a result, an unauthorized party may obtain access to our Resources. We have been (and our third-party service providers), and may in the future be, subject to such disruptions or security breaches of our secured network caused by computer viruses, ransomware, supply chain attacks, illegal hacking, criminal fraud or impersonation, acts of vandalism or terrorism or actions or failure to act by our employees or other with access to our network. For example, in 2019 a customer paid an invoice to a fraudulent third party and such amount could not be recovered. Our security measures, those of our third-party service providers, or our customers may not timely detect or prevent such security breaches. The costs to us to reduce the risk of or alleviate cyber security breaches and vulnerabilities could be significant. Any type of security breach, attack, unauthorized access to or misuse of data, whether experienced by us or an associated third-party, could harm our reputation or deter existing or prospective customers from using our products and applications, increase our operating expenses in order to contain and remediate the incident, expose us to unbudgeted or uninsured liability, disrupt our operations, divert



management focus away from other priorities, increase our risk of regulatory scrutiny, result in the imposition of penalties and fines under state, federal and foreign laws or by payment networks and adversely affect our continued payment network registration and financial institution sponsorship. We would also be exposed to a risk of loss or litigation and potential liability under laws, regulations and contracts that protect the privacy and security of personal information. For example, the California Consumer Privacy Act of 2018, or the CCPA, imposes a private right of action for security breaches that could lead to some form of remedy including regulatory scrutiny, fines, private right of action settlements, and other consequences. Where a security incident involves a breach of security leading to the accidental or unlawful destruction, loss, alternation, unauthorized disclosure of, or access to, personal data in respect of which we are a controller or processor under the GDPR or U.K. GDPR (as defined below), this could result in fines of up to €20.0 million or 4% of annual global turnover under the GDPR or £17.0 million and 4% of total annual revenue in the case of the U.K. GDPR. We may also be required to notify such breaches to regulators and/or individuals which may result in us incurring additional costs. Moreover, any such compromise of our information security or that of our third parties could result in the misappropriation or unauthorized publication or other exploitation of our confidential business or proprietary information or personal information or that of other parties with which we do business, an interruption in our operations, the unauthorized transfer of cash or other assets, the unauthorized release of customer or employee data or a violation of privacy or other laws. In addition, computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products, or that otherwise exploit any security vulnerabilities, and any such attack, if successful, could expose us to liability to customer claims. Any of the foregoing could irreparably damage our reputation and business, which could have a material adverse effect on our results of operations.

Further, notifications and follow-up actions related to a security incident could impact our reputation and cause us to incur significant costs, including legal expenses and remediation costs. To the extent that any disruption or security incident were to result in any loss, destruction, or alteration of, or damage or unauthorized access to, our data or other information that is processed or maintained on our behalf, or inappropriate disclosure of or dissemination of any such information, we could be exposed to litigation and governmental investigations, the further development and commercialization of our products could be delayed, and we could be subject to significant fines or penalties for any noncompliance with certain state, federal and/or international privacy and security laws.

Our insurance policies may not be adequate to compensate us for the potential losses arising from any such disruption in or failure or security breach of our systems or third-party systems where information important to our business operations or commercial development is stored. In addition, such insurance may not be available to us in the future on economically reasonable terms, or at all. Further, our insurance may not cover all claims made against us and could have high deductibles in any event, and defending a suit, regardless of its merit, could be costly and divert management attention.

***We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and consumer protection laws across different markets where we conduct our business. Our actual or perceived failure to comply with such obligations could harm our business.***

We are subject to a number of legal requirements, contractual obligations and industry standards regarding security, data protection and privacy and any failure to comply with these requirements, obligations or standards could harm our reputation and business. These include the GDPR and applicable United States federal, California and other jurisdictional privacy laws and regulations.

In the United States and other jurisdictions in which we operate, we are subject to various privacy, data protection and consumer protection laws and related regulations. If we are found to have breached any such laws or regulations in any such jurisdiction, we may be subject to enforcement actions that require us to change our business practices in a manner which may negatively impact our revenue, as well as expose us to litigation, fines, civil and/or criminal penalties and adverse publicity that could cause our customers to lose trust in us, negatively impacting our reputation and business in a manner that harms our financial position.

As part of our business, we collect information about individuals, also referred to as personal data, and other potentially sensitive and/or regulated data from our customers. Laws and regulations in the United States and around the world restrict how personal information is collected, processed, stored, used and disclosed, as well as set standards for its security, implement notice requirements regarding privacy practices, and provide individuals with certain rights regarding the use, disclosure and sale of their protected personal information.

## [Table of Contents](#)

In the United States, both the federal and various state governments have adopted or are considering, laws, or regulations for the collection, distribution, use and storage of information collected from or about individuals or their devices. A range of enforcement agencies exist at both the state and federal levels that can enforce these laws and regulations. These laws and regulations may apply to our activities, including, for example, state data breach notification laws, state personal data privacy laws, and federal and state consumer protection laws. For example, California enacted the California Consumer Privacy Act (“CCPA”) which became operative on January 1, 2020 and became enforceable by the California Attorney General on July 1, 2020, along with related regulations which came into force on August 14, 2020. Additionally, although not effective until January 1, 2023, the California Privacy Rights Act, or the CPRA, which expands upon the CCPA, was passed on November 3, 2020. The CCPA requires (and the CPRA will require) covered companies to, among other things, provide new disclosures to California consumers, and affords such consumers new privacy rights such as the ability to opt-out of certain sales of personal information and expanded rights to access and require deletion of their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is collected, used and shared. The CCPA provides for civil penalties for violations, as well as a private right of action for security breaches that may increase security breach litigation. Further, Virginia enacted the Virginia Consumer Data Protection Act, or the CDPA, another comprehensive state privacy law, that will also be effective January 1, 2023. The CCPA, CPRA, and CDPA may increase our compliance costs and potential liability, particularly in the event of a data breach, and could harm our business, including how we use personal information. A number of other proposals exist for new federal and state privacy legislation that, if passed, could increase our potential liability, increase our compliance costs and harm our business.

Several foreign jurisdictions, including the European Union (“EU”), have laws and regulations which are more restrictive in certain respects than those in the United States. For example, the EU General Data Protection Regulation (“GDPR”) includes stringent operational requirements for the use of personal data. The European regime also includes laws which, among other things, require EU member states to regulate marketing by electronic means and the use of cookies and similar technologies. The GDPR has resulted in, and will continue to result in, significant compliance burdens and costs for companies with customers and/or operations in the European Union. The GDPR, and national implementing legislation in each member state, impose a strict data protection compliance regime including: providing detailed disclosures about how personal data is collected and processed; demonstrating that an appropriate legal basis is in place or otherwise exists to justify data processing activities; granting new rights for data subjects in regard to their personal data (including the right to be “forgotten” and the right to data portability), as well as enhancing current rights (e.g., data subject access requests); introducing the obligation to notify data protection regulators or supervisory authorities (and in certain cases, affected individuals) of significant data breaches; defining for the first time pseudonymized (i.e., key-coded) data; imposing limitations on retention of personal data; maintaining a record of data processing; and complying with the principal of accountability and the obligation to demonstrate compliance through policies, procedures, training and audit. . If our privacy or data security measures fail to comply with applicable current or future laws and regulations, we may be subject to litigation, regulatory investigations, and enforcement notices requiring us to change the way we use personal data or our marketing practices. For example, under the GDPR we may be subject to fines of up to €20 million or up to 4% of the total worldwide annual group turnover of the preceding financial year (whichever is higher) for major violations. In addition to the foregoing, a breach of the GDPR could result in regulatory investigations, reputational damage, orders to cease/ change our processing of our data, enforcement notices, and/ or assessment notices (for a compulsory audit). We may also face civil claims including representative actions and other class action type litigation (where individuals have suffered harm), potentially amounting to significant compensation or damages liabilities, as well as associated costs, diversion of internal resources, reputational harm and a potential loss of business.

We are also subject to European Union rules with respect to cross-border transfers of personal data out of the European Economic Area (“EEA”) and the United Kingdom (“UK”). Recent legal developments in Europe have created complexity and uncertainty regarding transfers of personal data from the EEA and the UK to the United States. Most recently, on July 16, 2020, the Court of Justice of the European Union (“CJEU”) invalidated the EU-US Privacy Shield Framework (“Privacy Shield”) under which personal data could be transferred from the EEA to US entities who had self-certified under the Privacy Shield scheme. While the CJEU upheld the adequacy of the standard contractual clauses (a standard form of contract approved by the European Commission as an adequate



personal data transfer mechanism, and potential alternative to the Privacy Shield), it made clear that reliance on them alone may not necessarily be sufficient in all circumstances. Use of the standard contractual clauses must now be assessed on a case-by-case basis taking into account the legal regime applicable in the destination country, and in particular applicable surveillance laws and rights of individuals and additional measures and/or contractual provisions may need to be put in place, however, the nature of these additional measures is currently uncertain. The CJEU went on to state that if a competent supervisory authority believes that the standard contractual clauses cannot be complied with in the destination country and the required level of protection cannot be secured by other means, such supervisory authority is under an obligation to suspend or prohibit that transfer. These recent developments may require us to review and amend the legal mechanisms by which we make and/or receive personal data transfers to/ in the U.S. As supervisory authorities issue further guidance on personal data export mechanisms, including circumstances where the standard contractual clauses cannot be used, and/or start taking enforcement action, we could suffer additional costs, complaints and/or regulatory investigations or fines.

Further, the exit of the UK from the EU, often referred to as Brexit, has created uncertainty with regard to data protection regulation in the UK. Specifically, the UK exited the EU on January 1, 2020, subject to a transition period that ended December 31, 2020. Under the post-Brexit Trade and Cooperation Agreement between the EU and the UK, the UK and EU have agreed that transfers of personal data to the UK from EEA member states will not be treated as 'restricted transfers' to a non-EEA country for a period of up to four months from January 1, 2021, plus a potential further two months extension (the "Extended Adequacy Assessment Period"). Although the current maximum duration of the Extended Adequacy Assessment Period is six months, it may end sooner, for example, in the event that the European Commission adopts an adequacy decision in respect of the UK, or the UK amends the UK GDPR and/or makes certain changes regarding data transfers under the UK GDPR/Data Protection Act 2018 without the consent of the EU (unless those amendments or decisions are made simply to keep relevant UK laws aligned with the EU's data protection regime). If the European Commission does not adopt an 'adequacy decision' in respect of the UK prior to the expiry of the Extended Adequacy Assessment Period, from that point onwards the UK will be an 'inadequate third country' under the GDPR and transfers of personal data from the EEA to the UK will require a 'transfer mechanism' such as the Standard Contractual Clauses.

Restrictions on the collection, use, sharing or disclosure of personal information or additional requirements and liability for security and data integrity could require us to modify our solutions and features, possibly in a material manner, could limit our ability to develop new products and features and could subject us to increased compliance obligations and regulatory scrutiny.

Although we make reasonable efforts to comply with all applicable data protection laws and regulations, our interpretations and such measures may have been or may prove to be insufficient or incorrect. Any failure to comply with any data protection laws and/or regulations that results in a data security breach could require notifications to data subjects and/or owners under federal, state and/or international data breach notification laws and regulations. The effects of any applicable U.S. state, U.S. federal and international laws and regulations that are currently in effect or that may go into effect in the future, are significant and may require us to modify our data processing practices and policies and to incur substantial costs and potential liability in an effort to comply with such laws and regulations. Allegations of non-compliance, whether or not true, could be costly, time consuming, distracting to management, and cause reputational harm. In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards. Because the interpretation and application of privacy and data protection laws are still uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with one another or inconsistent with our existing data management practices or the features of our products and services. Any actual or perceived failure to comply with these and other data protection and privacy laws and regulations could result in regulatory scrutiny and increased exposure to the risk of litigation or the imposition of consent orders, resolution agreements, requirements to take particular actions with respect to training, policies or other activities, and civil and criminal penalties, including fines, which could harm our business. In addition, we or our third-party service providers could be required to fundamentally change our business activities and practices or modify our products and services, which could harm our or our third-party service providers' business. Any of the foregoing could result in additional cost and liability to us, damage our reputation, inhibit sales, and harm our business.

## **Risks Related to Legal, Regulatory, Accounting and Tax Matters**

### ***Our failure to comply with the large body of laws and regulations to which we are subject could materially harm our business.***

We are subject to regulation by various governmental agencies in the United States and other jurisdictions in which we operate. These laws and regulations (and the government agency responsible for their enforcement in the United States) cover: radio frequency emission regulatory activities (Federal Communications Commission); anti-trust regulatory activities (Federal Trade Commission and Department of Justice); consumer protection laws (Federal Trade Commission); import/export regulatory activities (Department of Commerce); product safety regulatory activities (Consumer Products Safety Commission); worker safety (Occupational Safety and Health Administration); environmental protection (Environmental Protection Agency and similar state and local agencies); employment matters (Equal Employment Opportunity Commission); and tax and other regulations by a variety of regulatory authorities in each of the areas in which we conduct business. In certain jurisdictions, regulatory requirements in one or more of these areas may be more stringent than in the United States.

In the area of employment matters, we are subject to a variety of federal, state and foreign employment and labor laws and regulations, including the Americans with Disabilities Act, the Federal Fair Labor Standards Act, the WARN Act and other regulations related to working conditions, wage and hour pay, overtime pay, employee benefits, anti-discrimination, and termination of employment. We are subject to local employment statutes and regulations in other jurisdictions. Noncompliance with any of these applicable regulations or requirements could subject us to investigations, sanctions, enforcement actions, fines, damages, penalties, or injunctions. In certain instances, former employees have brought claims against us and we expect that we will encounter similar actions against us in the future. An adverse outcome in any such litigation could require us to pay damages, attorneys' fees and costs. These enforcement actions could harm our reputation and business. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business could be harmed. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees.

### ***Our failure to comply with the Foreign Corrupt Practices Act, other applicable anti-corruption and anti-bribery laws, and applicable anti-money laundering laws could subject us to penalties and other adverse consequences.***

We have extensive international operations and a substantial portion of our business is conducted outside of the United States. Our operations are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended (the "FCPA"), the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, as well as the anti-corruption, anti-bribery, and anti-money laundering laws in the countries where we do business. Anti-corruption laws are interpreted broadly and prohibit companies and their employees and agents from promising, authorizing, making, or offering, soliciting, or accepting, directly or indirectly, improper payments or other benefits to or from any person whether in the public or private sector. The FCPA also requires publicly traded companies to maintain records that accurately and fairly represent their transactions, and to have an adequate system of internal accounting controls. As we increase our international sales and business, our risks under these laws may increase.

Though we maintain policies, internal controls and other measures reasonably designed to promote compliance with applicable anticorruption, anti-bribery laws, and anti-money laundering laws and regulations, our employees or agents may nevertheless engage in improper conduct for which we might be held responsible. Any violations of these laws, or even allegations of such violations, can lead to an investigation and/or enforcement action, which could disrupt our operations, involve significant management distraction, and lead to significant costs and expenses, including legal fees. If we, or our employees or agents acting on our behalf, are found to have engaged in practices that violate these laws and regulations, we could suffer severe fines and penalties, profit disgorgement, injunctions on future conduct, securities litigation, bans on transacting government business, delisting from securities exchanges and other consequences that may harm our business. In addition, our reputation, our revenue or our stock price could be adversely affected if we become the subject of any negative publicity related to actual or potential violations of any of these laws and regulations.

***We are subject to government regulation, including import, export and economic sanctions laws and regulations that may expose us to liability and increase our costs.***

Certain of our products, including our IP interconnect and other solutions and technology are subject to U.S. export controls, including the U.S. Department of Commerce's Export Administration Regulations ("EAR") and economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. These regulations may limit the export of our products and technology, and provision of our services outside of the United States, or may require export authorizations, including by license, a license exception, or other appropriate government authorizations and conditions, including annual or semi-annual reporting. Export control and economic sanctions laws may also include prohibitions on the sale or supply of certain of our products to embargoed or sanctioned countries, regions, governments, persons, and entities. In addition, various countries regulate the importation of certain products, through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products. The exportation, re-exportation, and importation of our products and technology and the provision of services, including by our partners, must comply with these laws or else we may be adversely affected through reputational harm, government investigations, penalties, and a denial or curtailment of our ability to export our products and technology. Complying with export control and sanctions laws may be time-consuming and may result in the delay or loss of sales opportunities. Although we take precautions to prevent our products and technology from being provided in violation of such laws, our products and technology have previously been, and could in the future be, provided inadvertently in violation of such laws, despite the precautions we take. If we are found to be in violation of U.S. sanctions or export control laws, it could result in substantial fines and penalties for us and for the individuals working for us. Changes in export or import laws or sanctions policies may adversely impact our operations, delay the introduction and sale of our products in international markets, or, in some cases, prevent the export or import of our products and technology to certain countries, regions, governments, persons, or entities altogether, which could harm our business.

***We will lose sales if we are unable to obtain government authorization to export certain of our products, and we will be subject to legal and regulatory consequences if we do not comply with applicable export control laws and regulations.***

Exports of certain of our IP interconnect and other solutions are subject to export controls imposed by the U.S. government and administered by the U.S. Departments of State and Commerce. In certain instances, these regulations may require pre-shipment authorization from the administering department. For products subject to the EAR, administered by the Department of Commerce's Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product, the final destination, the identity of the end user and whether a license exception might apply. Certain of our solutions are subject to EAR. Obtaining export licenses can be difficult, costly and time-consuming and we may not always be successful in obtaining necessary export licenses, and our failure to obtain required import or export approval for our products or limitations on our ability to export or sell our products imposed by these laws may harm our international and domestic revenue. Noncompliance with these laws could have negative consequences, including government investigations, penalties and reputational harm. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position.

We derived 45.1%, and 31.2% of our revenue in 2019 and 2020, respectively, from parties that are currently subject to the Entity List of the EAR (a list of entities to which the transfer of EAR-controlled technology or software is generally prohibited absent a U.S. export license), including HiSilicon Technologies Co., Ltd. ("HiSilicon"), Chongxin Bada Technology Development Co., Ltd. ("Bada"), and SZ DJI Technology Co., Ltd. Current and future business with these entities may be limited in scope or suspended entirely in order to comply with the EAR and as a result, our revenue could be adversely impacted. Regulatory changes concerning the export classification of our products, changes to the applicability of the EAR to certain product offerings, or the addition of new entities to the restricted party lists can further increase the scope of export restrictions applicable to our business. Failure to obtain export licenses for our products or having one or more of our customers be restricted from receiving exports from us could significantly reduce our revenue and harm our business.

In addition, the U.S. federal government has increased its Entity List materially in recent years, which affects the range and number of Chinese customers available to license our products and technology. This raises an additional risk that China may enact retaliatory legislation or regulations that may raise similar adverse risks.

## [Table of Contents](#)

In March 2021, we submitted an initial voluntary self-disclosure (“VSD”) to the Bureau of Industry and Security (“BIS”), noting potential violations of the EAR. On the July 23, 2021, we submitted a final VSD to BIS after completing our review. In our VSD submission, we identified discrete transactions with two customers. The first customer is Bada, an existing customer to which we provided EAR-regulated know-how after BIS added Bada to the Entity List and without authorization under the EAR. We no longer have a relationship with or support this customer. The second customer is HiSilicon. We entered into a contract with, and provided products to, HiSilicon the same week that BIS added HiSilicon to the Entity List. This may have resulted in an inadvertent violation of the EAR due to the timing of the Entity List restrictions. While we currently maintain a business relationship with HiSilicon, we no longer provide it with products or ongoing support. We have taken and continue to take remedial measures to help prevent similar situations from occurring in the future. Our VSD is currently under review at BIS.

### ***We face risks associated with doing business in China.***

We derived 54.3%, and 44.9% of our revenue in 2019 and 2020, respectively, from customers located in China. As a result, the economic, political, legal and social conditions in China could harm our business. In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. Various factors may in the future cause the Chinese government to impose controls on credit or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products. In addition, the legal system in China has inherent uncertainties that may limit the legal protections available in the event of any claims or disputes that we have with third parties, including our ability to protect the IP we develop in China or elsewhere. As China’s legal system is still evolving, the interpretation of many laws, regulations and rules is not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit the remedies available in the event of any claims or disputes with third parties. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Some of the other risks related to doing business in China include:

- The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.
- Restrictions on currency exchange may limit our ability to receive, transfer and use our cash effectively.
- Increased uncertainties related to the enforcement of IP rights.
- Increased uncertainties relating to Chinese regulation of exports of products and technology to and from China.
- Increased and rapidly changing export and related trade regulations and restrictions imposed by U.S. and Chinese legislation, executive actions and regulations.
- Difficulty of travel to and from China (and to and from United States) arising from or related to the COVID-19 pandemic or any future pandemic.
- The Chinese government may favor its local businesses and make it more difficult for foreign businesses to operate in China on an equal footing, or create generally difficult conditions for foreign headquartered businesses to operate.
- Increased uncertainties related to the enforcement of contracts with certain parties.
- More restrictive rules on foreign investment could adversely affect our ability to expand our operations in China.

As a result of our growing operations in China, these risks could harm our business.

Further, on June 3, 2021, the President issued Executive Order 14032 (Addressing the Threat from Securities Investments that Finance Certain Companies of the People’s Republic of China) targeting entities that are deemed part of the Chinese military-industrial complex. The executive order, and the subsequent Office of Foreign Assets Control additions to its Non-SDN Chinese Military-Industrial Complex Companies List, include one or more entities that have indirectly invested in us. Among other things, this executive order prohibits the purchase or sale of any publicly traded securities of a designated entity. We do not expect that this executive order will impact us; however, further government escalation of restrictions related to Chinese investors and dealings in securities could harm certain shareholders.

***We conduct certain of our operations by means of a joint venture arrangement with a Chinese entity. If the Chinese government determines that this arrangement does not comply with applicable regulations, our business could be adversely affected. If the PRC regulatory agencies determine that the agreements that establish the structure and relationship for our operations in China do not comply with PRC regulatory restrictions on foreign investment, we could be subject to severe penalties. In addition, changes in such Chinese laws and regulations may materially and adversely affect our business.***

There are uncertainties regarding the interpretation and application of PRC laws, rules and regulations, including, but not limited to, the laws, rules and regulations governing the validity and enforcement of the joint venture arrangement between China Fortune Tech Capital, LLP (“CFTC”) and us. Although we believe, based on our understanding of the current PRC laws, rules and regulations, the structure for our operations based in China complies with all applicable PRC laws, rules and regulations and does not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations, we cannot assure you that the PRC regulatory authorities will not determine that such joint venture arrangement does not violate PRC laws, rules or regulations. If the PRC regulatory authorities determine that our joint venture arrangement with CFTC is in violation of applicable PRC laws, rules or regulations, such joint venture arrangement may become invalid or unenforceable, which will substantially affect our operations adversely.

The Chinese government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted by relevant governmental agencies may be revoked at a later time by other regulatory agencies. We cannot predict the effect of the interpretation of existing or new Chinese laws or regulations on our business. Any of these or similar actions could significantly disrupt our operations or restrict us from conducting a substantial portion of our operations, which could materially and adversely affect our business, financial condition and results of operations.

***We could be subject to changes in tax rates or the adoption of new tax legislation, whether in or out of the United States, or could otherwise have exposure to additional tax liabilities, which could harm our business.***

As a multinational business, we are subject to income and other taxes in both the United States and various foreign jurisdictions. Changes to tax laws or regulations in the jurisdictions in which we operate, or in the interpretation of such laws or regulations, could, significantly increase our effective tax rate and reduce our cash flow from operating activities, and otherwise have a material adverse effect on our financial condition. In addition, other factors or events, including business combinations and investment transactions, changes in the valuation of our deferred tax assets and liabilities, adjustments to taxes upon finalization of various tax returns or as a result of deficiencies asserted by taxing authorities, increases in expenses not deductible for tax purposes, changes in available tax credits, changes in transfer pricing methodologies, other changes in the apportionment of our income and other activities among tax jurisdictions, and changes in tax rates, could also increase our effective tax rate.

Our tax filings are subject to review or audit by the U.S. Internal Revenue Service (the “IRS”) and state, local and foreign taxing authorities. We may also be liable for taxes in connection with businesses we acquire. Our determinations are not binding on the IRS or any other taxing authorities, and accordingly the final determination in an audit or other proceeding may be materially different than the treatment reflected in our tax provisions, accruals and returns. An assessment of additional taxes because of an audit could harm our business.

Further changes in the tax laws of foreign jurisdictions could arise, in particular, as a result of the base erosion and profit shifting project that was undertaken by the Organization for Economic Co-operation and Development (the OECD”). The OECD, which represents a coalition of member countries, recommended changes to numerous long-standing tax principles. These changes, if adopted, could increase tax uncertainty and may adversely affect our provision for income taxes and increase our tax liabilities.

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

In general, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Code”), if a corporation undergoes an “ownership change,” generally defined as a cumulative change of more than 50 percentage points (by value) in its equity ownership by certain stockholders over a three-year period, the corporation’s ability to use its pre-change net operating loss (“NOL”) carryforwards and other pre-change tax attributes (such as research tax credits) to offset its post-change income or taxes may be limited. We may have

experienced ownership changes in the past and may experience additional ownership changes in the future, including in connection with this offering or as a result of subsequent changes in our stock ownership, some of which are outside our control. Accordingly, we may not be able to utilize a material portion of our NOL carryforwards, even if we achieve profitability.

***The requirements of being a public company require significant resources and management attention and affect our ability to attract and retain executive management and qualified board members.***

As a public company following this offering, we will incur increased legal, accounting, compliance and other expenses that we did not previously incur as a private company. We will be subject to the Exchange Act, including the reporting requirements thereunder, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the rules and other applicable securities rules and regulations. These rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives, which will divert their attention away from our core business operations and revenue-producing activities. Moreover, compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources, particularly after we are no longer an "emerging growth company." Further, we expect that these rules and regulations may make it more difficult and more expensive for us to obtain directors' and officers' liability insurance, which in turn could require us to incur substantially higher costs to obtain the same or similar coverage or accept reduced policy limits and coverage, which, if we accept such reduced policy limits and coverage, could make it more difficult for us to attract and retain qualified individuals to serve on our board of directors and as our executive officers. In addition, prior to this offering, we have not been required to comply with SEC requirements to have our financial statements completed and reviewed or audited within a specified time and, as such, we may experience difficulty in meeting the applicable reporting requirements under the Exchange Act. Any failure by us to file our periodic reports with the SEC in a timely manner could harm our reputation and reduce the trading price of our common stock.

We are evaluating these rules and regulations and cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. These rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. In addition, if we fail to comply with these rules and regulations, we could be subject to a number of penalties, including the delisting of our common stock, fines, sanctions or other regulatory action or civil litigation.

***If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.***

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. Our disclosure controls and other procedures are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers, and we continue to evaluate how to improve controls. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our business or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports



## [Table of Contents](#)

that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed. We are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. As a public company, we are required to provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second annual report on Form 10-K.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until after we are no longer an “emerging growth company” as defined in the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could harm our business and could cause a decline in the trading price of our common stock.

***We are an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an “emerging growth company,” as defined in the JOBS Act, and we could remain an emerging growth company until the last day of our fiscal year following the fifth anniversary of the closing of this offering. For as long as we continue to be an emerging growth company, we may choose to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to:

- not being required to engage an auditor to report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- not being required to submit certain executive compensation matters to stockholder advisory votes, such as “say-on-pay,” “say-on-frequency,” and “say-on-golden-parachutes”; and
- not being required to disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer’s compensation to median employee compensation.

In addition, as an emerging growth company, we are only permitted to provide two years of audited financial statements and two years of selected financial data (in addition to any required interim financial statements and selected financial data) in this prospectus, and to present correspondingly reduced disclosure in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We have elected to take advantage of this reduced disclosure obligation and certain of the other exemptions described above in the registration statement of which this prospectus is a part and may elect to take advantage of these and other reduced reporting requirements in the future. As a result, the information that we provide to our stockholders may be different than the information you might receive from other public reporting companies in which you hold equity interests. In addition, the JOBS Act permits emerging growth companies to delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to use this extended transition period for complying with new or revised accounting standards until the earlier of the date we (i) are no longer an emerging growth company; or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our consolidated financial statements and the reported results of operations contained therein may not be directly comparable to those of other public companies. We cannot predict whether investors will find our common stock less attractive because of our reliance on these exemptions. If some investors do find our common stock less attractive, there may be a less active trading market for our common stock and our stock price may be reduced or become more volatile.



## [Table of Contents](#)

We will remain an emerging growth company, and will be able to take advantage of the foregoing exemptions, until the last day of our fiscal year following the fifth anniversary of the closing of this offering or such earlier time that we otherwise cease to be an emerging growth company, which will occur upon the earliest of (i) the last day of the first fiscal year in which our annual gross revenue are \$1.07 billion or more; (ii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities; and (iii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, which will occur as of the end of any fiscal year in which (x) the market value of our common equity held by non-affiliates is \$700 million or more as of the last business day of our most recently completed second fiscal quarter, (y) we have been required to file annual and quarterly reports under the Exchange Act for a period of at least 12 months and (z) we have filed at least one annual report pursuant to the Exchange Act.

### **Risks Related to this Offering and Ownership of Our Common Stock**

#### ***There has been no prior public market for our common stock, and an active trading market may never develop or be sustained.***

Prior to this offering, there has been no public market for our common stock. The initial public offering price for the shares was determined by negotiations between us and the representatives of the underwriters and may not be indicative of prices that will prevail in the trading market following the closing of this offering. Although we intend to apply to have our common stock listed on the Nasdaq exchange, an active trading market for our common stock may never develop or be sustained following this offering. If an active market for our common stock does not develop, it may be difficult for you to sell shares you purchase in this offering without depressing the market price for our common stock, or at all. An inactive trading market may also impair our ability to raise capital by selling shares of our common stock and enter into strategic partnerships or acquire other complementary products, technologies or businesses by using shares of our common stock as consideration. Furthermore, although we intend to apply to have our common stock listed on the Nasdaq exchange, even if listed, there can be no guarantee that we will continue to satisfy the continued listing standards of the Nasdaq exchange. If we fail to satisfy the continued listing standards, we could be de-listed, which would negatively impact the value and liquidity of your investment.

#### ***Our stock price may be volatile, and investors in our common stock may not be able to resell shares of our common stock at or above the price paid, or at all.***

If you purchase shares of common stock in this offering, you may not be able to resell those shares at or above the public offering price, or at all. The trading price of our common stock following this offering could be volatile and subject to wide fluctuations in response to various factors, many of which are beyond our control, including, but not limited to:

- variations in our actual or anticipated annual or quarterly operating results or those of others in our industry;
- the potential effects arising if U.S. inflationary and/or currency devaluation trends appear or increase;
- results of operations that otherwise fail to meet the expectations of securities analysts and investors;
- changes in earnings estimates or recommendations by securities analysts, or other changes in investor perceptions of the investment opportunity associated with our common stock relative to other investment alternatives;
- market conditions in the semiconductor industry;
- publications, reports or other media exposure of our products or those of others in our industry, or of our industry generally;
- announcements by us or others in our industry, or by our or their respective suppliers, distributors or other business partners, regarding, among other things, significant contracts, price reductions, capital commitments or other business developments, the entry into or termination of strategic transactions or relationships, securities offerings or other financing initiatives, and public reaction thereto;
- additions or departures of key management personnel;
- regulatory actions involving us or others in our industry, or actual or anticipated changes in applicable government regulations or enforcement thereof;
- the development and sustainability of an active trading market for our common stock;
- sales, or anticipated sales, of large blocks of our common stock;

## [Table of Contents](#)

- general economic and securities market conditions; and
- other factors discussed in this “Risk Factors” section and elsewhere in this prospectus.

Furthermore, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies. Broad market and industry factors may significantly affect the market price of our common stock, regardless of our actual operating performance. These fluctuations may be even more pronounced in the trading market for our common stock shortly following the closing of this offering. These and other factors may cause the market price and demand for our common stock to fluctuate significantly, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our core business operations.

***If equity research analysts or industry analysts do not publish research or reports about our business, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.***

The trading market for our common stock, should one develop, will be influenced by the research and reports that industry or equity research analysts publish about us or our business. As a newly public company, we may be slow to attract research coverage and the analysts who publish information about our common stock will have had relatively little experience with us, which could affect their ability to accurately forecast our results and could make it more likely that we fail to meet their estimates. If no or few securities or industry analysts commence coverage of us, the trading price for our common stock will be negatively impacted. In the event we do obtain industry or equity research analyst coverage, we will not have any control over the analysts' content and opinions included in their reports. If any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, financial performance, stock price or otherwise, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline and result in the loss of all or a part of your investment in us.

***New investors in our common stock will experience immediate and substantial dilution in book value after this offering.***

You will suffer immediate and substantial dilution with respect to the common stock you purchase in this offering. The initial public offering price is expected to be substantially higher than the pro forma as adjusted net tangible book value per share of our common stock. If you purchase common stock in this offering, you will incur immediate dilution of \$ \_\_\_\_\_ per share, representing the difference between the assumed initial public offering price of \$ \_\_\_\_\_ per share, the midpoint of the price range set forth on the cover page of this prospectus, and the pro forma as adjusted net tangible book value per share of our common stock as of June 30, 2021. For additional information on the dilution you may experience as a result of investing in this offering, see “Dilution.” To the extent outstanding options or RSUs for our common stock are exercised, investors purchasing our common stock in this offering will experience further dilution.

***Future sales of shares by our stockholders could cause the market price of our common stock to drop significantly, even if our business is doing well.***

Sales of a substantial number of shares of our common stock in the public market, or the perception in the market that such sales may occur, could reduce the market price of our common stock. Immediately after this offering, we will have outstanding \_\_\_\_\_ shares of common stock, based on the number of shares of our common stock outstanding as of June 30, 2021, after giving effect to the conversion of our outstanding preferred stock into common stock immediately prior to this offering and the number of shares sold in this offering (assuming no exercise of the underwriters' option to purchase additional shares). This includes the shares we are selling in this offering, which may be resold in the public market immediately without restriction, unless purchased by our affiliates. Of the remaining shares, \_\_\_\_\_ shares are currently restricted as a result of securities laws or lock-up agreements (which may be waived, in whole or in part, with or without notice, by \_\_\_\_\_) but will become eligible to be sold at various times beginning 180 days after the date of this prospectus, unless held by one of our affiliates, in which case the resale of those securities will be subject to volume limitations under Rule 144 of the Securities Act of 1933, as

amended (the “Securities Act”). Moreover, after this offering, holders of an aggregate of \_\_\_\_\_ shares of our common stock will have rights, subject to certain conditions and limitations, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders, until such rights terminate pursuant to the terms of our Registration Rights Agreement, as described elsewhere in this prospectus under the heading “Description of Capital Stock—Registration Rights.” We also intend to register all shares of common stock that we may issue under equity compensation plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates and the lock-up agreements described in the “Underwriting” section of this prospectus. As these restrictions on resale end, the market price of our common stock could drop significantly if the holders of those shares sell them or are perceived by the market as intending to sell them. These declines in our stock price could occur even if our business is otherwise doing well and, as a result, you may lose all or a part of your investment.

***Our principal stockholder Ventech Capital F, which is affiliated with our director Christian Claussen, and K. Charles Janac, our President, Chief Executive Officer and Chairman, beneficially own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.***

Prior to this offering, as of June 30, 2021, Ventech Capital F, which is affiliated with our director Christian Claussen, and K. Charles Janac, our President, Chief Executive Officer and Chairman, held approximately \_\_\_\_\_ % and \_\_\_\_\_ %, respectively, of our outstanding voting stock and, upon the closing of this offering, such holders will hold approximately \_\_\_\_\_ % and \_\_\_\_\_ %, respectively, of our outstanding voting stock (assuming no exercise of the underwriters’ option to purchase additional shares, no exercise of outstanding options or RSUs and without taking into account any shares purchased in this offering). Therefore, even after this offering these stockholders will have the ability to influence us through this ownership position. While there is no voting agreement or other arrangement between the stockholders, if they vote together they may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

***Our issuance of additional capital stock in connection with financings, acquisitions, investments, our stock incentive plans or otherwise could dilute the ownership and voting power of our other stockholders.***

After this offering, we will have \_\_\_\_\_ shares of common stock authorized but unissued, based on the number of shares of our common stock outstanding as of June 30, 2021, after giving effect to the conversion of our outstanding preferred stock into common stock immediately prior to this offer and the number of shares sold in this offering (assuming no exercise of the underwriters’ option to purchase additional shares). In addition, our Post-IPO Certificate of Incorporation will authorize us to issue up to \_\_\_\_\_ shares of preferred stock with such rights and preferences as may be determined by our board of directors. Our Post-IPO Certificate of Incorporation will authorize us to issue shares of common stock or other securities convertible into or exercisable or exchangeable for shares of our common stock from time to time, for the consideration and on the terms and conditions established by our board of directors in its sole discretion, whether in connection with a financing, an acquisition, an investment, our stock incentive plans or otherwise. Such additional shares of our common stock or such other securities may be issued at a discount to the market price of our common stock at the time of issuance. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. As discussed below, the potential issuance of preferred stock may delay or prevent a change in control of us, discourage bids for our common stock at a premium to the market price, and materially and adversely affect the market price and the voting and other rights of the holders of our common stock. Any issuance of such securities could result in substantial dilution to our existing stockholders and cause the market price of shares of our common stock to decline.

***We do not expect to declare or pay any dividends on our common stock for the foreseeable future.***

We do not intend to pay cash dividends on our common stock for the foreseeable future. Consequently, investors must rely on sales of their shares of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking dividends should not purchase shares of our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and subject to, among other things, our compliance with applicable law, and depending on, among other things, our business prospects, financial condition, results of operations, cash requirements and availability, debt repayment obligations, capital expenditure needs, the terms of any preferred equity securities we may issue in the future,

## [Table of Contents](#)

covenants in the agreements governing our current and future indebtedness, other contractual restrictions, industry trends, the provisions of the Delaware General Corporation Law (the "DGCL") affecting the payment of dividends and distributions to stockholders and any other factors or considerations our board of directors may regard as relevant. Furthermore, because we are a holding company, our ability to pay dividends on our common stock will depend on our receipt of cash distributions and dividends from our direct and indirect wholly owned subsidiaries, which may be similarly impacted by, among other things, the terms of any preferred equity securities these subsidiaries may issue in the future, debt agreements, other contractual restrictions and provisions of applicable law. See "Dividend Policy."

### ***Management may apply our net proceeds from this offering to uses that do not increase our market value or improve our operating results.***

Our management will have broad discretion in the application of the net proceeds from this offering and could use these proceeds in ways that do not improve our results of operations or enhance the value of our common stock. We intend to use our net proceeds from this offering for general corporate purposes, as set forth under "Use of Proceeds." We may also use a portion of our net proceeds to acquire or invest in complementary businesses, products, services or technologies, though we do not have any agreements or commitments for any significant acquisitions or investments at this time. We have not reserved or allocated our net proceeds for any specific purpose, and we cannot state with certainty how our management will use our net proceeds. Accordingly, our management will have considerable discretion in applying our net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether we are using our net proceeds appropriately. We may use our net proceeds for purposes that do not result in any improvement in our results of operations or increase the market value of our common stock. The failure by our management to apply the net proceeds from this offering effectively could impair our growth prospects and result in financial losses that could harm our business and cause the price of our common stock to decline. Until the net proceeds we receive are used, they may be placed in investments that do not produce income or that lose value.

### ***Provisions in our Post-IPO Certificate of Incorporation and Post-IPO Bylaws and under the DGCL contain antitakeover provisions that could prevent or discourage a takeover.***

Provisions in our Post-IPO Certificate of Incorporation and our Post-IPO Bylaws, which will become effective immediately prior to the closing of this offering, may discourage, delay or prevent a merger, acquisition or other change in control of our company that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your 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, because our board of directors is responsible for appointing the members of our management team, 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. Among other things, these provisions include those establishing:

- a classified board of directors with three-year staggered terms, which may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control of us or our management;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director 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 filling vacancies on our board of directors;
- the ability of our board of directors to authorize the issuance of shares of preferred stock and to determine the terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the ability of our board of directors to alter our bylaws without obtaining stockholder approval;
- the required approval of the holders of at least two-thirds of the shares entitled to vote at an election of directors to amend or repeal our bylaws or amend the provisions of our Post-IPO Certificate of Incorporation regarding the election and removal of directors;

## [Table of Contents](#)

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors or a majority of our board of directors, which may delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at an annual meeting or special meeting of stockholders, which may discourage or delay a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us until the next stockholder meeting or at all.

In addition, we are subject to Section 203 of the DGCL. Subject to specified exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder unless such transaction is approved in a prescribed manner. "Business combinations" include mergers, asset sales and other transactions resulting in a financial benefit to the "interested stockholder." Subject to various exceptions, an "interested stockholder" is a person who, together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the corporation's outstanding voting stock.

Any provision of our Post-IPO Certificate of Incorporation, Post-IPO Bylaws or Delaware law that has the effect of delaying or preventing a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock and could also affect the price that some investors are willing to pay for our common stock.

***Our Post-IPO Certificate of Incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum 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 Post-IPO Certificate of Incorporation that will become effective immediately prior to the closing of this offering will provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (the "Delaware Court of Chancery") will be the exclusive forum for (1) any derivative action or proceeding brought on our behalf; (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees or stockholders to us or our stockholders; (3) any action asserting a claim against us, any director or our officers and employees arising pursuant to any provision of the DGCL, our Post-IPO Certificate of Incorporation or our Post-IPO Bylaws, or as to which the DGCL confers exclusive jurisdiction on the Delaware Court of Chancery; or (4) any action asserting a claim against us, any director or our officers or employees that is governed by the internal affairs doctrine; provided that, the exclusive forum provision will not apply to suits brought to enforce any liability or duty created by the Securities Act, the Exchange Act, the rules and regulations thereunder or any other claim for which the federal courts have exclusive jurisdiction; and provided further that, if and only if the Delaware Court of Chancery dismisses any such action for lack of subject matter jurisdiction, such action may be brought in another state or federal court sitting in the State of Delaware. Our Post-IPO Certificate of Incorporation will further provide that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America shall, to the fullest extent permitted by law, be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our Post-IPO Certificate of Incorporation described above.

We believe these provisions benefit us by providing increased consistency in the application of the DGCL by chancellors particularly experienced in resolving corporate disputes and in the application of the Securities Act by federal judges, as applicable, efficient administration of cases on a more expedited schedule relative to other forums and protection against the burdens of multi-forum litigation. However, these 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 or agents, which may discourage such lawsuits against us and our directors, officers and other employees and agents. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation

has been challenged in legal proceedings, and it is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our Post-IPO Certificate of Incorporation to be inapplicable or unenforceable in such action. If a court were to find the choice of forum provision contained in our Post-IPO Certificate of Incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business.

### **General Risk Factors**

#### ***Actions of stockholders could cause us to incur substantial costs, divert management's attention and resources and have an adverse effect on our business.***

As a public company, we may, from time to time, be subject to proposals and other requests from stockholders urging us to take certain corporate actions, including proposals seeking to influence our corporate policies or effect a change in our management. In the event of such stockholder proposals, particularly with respect to matters which our management and board of directors, in exercising their fiduciary duties, disagree with or have determined not to pursue, our business could be harmed because responding to actions and requests of stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Additionally, perceived uncertainties as to our future direction may result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel, business partners and customers.

#### ***Litigation, including securities class action litigation, may impair our reputation and lead us to incur significant costs.***

From time to time, we may be party to various lawsuits and claims arising in the normal course of business, which may include lawsuits or claims relating to contracts, third-party contractors, IP, employment matters or other aspects of our business. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against companies that experienced such volatility. Litigation, if instituted against us, whether or not valid and regardless of outcome, could result in substantial costs, reputational harm and a diversion of our management's attention and resources. In addition, we may be required to pay damage awards or settlements or become subject to injunctions or other equitable remedies, which could harm our business. The outcome of litigation is often difficult to predict, and any litigation may harm our business.

Although we have various insurance policies in place, the potential liabilities associated with litigation matters now or that could arise in the future, could be excluded from coverage or, if covered, could exceed the coverage provided by such policies. In addition, insurance carriers may seek to rescind or deny coverage with respect to any claim or lawsuit. If we do not have sufficient coverage under our policies, or if coverage is denied, we may be required to make material payments to settle litigation or satisfy any judgment. Any of these consequences could harm our business.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. All statements other than statements of historical facts contained in this prospectus are forward-looking statements. Statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, including, among others, statements regarding the offering, liquidity, growth and profitability strategies and factors and trends affecting our business are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar expressions.

The forward-looking statements in this prospectus are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We believe that these factors include, but are not limited to, the factors set forth under “Risk Factors.” Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this prospectus, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement of which this prospectus forms a part with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

These forward-looking statements speak only as of the date of this prospectus. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this prospectus after we distribute this prospectus, whether as a result of any new information, future events or otherwise.



## USE OF PROCEEDS

We estimate that the net proceeds from the sale of shares of our common stock in this offering will be approximately \$       million (or approximately \$       million if the underwriters exercise their option to purchase additional shares of our common stock in full), based upon the assumed initial public offering price of \$       per share, which is the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering for working capital and general corporate purposes. We may also use a portion of the net proceeds to acquire or invest in businesses, products, services or technologies; however, we do not have any agreements or commitments for any significant acquisitions or investments at this time.

As of the date of this prospectus, we cannot estimate with certainty the amount of net proceeds to be used for any of the purposes described in the foregoing paragraph. We may find it necessary or advisable to use the net proceeds from this offering for other purposes, and we will have broad discretion in the application of the net proceeds from this offering designated for general corporate purposes. Pending any use of the net proceeds from this offering as described above, we intend to invest such proceeds in short-term, interest-bearing, investment-grade securities. We cannot predict whether the proceeds invested will yield a favorable return for us.

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$       per share would increase (decrease) the net proceeds to us from this offering by approximately \$       million, assuming the number of shares offered, as set forth on the cover page of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. Similarly, each increase (decrease) of 1.0 million shares in the number of shares offered by us at the assumed initial public offering price would increase (decrease) the net cash proceeds that we receive from this offering by approximately \$       million, assuming the shares of our common stock offered by this prospectus are sold at the assumed initial public offering price of \$       per share, which is the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

## DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business and the repayment of outstanding debt and, therefore, we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future.

Our ability to pay dividends is restricted under our term loan with Western Alliance Bank entered into in 2018 and may also be restricted by the terms of any credit agreement or any future debt or preferred equity securities of us or our subsidiaries. Accordingly, you may need to sell your shares of our common stock to realize a return on your investment, and you may not be able to sell your shares at or above the price you paid for them. See “Risk Factors—Risks Related to this Offering and Ownership of Our Common Stock—We do not expect to pay any dividends on our common stock for the foreseeable future.”

## CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2021, as follows:

- on an actual basis;
- on a pro forma basis to give effect to (i) the Automatic Conversion; (ii) stock-based compensation expense of \$0.8 million as of June 30, 2021 related to RSUs subject to both service-based and performance-based vesting conditions, for which the performance-based vesting condition becomes probable in connection with this offering, as further described in Notes 2 and 12 to our condensed consolidated financial statements included elsewhere in this prospectus, reflected as an increase to additional paid-in capital and accumulated deficit; and (iii) the filing and effectiveness of our Post-IPO Certificate of Incorporation immediately prior to the closing of this offering, in each case as if such event had occurred on June 30, 2021; and
- on a pro forma as adjusted basis to give effect to (i) the adjustments described in the preceding paragraph; and (ii) our issuance and sale of \_\_\_\_\_ shares of common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The pro forma as adjusted information set forth in the table below is illustrative only and our capitalization following the closing of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this information in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus, as well as the "Use of Proceeds," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this prospectus.

	AS OF JUNE 30, 2021		
	ACTUAL	PRO FORMA (unaudited)	PRO FORMA AS ADJUSTED <sup>(1)</sup>
	(in thousands, except share and per share data)		
Cash	\$ 14,809	\$ 14,809	\$
<b>Debt:</b>			
Term loan	\$ 249	\$ 249	\$
Revolving line of credit	—	—	
<b>Redeemable convertible preferred stock:</b>			
Redeemable convertible preferred stock, par value \$0.001 per share; 4,471,316 shares authorized; 4,471,316 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	5,712	—	
<b>Equity:</b>			
Preferred stock, par value \$ _____ per share; no shares authorized, issued and outstanding, actual; _____ shares authorized, no shares issued and outstanding pro forma and pro forma as adjusted	—	—	
Common stock, par value \$0.001 per share; 34,525,154 shares authorized, 20,525,254 shares issued and outstanding, actual; _____ shares authorized, _____ shares issued and outstanding pro forma; _____ shares authorized, _____ shares issued and outstanding pro forma as adjusted	21	25	
Additional paid-in capital	10,054	16,595	
Accumulated deficit	(26,233)	(27,066)	
Accumulated other comprehensive loss	(31)	(31)	
Total stockholders' equity (deficit)	(16,189)	(10,477)	
<b>Total capitalization</b>	<b>\$ (10,228)</b>	<b>\$ (10,228)</b>	<b>\$</b>

## [Table of Contents](#)

- (1) Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) the pro forma as adjusted amount of each of cash and cash equivalents, additional paid-in capital, total stockholders' equity and total capitalization by approximately \$ \_\_\_\_\_ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. Similarly, each increase (decrease) of 1.0 million shares in the number of shares offered by us at the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) the pro forma as adjusted amount of each of cash and cash equivalents, additional paid-in capital, total stockholders' equity and total capitalization by approximately \$ \_\_\_\_\_ million, assuming the shares of our common stock offered by this prospectus are sold at the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The number of shares of our common stock to be outstanding on a pro forma and a pro forma as adjusted basis in the table above is based on 24,996,570 shares of common stock outstanding as of June 30, 2021, and gives effect to the Automatic Conversion. This number excludes:

- 3,035,578 shares of common stock issuable upon exercise of stock options outstanding as of June 30, 2021, having a weighted-average exercise price of \$0.44 per share;
- 2,887,064 shares of common stock subject to the settlement of RSUs outstanding as of June 30, 2021;
- 890,300 shares of common stock subject to the settlement of RSUs granted subsequent to June 30, 2021;
- \_\_\_\_\_ shares of common stock reserved for future issuance under our 2021 Plan, as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the 2021 Plan, which will become effective upon the effectiveness of the registration statement of which this prospectus forms a part, as more fully described in "Executive and Director Compensation—Equity Compensation—2021 Incentive Award Plan"; and
- \_\_\_\_\_ shares of common stock reserved for future issuance under our ESPP, as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the ESPP, which will become effective upon the effectiveness of the registration statement of which this prospectus forms a part, as more fully described in "Executive and Director Compensation—Equity Compensation—Employee Stock Purchase Plan".

## DILUTION

If you invest in our common stock in this offering, your ownership interest will be immediately diluted to the extent of the difference between the initial public offering price per share and the pro forma as adjusted net tangible book value per share of our common stock immediately after this offering. As of June 30, 2021, we had a historical net tangible book value (deficit) of \$(20.2) million, or \$(0.99) per share of common stock. Our historical net tangible book value represents total tangible assets less total liabilities, all divided by the number of shares of common stock outstanding as of June 30, 2021.

Our pro forma net tangible book value (deficit) as of June 30, 2021 was \$(14.5) million, or \$(0.58) per share. Pro forma net tangible book value per share is determined by subtracting our total liabilities from the total book value of our tangible assets and dividing the difference by the number of shares of common stock outstanding as of June 30, 2021, after giving effect to (i) the Automatic Conversion; (ii) stock-based compensation expense of \$0.8 million as of June 30, 2021 related to RSUs subject to both service-based and performance-based vesting conditions, for which the performance-based vesting condition becomes probable in connection with this offering, as further described in Notes 2 and 12 to our condensed consolidated financial statements included elsewhere in this prospectus, reflected as an increase to additional paid-in capital and accumulated deficit; and (iii) the filing and effectiveness of our Post-IPO Certificate of Incorporation immediately prior to the closing of this offering, as if such events had occurred on June 30, 2021.

After giving further effect to our issuance and sale of \_\_\_\_\_ shares of common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of June 30, 2021 would have been approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share of common stock. This amount represents an immediate increase in pro forma net tangible book value of \$ \_\_\_\_\_ per share to our existing stockholders and an immediate dilution in pro forma net tangible book value of approximately \$ \_\_\_\_\_ per share to new investors purchasing shares of our common stock in this offering. We determine dilution by subtracting the pro forma as adjusted net tangible book value per share after this offering from the estimated offering price that a new investor will pay for a share of common stock. The following table illustrates this dilution:

Assumed initial public offering price per share	\$ _____
Historical net tangible book value per share as of June 30, 2021	\$(0.58)
Increase per share attributable to the pro forma adjustments described above	_____
Pro forma net tangible book value per share as of June 30, 2021 before this offering	_____
Increase in pro forma as adjusted net tangible book value per share attributable to new investors in this offering	_____
Pro forma as adjusted net tangible book value per share after this offering	\$ _____
Dilution per share to new investors in this offering	\$ _____

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) the pro forma as adjusted net tangible book value per share after this offering by approximately \$ \_\_\_\_\_, and dilution per share to new investors by approximately \$ \_\_\_\_\_, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. Each increase (decrease) of 1.0 million shares in the number of shares offered by us at the assumed initial public offering price would increase (decrease) our pro forma as adjusted net tangible book value per share after this offering by approximately \$ \_\_\_\_\_, and the dilution per share to new investors by approximately \$ \_\_\_\_\_, assuming that the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

## Table of Contents

If the underwriters exercise their option to purchase additional shares of our common stock in full, the pro forma as adjusted net tangible book value per share after the offering would be \$ , the increase (decrease) in pro forma as adjusted net tangible book value per share attributable to new investors would be \$ and the dilution per share to new investors would be \$ , in each case assuming an initial public offering price of \$ per share, which is the midpoint of the price range listed on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and the estimated offering expenses payable by us.

The following table summarizes, as of June 30, 2021, on the pro forma as adjusted basis described above, the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by existing stockholders and by new investors. The calculation below is based on an assumed initial public offering price of \$ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, before deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. As the table below shows, new investors purchasing shares of common stock in this offering will pay an average price per share substantially higher than our existing stockholders paid.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders		%	\$	%	\$
New investors					
Total		100%		\$ 100%	

The dilution information discussed above is illustrative only and will depend on the actual initial public offering price, the number of shares we sell and other terms of this offering that will be determined at pricing. A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) the total consideration paid by new investors and the average price per share paid by new investors by \$ million and \$ per share, respectively, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. An increase (decrease) of 1.0 million shares in the number of shares offered by us at the assumed initial public offering price would increase (decrease) the total consideration paid by new investors and the average price per share paid by new investors by \$ million and \$ per share, respectively.

The table above assumes no exercise of the underwriters' option to purchase additional shares in this offering. If the underwriters exercise their option to purchase additional shares of our common stock in full:

- the percentage of shares of our common stock held by existing stockholders will decrease to approximately % of the total number of shares of our common stock outstanding after this offering; and
- the number of shares held by new investors will increase to approximately % of the total number of shares of our common stock outstanding after this offering.

Except as otherwise indicated, the discussion and the tables above are based on the number of shares outstanding as of June 30, 2021, and gives effect to (i) the Automatic Conversion; and (ii) the filing and effectiveness of our Post-IPO Certificate of Incorporation immediately prior to the closing this offering, and excludes:

- 3,035,578 shares of common stock issuable upon exercise of stock options outstanding as of June 30, 2021, having a weighted-average exercise price of \$0.44 per share;
- 2,887,064 shares of common stock subject to the settlement of RSUs outstanding as of June 30, 2021;
- 890,300 shares of common stock subject to the settlement of RSUs granted subsequent to June 30, 2021;
- shares of common stock reserved for future issuance under our 2021 Plan, as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the 2021 Plan, which will become effective upon the effectiveness of the registration statement of which this prospectus forms a part, as more fully described in "Executive and Director Compensation—Equity Compensation—2021 Incentive Award Plan"; and

---

[Table of Contents](#)

- shares of common stock reserved for future issuance under our ESPP, as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the ESPP, which will become effective upon the effectiveness of the registration statement of which this prospectus forms a part, as more fully described in “Executive and Director Compensation—Equity Compensation—Employee Stock Purchase Plan”.

To the extent we issue additional shares of common stock or other equity or convertible debt securities in the future, there will be further dilution to new investors.



## UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION FOR MAGILLEM

On September 29, 2020, Arteris IP SAS, a wholly owned subsidiary of Arteris, Inc. (“Arteris” or the “Company”), entered into an asset purchase agreement with Magillem Design Services SA (“Magillem”) to purchase substantially all of the assets and assume certain liabilities of Magillem for \$5.0 million of cash payments, up to \$1.0 million of contingent payments if specified milestones are achieved and up to a further \$2.0 million cash payments subject to any indemnity claims (“Acquisition”). The Acquisition was completed on November 30, 2020.

The following unaudited pro forma combined financial information has been prepared in accordance with Article 11 of Regulation S-X. The unaudited pro forma combined financial information does not include an unaudited pro forma combined balance sheet as of December 31, 2020 as the Acquisition was consummated on November 30, 2020 and is reflected in our historical audited consolidated balance sheet as of December 31, 2020, included elsewhere in this prospectus.

The unaudited pro forma combined statement of income (loss) for the year ended December 31, 2020, is derived from the historical consolidated statement of income (loss) of the Company for the year ended December 31, 2020 and the historical statement of operations of Magillem for the period of January 1, 2020 through November 30, 2020, and gives effect to the Acquisition as if it had occurred on January 1, 2020. Magillem has a fiscal year end of June 30, and as such, the period presented was derived by subtracting the activities for the first six months of the fiscal year ended June 30, 2020 from Magillem’s historical statement of operations from the twelve month period ended June 30, 2020 and adding the activities of the five month period ended November 30, 2020.

The unaudited pro forma combined financial information was prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses,” using the assumptions set forth in the notes to the unaudited pro forma combined financial information. The unaudited pro forma combined financial information has been adjusted to depict the accounting for the transaction (“Transaction Accounting Adjustments”), which reflect the application of the accounting required by generally accepted accounting principles in the United States of America (“GAAP”), linking the effects of the Acquisition to the Company’s historical consolidated financial statements. The Company has elected not to present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur (“Management’s Adjustments”) and will only be presenting Transaction Accounting Adjustments in the following unaudited pro forma combined financial information.

The unaudited pro forma combined financial information is for illustrative and informational purposes only and is not necessarily indicative of the operating results that would have occurred if the Acquisition had been completed as of the dates set forth above, nor is it indicative of the future consolidated results of operations of the Company. Further, pro forma adjustments represent management’s best estimates based on information available as of the date of this prospectus and are subject to change as additional information becomes available.

The unaudited pro forma combined financial information should be read together with “Use of Proceeds,” “Capitalization,” “Dilution,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Certain Relationships and Related Party Transactions” and the historical audited consolidated financial statements and related notes thereto included elsewhere in this prospectus.

**Arteris, Inc. and Subsidiaries**  
**Unaudited Pro Forma Statement of Income (Loss)**  
**For the Year Ended December 31, 2020**  
(In thousands, except share and per share data)

	HISTORICAL ARTERIS INC.	HISTORICAL MAGILLEM DESIGN SERVICES SA (NOTE 2)	TRANSACTION ACCOUNTING ADJUSTMENTS	PRO FORMA COMBINED
Licensing, support and maintenance	\$ 27,408	\$ 8,640	\$ (726) (a)	\$ 35,322
Variable royalties and other	4,404	—	—	4,404
Total revenue	<u>\$ 31,812</u>	<u>\$ 8,640</u>	<u>\$ (726)</u>	<u>\$ 39,726</u>
Cost of revenue	\$ 1,491	\$ 3,204	\$ —	\$ 4,695
Gross profit	<u>\$ 30,321</u>	<u>\$ 5,436</u>	<u>\$ (726)</u>	<u>\$ 35,031</u>
Operating expenses:				
Research and development	17,020	4,250	312(b)	21,582
Sales and marketing	9,749	850	126(b)	10,725
General and administrative	7,329	255	288(c)	7,872
Total operating expenses	<u>34,098</u>	<u>5,355</u>	<u>726</u>	<u>40,179</u>
Loss from operations	(3,777)	81	(1,452)	(5,148)
Gain on extinguishment of debt	1,593	—	—	1,593
Interest and other expense, net	(50)	161	—	111
Loss before provision for (benefit from) income taxes	(2,234)	242	(1,452)	(3,444)
Provision for (benefit from) income taxes	1,026	(14)	—	1,012
Net (loss) income	<u>\$ (3,260)</u>	<u>\$ 256</u>	<u>\$ (1,452)</u>	<u>\$ (4,456)</u>
Net loss per share, basic and diluted	<u>\$ (0.19)</u>			<u>\$ (0.25)</u>
Weighted average shares used to compute net loss per share, basic and diluted	17,577,846			17,577,846

The accompanying notes are an integral part of this unaudited pro forma combined statement of operations.

## NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME (LOSS)

### 1. Description of Transaction and Basis of Presentation

The unaudited pro forma combined financial information was prepared in accordance with Article 11 of Regulation S-X, as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses," and presents the pro forma results of operations of the Company based upon the historical financial information after giving effect to the Acquisition set forth in the notes to the unaudited pro forma combined financial information.

The unaudited pro forma combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the consolidated company may achieve as a result of the Acquisition.

The unaudited pro forma combined statement of income (loss) for the year ended December 31, 2020, is derived from the historical consolidated statement of income (loss) of the Company for the year ended December 31, 2020 and historical statement of operations of Magillem for the period from January 1, 2020 through November 30, 2020, and gives effect to the Acquisition as if it had occurred on January 1, 2020. Magillem has a fiscal year end of June 30, and as such, the period presented was derived by subtracting the activities for the first six months of the fiscal year ended June 30, 2020 from Magillem's historical statement of operations from the twelve month period ended June 30, 2020 and adding the activities of the five month period ended November 30, 2020.

We have not reflected any estimated tax impact related to the Transaction Accounting Adjustments in the unaudited pro forma combined statement of operations for the year ended December 31, 2020, because it maintains a full valuation allowance against deferred tax assets. The realizability of such deferred tax assets was not impacted by the Acquisition.

#### **Acquisition**

On November 30, 2020, Arteris IP SAS, a wholly owned subsidiary of the Company, consummated the asset purchase agreement dated September 29, 2020 with Magillem to purchase substantially all of the assets and liabilities of Magillem for \$5.0 million of cash payments, up to \$1.0 million of contingent cash payments if specified milestones are achieved and up to a further \$2.0 million cash payments subject to any indemnity claims. The Acquisition was accounted for as a business combination using the acquisition method of accounting under the provisions of ASC 805, Business Combinations. Under the acquisition method of accounting, Arteris IP SAS was the acquirer for accounting purposes.

### 2. Adjustments to Historical Financial Information of Magillem

The historical financial information of Magillem was presented in Euro. The historical financial information was translated from Euro to U.S. dollars using the average exchange rate for the 11 months ended November 30, 2020 of \$1:1.134303.

### 3. Adjustments to Unaudited Pro Forma Consolidated Statement of Income (Loss)

Transaction Accounting Adjustments include the following adjustments related to the unaudited pro forma combined statement of income (loss) for the year ended December 31, 2020, as follows:

- (a) Reflects the incremental amortization of deferred revenue fair value adjustment in connection with the Acquisition for year ended December 31, 2020. The pro forma adjustment reflects the reduction in deferred revenue and subsequent revenue caused by fair valuing deferred revenue in purchase accounting. The one-year amortization of this reduction included in the pro forma was calculated by pro rating the total reduction to a one-year period.

[Table of Contents](#)

- (b) Reflects the net incremental amortization expenses related to identified intangible assets acquired in connection with the Acquisition as follows (in thousands):

---

	FAIR VALUE	USEFUL LIFE (YEARS)	YEAR ENDED DECEMBER 31, 2020
Customer relationships	1,100	8	\$ 138
Developed technology	1,700	5	340
IPR&D	500	N/A	—
Trade name	150	N/A	—
Total acquired intangible assets			<u>478</u>
Less: historical amortization expenses			40
Net incremental amortization expenses			\$ 438

---

Classification of net incremental amortization expenses in the Unaudited Pro Forma Combined Statement of income (loss) as follows (in thousands):

---

	YEAR ENDED DECEMBER 31, 2020
Research and development	\$ 312
Sales and marketing	126
Net incremental amortization expenses	<u>\$ 438</u>

---

- (c) Reflects the incremental non-recurring transaction costs related to the Acquisition. The total non-recurring transaction costs incurred as a result of the Acquisition were \$1.7 million, including advisory, legal, accounting, valuation, and other professional fees. \$1.4 million of the total non-recurring transaction costs was recorded in the historical consolidated statement of income (loss) of the Company for the year ended December 31, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis is intended to highlight and supplement data and information presented elsewhere in this prospectus, including our historical consolidated financial statements and related notes, and should be read in conjunction with the information presented in our historical financial statements and related notes thereto included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements based upon current beliefs, plans and expectations that involve risks, uncertainties and assumptions, such as statements regarding our plans, objectives, expectations, intentions and projections. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those set forth under "Risk Factors" and elsewhere in this prospectus. You should carefully read the "Risk Factors" section of this prospectus to gain an understanding of the important factors that could cause actual results to differ materially from forward-looking statements. Please also see the section titled "Cautionary Note Regarding Forward-Looking Statements."*

### Overview

We are a leading provider of interconnect and other IP technology that manages the on-chip communications in SoC semiconductor devices. Our products enable our customers to deliver increasingly complex SoCs that not only process data but are also able to make decisions. Growth in the TAM for our solutions is being driven by the addition of more processors, channels of memory access, machine learning sections, chiplets, additional I/O interface standards and other subsystems within SoCs. The growth in the numbers of these connected on-chip subsystems place an increasing premium on the interconnect IP capability to move data inside complex SoCs. We believe this increase in SoC complexity is creating a significant opportunity for sophisticated SoC system IP solutions which incorporate NoC interconnect IP, IP deployment software and NoC interface IP (consisting of peripheral data transport IP and control plane networks connected to NoC interconnect IP).

Our IP deployment solutions, which were significantly enhanced by our acquisition of Magillem in 2020, complement our interconnect IP solutions by helping to automate not only the customer configuration of its NoC interconnect but also the process of integrating and assembling all of the customer's IP blocks into an SoC. Products incorporating our IP are used to carry most of the important data inside complex SoCs for sophisticated applications, including automated driving, AI/ML, 5G and wireless communications, data centers, and consumer electronics. Please see our unaudited pro forma combined statement of income (loss) included in this prospectus. Pro forma combined statement of income (loss) for the year ended December 31, 2020 were derived from our historical consolidated statement of income (loss) for the year ended December 31, 2020 and the historical statement of operations of Magillem for the period of January 1, 2020 through November 30, 2020, and gives effect to the acquisition as if it had occurred on January 1, 2020.

As of June 30, 2021, we had 211 full-time employees and offices in eight locations in the United States, France, China, South Korea and Japan. For the six months ended June 30, 2021, we generated revenue of \$17.5 million, net loss of \$10.6 million and net loss per share – basic and diluted of \$0.55. For the six months ended June 30, 2021, we generated Non-GAAP net loss of \$9.4 million and Non-GAAP EPS of \$(0.49). See Non-GAAP Financial Measures below for definitions of our non-GAAP measures and reconciliations to the most directly comparable GAAP measures. As of June 30, 2021, we had Annual Contract Value (as defined below) of \$40.6 million and 166 Active Customers (as defined below). During the six months ended June 30, 2021, our customers had 43 Design Starts (as defined below).

### Acquisition

On November 30, 2020, Arteris IP, SAS, our wholly owned subsidiary, completed the acquisition of Magillem for a total consideration of \$7.8 million. Magillem is a leading provider of design flow and content management software solutions for the complex chip market. The primary reason for the acquisition was to integrate our technologies in order to accelerate and simplify the SoC assembly design flow and enhance innovation in both SoC IP integration software and the highly configurable on-chip interconnect IP that implements chip architectures. The acquisition of

## [Table of Contents](#)

Magillem did not materially impact our results of operations for the year ended December 31, 2020, given it was completed on November 30, 2020.

### **Factors Affecting Our Business**

We believe that the growth of our business and our future success are dependent upon many factors including those described above under “Risk Factors” and elsewhere in this prospectus and those described below. While each of these factors presents significant opportunities for us, these factors also pose challenges that we must successfully address in order to sustain the growth of our business and enhance our results of operations.

#### ***License Agreements with New and Existing Customers***

Our ability to generate revenue from new license agreements, and the timing of such revenue, is subject to a number of factors, risks and contingencies. For new products, the time from initial development until we generate license revenue can be lengthy, typically between one and three years. In addition, because the selection process by our customers is typically lengthy and market requirements and alternative solutions available to customers for IP-based products change rapidly, we may be required to incur significant research and development expenditures in pursuit of new products over extended, multiyear periods of time with no assurance that our solutions will be successfully developed or ultimately selected by our customers. While we make efforts to observe market demand and market need trends, we cannot be certain that our investment in developing and testing new products will generate an adequate rate of return in the form of fees, royalties or other revenues, or any revenues. Moreover, the customer acquisition process has a typical duration of six to nine months; following this, a customer’s chip design cycle is typically between one to three years and may be delayed due to factors beyond our control, which may result in our customer’s product not reaching the market until long after we entered into a contract with such customer. Customers typically start shipping their products containing our interconnect IP solutions between one to five years following completion of their product design, known as mass production, at which point we start to receive royalties; this lasts for up to seven years depending on the market segment. Any significant delay in the ramp-up of volume production of the customer’s products into which our product is designed could adversely affect our business due to delayed or significantly reduced revenues. Further, because the average selling prices (“ASPs”) of our products may decline over time, we consider new license agreements and new product launches to be critical to our future success and anticipate that for our newer products, we are and will remain highly dependent on market demand timing and revenue from new license agreements.

#### ***End Customer Product Demand and Market Conditions***

Demand for our interconnect IP solutions and associated royalty revenue is highly dependent on market conditions in the end markets in which our customers operate. These end markets, which include the automotive, AI/ML, 5G communications, data centers and consumer electronics sectors, are subject to a number of factors including end-product acceptance and sales, competitive pressures, supply chain issues and general market conditions. For example, our revenue has been supported by the increased need for more complex SoCs to enable sophisticated automated driving. If the demand in this market continues to grow, we anticipate it will continue to have a positive impact on our revenue. In contrast, if general market conditions deteriorate or other factors occur such as supply chain issues resulting in fewer semiconductors utilizing our IP solutions being available for sale, our revenue would be adversely affected.

#### ***Terms of our Agreements with Customers***

Our revenue from period to period can be impacted by the terms of the agreements we enter into with our customers. For example, in recent periods we have structured certain agreements with customers that include substantial up front licensing payments. As a result of how these contracts are structured and the revenue is recognized, our revenue in 2019, 2020 and the six months ended June 30, 2021 may not be comparable to future periods if we do not enter into similar contractual agreements. Further, a meaningful percentage of our revenue is generated through royalty payments. Because the time between a new license agreement win and the customer’s end product being sold can be substantial, with sales of the end product being subject to a number of factors outside our control, our revenue from royalties is difficult to predict. As a result of the foregoing, revenue may fluctuate significantly from period to period and any increase or decrease in such revenue may not be indicative of future period-to-period increases or decreases.

### ***Technological Development and Market Growth***

We believe our growth has been and will continue to be driven by technology trends in our end markets. For example, the requirements of smaller die size, lower power consumption, a higher frequency of operation and management of critical net latency in a timely and cost-effective manner for on-chip processing in the automotive, AI/ML, 5G and wireless communications, data center and consumer electronic markets has resulted in increased SoC design complexity for chips used in these markets. This trend in turn has created increased demand for in-licensing commercial semiconductor design IP, which in turn has positively impacted our revenue and growth.

In order to address technological developments such as the above and expand our offerings, we have invested significantly in our research and development efforts. These investments, which included growth in engineering headcount, have resulted in substantially increased research and development expenses in recent periods. As we continue to invest in our technology and new product design efforts, we anticipate research and development expense will increase on an absolute basis and as a percentage of revenue in the near term. In the medium to longer term, however, while we expect to increase our research and development expense on an absolute basis, we expect this expense to reduce as a percentage of revenue.

We will continue to evaluate growth opportunities through acquisitions of other businesses, although there are currently no discussions with potential targets.

### ***Cyclical Nature of the Semiconductor Industry***

The semiconductor industry in which our customers operate is highly cyclical and is characterized by increasingly rapid technological change, product obsolescence, competitive pricing pressures, evolving standards, short product life cycles and fluctuations in product supply and demand. New technology may result in sudden changes in system designs or platform changes that may render some of our IP solutions obsolete and require us to devote significant research and development resources to compete effectively. Periods of rapid growth and capacity expansion are occasionally followed by significant market corrections in which our customers' sales decline, inventories accumulate and facilities go underutilized. During an expansion cycle, we may increase research and development hiring to add to our product offerings or spend more on sales and marketing to acquire new customers, such as during the recent cycle of expansion in which we increased the number of our engineers significantly. During periods of slower growth or industry contractions, our sales generally suffer due to a decrease in customers' Design Starts or in sales of our customers products.

### ***COVID-19 Impact***

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic which has resulted in substantial global economic disruption and uncertainty. In response to the COVID-19 pandemic, the measures implemented by various authorities have caused us to change our business practices, including those related to where employees work, the distance between employees in our facilities, limitations on in-person meetings between employees and with customers, suppliers, service providers and stakeholders, as well as restrictions on business travel to domestic and international locations and to attend trade shows, technical conferences and other events. As a result of these restrictions, the number of Design Starts our customers had in 2020 was lower than the number of Design Starts in 2019. Further, our revenue remained relatively flat in 2020 as compared to 2019 in part due to generally lower activity in certain of customers' operations during the second and third quarters of 2020. Although we have experienced, and may continue to experience, some impact on certain parts of our business as a result of governmental restrictions and other measures to mitigate the spread of COVID-19, our results of operations, cash flows and financial condition were not materially adversely impacted in the six months ended June 30, 2021.

We are unable to accurately predict the full impact that COVID-19 will have on our future results of operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures. Although we expect most of our employees to return to physical offices in the future, the nature and extent of that return is uncertain. We will continue to monitor health orders issued by applicable governments to ensure compliance with evolving domestic and global COVID-19 guidelines. For additional details, see the section titled "Risk Factors—Our business has been, and may continue to be, adversely affected by health epidemics, pandemics and other outbreaks of infectious disease, including the current COVID-19 pandemic."

## Our Business Model

*Revenue generation.* The process of customer acquisition has a typical duration of two to nine months. If successful, we enter into agreements with these customers.

We generate the following types of revenue streams based on agreements with our customers:

- IP and software license fees;
- Royalties based on customer sales out (shipments) products containing for our interconnect and certain other IP solutions;
- Support and maintenance fees; and
- Other fees including training and, occasionally, fees that are generated at the end of the customer's chip design process, known as tape out fees and non-recurring engineering ("NRE") fees.

License agreement terms can range from one to five years but most commonly fall in the range of two to three years. This is the time during which customers develop their semiconductors using our solutions.

Customers typically start shipping their products containing our interconnect IP solutions between three to five years following completion of their product design, known as mass production. Royalties on these shipments by our customers to end customers typically grow as their products gain market acceptance and can continue for up to seven years or longer from mass production depending on the industrial vertical served. For example, royalty tails for the automotive vertical are typically the longest at six to seven years while smart phone royalty tails are typically the shortest at two to four years.

Pursuant to our obligations under our customer agreements, we typically provide customers support and maintenance throughout their design term.

*Cash flow.* While revenue derived from our interconnect IP license agreements is typically recognized ratably over the duration of the license agreement, customers typically pay fees either at the signing of their agreements with us, or at the start of each year of the license term, subject to credit terms which are typically between 30 to 60 days. Therefore, our cash inflow from our interconnect IP license agreements typically runs ahead of revenue recognition.

Customers pay us royalties quarterly in arrears based on the previous quarter's shipments.

## Key Performance Indicators

We use the following key performance indicators and non-GAAP financial measures to analyze our business performance and financial forecasts and to develop strategic plans which we believe provide useful information to investors and others in understanding and evaluating our results of operations in the same manner as our management team. These key performance indicators and non-GAAP financial measures are presented for supplemental informational purposes only, should not be considered a substitute for financial information presented in accordance with GAAP, and may differ from similarly titled metrics or measures presented by other companies.

### *Annual Contract Value*

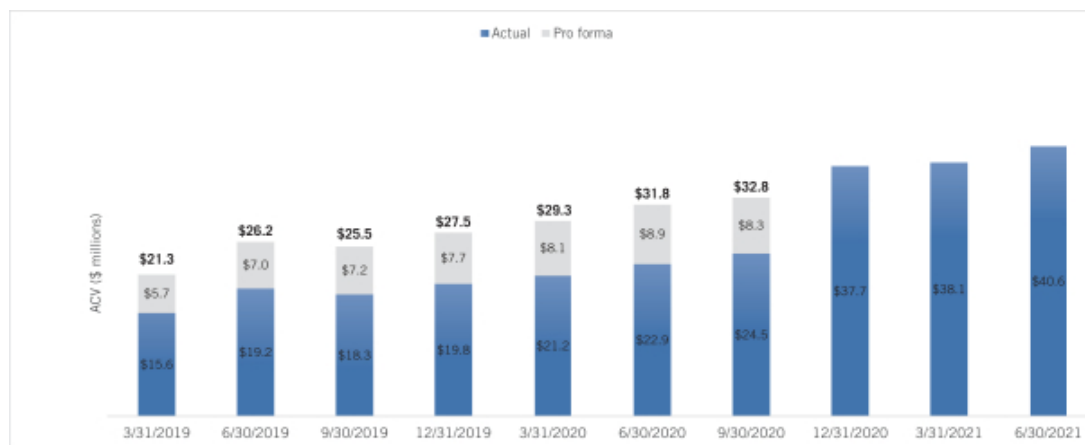
We define Annual Contract Value ("ACV") for an individual customer agreement as the total fixed fees under the agreement divided by the number of years in the agreement term. Our total ACV, as summarized in the chart below, is the aggregate ACVs for all our customers as measured at a given point in time. Total fixed fees includes licensing, support and maintenance and other fixed fees under IP licensing or software licensing agreements but excludes variable revenue derived from licensing agreements with customers, particularly royalties. We monitor this metric to measure our success and believe the increase in the number shows our progress in expanding our customers' adoption of our platform.

Although disclosure of unaudited supplemental pro forma financial information for the Magillem acquisition for 2019 is not practicable as we are not entitled to Magillem's accounting records for 2019, we were able to purchase all of Magillem's historical customer contracts which enabled us to measure ACV for Magillem. Including historical



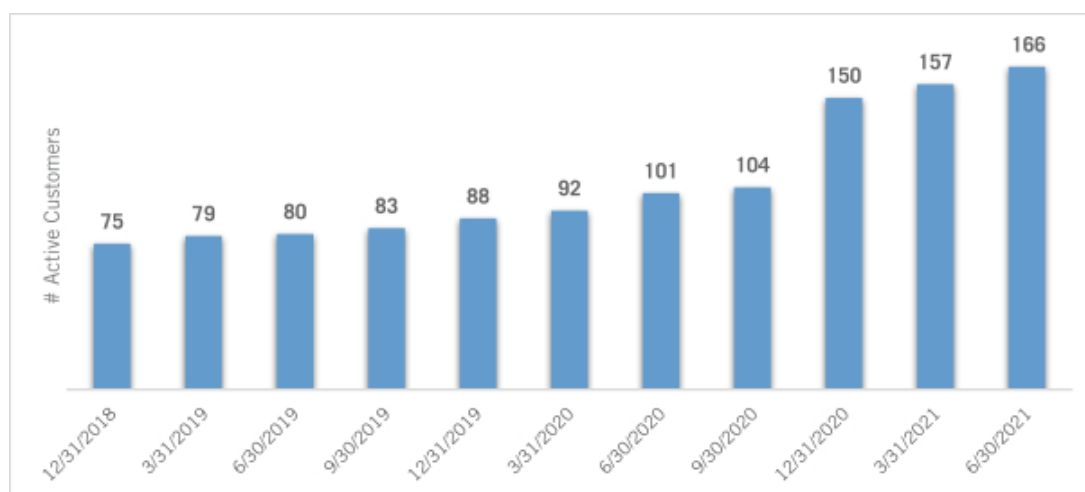
## Table of Contents

Magillem ACV on a pro forma basis (as if Magillem was acquired on January 1, 2019) ACV increased from \$21.3 million as of March 31, 2019 to \$40.6 million as of June 30, 2021, at a CAGR of 33.3%. In addition, total ACV and last twelve months royalties and other revenue is \$43.9 million as of June 30, 2021.



### Customers and Customer Retention

We define Active Customers as customers who have entered into a license agreement with us that remains in effect. The chart below represents the number of Active Customers as of the dates presented below. Active Customers as of December 31, 2020 includes 38 customers which were obtained through our acquisition of Magillem.



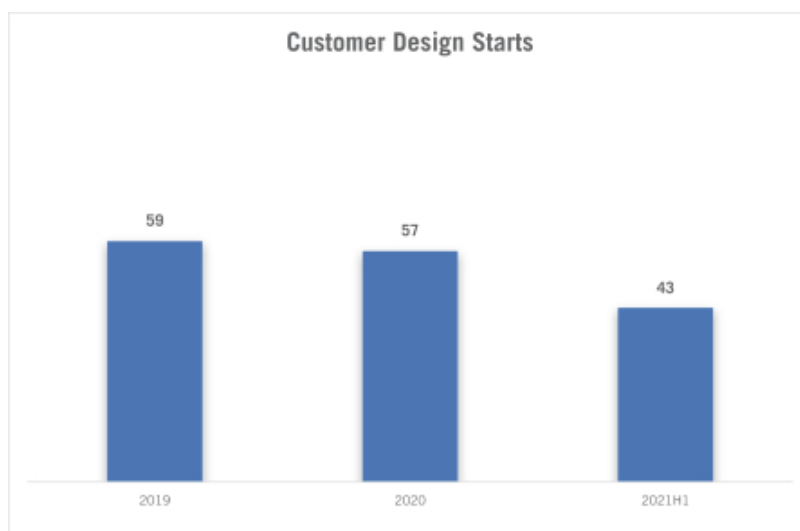
We believe we are well-positioned to continue to attract and retain customers, and to continue developing next generation interconnect IP and IP deployment solutions for their future products.

The retention and expansion of our relationships with existing customers are key indicators of our revenue potential. We had 166 Active Customers as of June 30, 2021. We gained a total of 63 new Active Customers including 27 new Active Customers in the AI/ML sector and nine new Active Customers in the automotive sector, and lost ten Active Customers for our interconnect IP and NoC interface IP solutions from December 31, 2018 to June 30, 2021. Our annual average customer retention rate, excluding IP deployment solutions, was 97.9% from December 31, 2018 to June 30, 2021. Additionally, we added 38 Active Customers for our IP deployment solutions through our acquisition of Magillem in November 2020.

## [Table of Contents](#)

### *Design Starts*

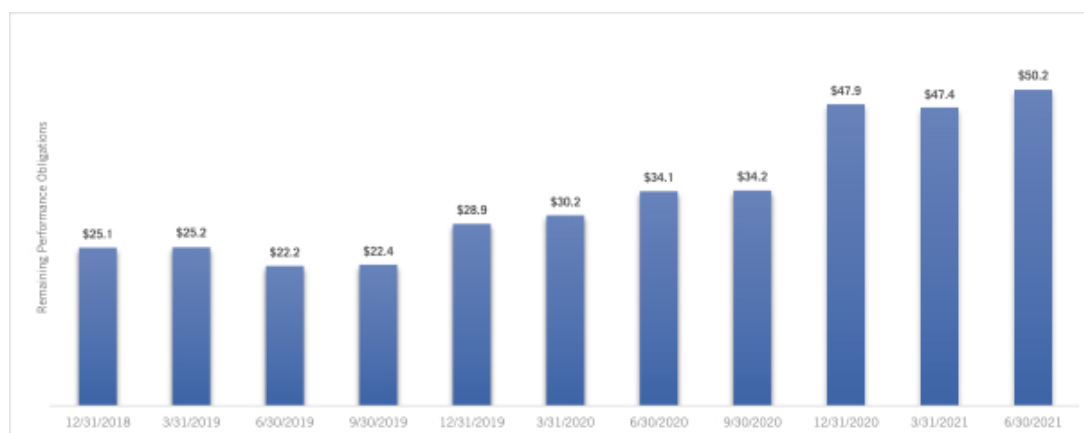
We define Design Starts as when customers commence new semiconductor designs using our interconnect IP and notify us. Design Starts is a metric management uses to assess the activity level of our customers in terms of the number of new semiconductor designs that are started using our interconnect IP in a given period. Our interconnect IP and NoC interface IP customer base started a total of 59 designs in 2019, 57 designs in 2020 and 43 designs during the six months ended June 30, 2021. The number of Design Starts in 2020 slowed due to the adverse impact of the COVID-19 pandemic on the operations of some of our customers. We believe that the number of Design Starts is an important indicator of the growth of our business and future royalty revenue trends.



### *Remaining Performance Obligations*

We define Remaining Performance Obligations ("RPO") as the amount of contracted future revenue that has not yet been recognized, including both deferred revenue and contracted amounts that will be invoiced and recognized as revenue in future periods.

The RPO amount is intended to provide visibility into future revenue streams. We expect RPO to fluctuate from period to period for several possible reasons, including amounts, timing, and duration of customer contracts, as well as the timing of billing cycles for each contract. RPO has increased from \$25.1 million as of December 31, 2018 to \$50.2 million as of June 30, 2021.



## Non-GAAP Financial Measures

We define “Non-GAAP Income (Loss) from Operations” as our income (loss) from operations adjusted to exclude stock-based compensation, acquisition costs and amortization of acquired intangible assets. We define “Non-GAAP Net Income (Loss)” as our net income (loss) adjusted to exclude stock-based compensation, acquisition costs, amortization of acquired intangible assets and gain on extinguishment of debt.

We define “Non-GAAP EPS”, as our Non-GAAP Net Income (Loss) divided by our GAAP weighted average number of shares outstanding for the period on a diluted basis. Management uses Non-GAAP EPS to evaluate the performance of our business on a comparable basis from period to period.

The above items are excluded from our Non-GAAP Income (Loss) from Operations and Non-GAAP Net Income (Loss) because these items are non-cash in nature, or are not indicative of our core operating performance, and render comparisons with prior periods and competitors less meaningful. We believe Non-GAAP Income (Loss) from Operations, Non-GAAP Net Income (Loss) provide useful supplemental information to investors and others in understanding and evaluating our results of operations, as well as provide a useful measure for period-to-period comparisons of our business performance.

We define free cash flow as net cash provided by operating activities less cash used for purchases of property and equipment. We believe that free cash flow is a useful indicator of liquidity that provides information to management and investors, even if negative, about the amount of cash used in our operations other than that used for investments in property and equipment.

The following tables reconcile the most directly comparable GAAP financial measure to each of these non-GAAP financial measures.

### Non-GAAP Income (Loss) from Operations

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	2019	2020	2020	2021
	(in thousands)			
Income (loss) from operations	\$7,273	\$(3,777)	\$(4,313)	\$(9,968)
Add:				
Stock-based compensation	277	458	170	711
Acquisition costs (1)	—	1,429	347	238
Amortization of acquired intangible assets (2)	—	41	—	238
Non-GAAP income (loss) from operations	<u>\$7,550</u>	<u>\$(1,849)</u>	<u>\$(3,796)</u>	<u>\$(8,781)</u>

(1) Includes advisory, legal, accounting, valuation, and other professional or consulting fees associated with the Magillem acquisition.

(2) Represents the amortization expenses of our intangible assets attributable to the Magillem acquisition.

## Table of Contents

### Non-GAAP net income (loss) and Non-GAAP EPS - Diluted

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	2019	2020	2020	2021
	(in thousands, except per share data)			
Net income (loss)	\$ 4,618	\$ (3,260)	\$ (6,992)	\$ (10,626)
Add:				
Stock-based compensation expenses	277	458	170	711
Acquisition costs (1)	—	1,429	347	238
Amortization of acquired intangible assets (2)	—	41	—	238
Gain on extinguishment of debt	—	(1,593)	—	(10)
Non-GAAP net income (loss) (3)	<u>\$ 4,895</u>	<u>\$ (2,925)</u>	<u>\$ (6,475)</u>	<u>\$ (9,449)</u>
Net income (loss) per share attributable to common stockholders - diluted	\$ 0.27	\$ (0.19)	\$ (0.40)	\$ (0.55)
Per share impacts of adjustments to net income (loss) (4)	0.01	0.02	0.03	0.06
Non-GAAP EPS - diluted	\$ 0.28	\$ (0.17)	\$ (0.37)	\$ (0.49)
Weighted average shares used in computing per share amounts - diluted	17,413,305	17,577,846	17,428,227	19,354,965

(1) Includes advisory, legal, accounting, valuation, and other professional or consulting fees associated with the Magillem acquisition.

(2) Represents the amortization expenses of our intangible assets attributable to the Magillem acquisition.

(3) Our GAAP tax provision is primarily related to foreign withholding taxes and income tax in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the United States. Accordingly, there is no significant tax impact associated with these non-GAAP adjustments.

(4) Reflects the aggregate adjustments made to reconcile Non-GAAP Net Income (Loss) to our net income (loss) as noted in the above table, divided by the GAAP diluted weighted average number of shares for the relevant period.

### Free Cash Flow

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	2019	2020	2020	2021
	(in thousands)			
Net cash provided by (used in) operating activities	\$12,199	\$ 2,163	\$ 388	\$(1,506)
Less:				
Purchases of property and equipment	(242)	(654)	(498)	(359)
Free cash flow	<u>\$11,957</u>	<u>\$ 1,509</u>	<u>\$ (110)</u>	<u>\$(1,865)</u>
Net cash used in investing activities	\$ (242)	\$(5,147)	\$ (498)	\$ (359)
Net cash (used in) provided by financing activities	\$ (914)	\$ 790	\$1,273	\$ 4,930

### Components of Our Results of Operations

**Revenue:** Our revenue is primarily derived from licensing intellectual property, licensing software, support and maintenance services, professional services, training services, and royalties. Our agreements often include other service elements including training and professional services which were immaterial for 2019, 2020 and the six months ended June 30, 2021.

Our interconnect solutions product arrangements provide customers the right to software licenses, services, software updates and technical support. We enter into licensing arrangements with customers that typically range from two to three years and generally consist of delivery of a design license that grants the customer the right to use the IP to

## [Table of Contents](#)

design a contractually defined number of products and stand-ready support services that provides the customer with our application engineer support services. We believe our customers derive a significant benefit from our engineer support services, which consist of our proprietary software tool ("RTL"), ongoing access to Corporate Application Engineers ("CAE") and Field Application Engineers ("FAE") that perform certain verifications including benchmark performance, simulations and ultimately, through RTL, instantiate designs into silicon over the design term.

The support services, including access to application engineering support services and the benefits of the RTL, are integral and fundamental to the customer's ability to derive its intended benefit from the IP.

CAEs are part of the product development team providing detailed requirements for engineering projects, working very closely with a customer's chief technology officer and the marketing department, and performing quality assurance testing of customer products prior to shipment to their customers.

FAEs provide assistance to the customer's engineering team in translating their desired SoC architecture into inputs for NoC IP configuration, assistance in optimizing the NoC configuration, answers to customer questions by the online support system or phone, constructive reviews of the progress achieved by the customer's development team and provision of advice on how to best use the licensed IP, performance of design reviews before customer project RTL freeze and tape-out to ensure the customer used the licensed IP configuration tooling as intended so that the RTL output meets customer requirements and expectations. FAE reviews of the customer's design are generally mandatory and consist of an understanding of the customer requirements and analysis of the adequacy of the contemplated IP considering the customer's desired architecture and design goals and objectives, taking into consideration bandwidth, coherence/non-coherence, latency, clock and timing, areas, and any and all constraints, as identified and specific to the design under review.

Besides application engineer support services, support and maintenance services also consist of a stand-ready obligation to provide technical support and software updates over the support term. Generally, the first-year of technical support and software updates are bundled with and into the license fee with a customer option to renew additional years of support throughout the license term. However, we continue to provide technical support and software updates throughout the license term even if the customer does not renew these services in subsequent years, making the license term and support and maintenance term co-terminus.

Revenues that are derived from the sale of a licensee's products that incorporate our IP are classified as royalty revenues. Royalty revenues are recognized during the quarter in which the sale of the product incorporating the IP occurs. Royalties are calculated either as a percentage of the revenues received by a licensee's sale of products incorporating the IP or on a per unit basis, as specified in the agreements with the licensees. For a majority of our royalty revenues, we receive the actual sales data from our customers after the quarter ends and account for it as unbilled receivables. When we do not receive actual sales data from the customer prior to the finalization of its financial statements, royalty revenues are recognized based on our estimation of the customer's sales during the quarter.

Our deployment solutions product arrangements provide customers the right to software licenses, software updates and technical support. The software licenses are time-based licenses with terms generally ranging from one to three years. These arrangements generally have two distinct performance obligations that consist of transferring the licensed software and the support and maintenance service. Support and maintenance services consist of a stand-ready obligation to provide technical support and software updates over the support term. Revenue allocated to the software license is recognized at a point in time upon the later of the delivery date or the beginning of the license period, and revenue allocated to support services is recognized ratably over the support term.

**Cost of revenue:** Cost of revenue relates to costs associated with our licensing agreements and support and maintenance, including applicable FAE personnel-related costs including stock-based compensation, travel, and allocated overhead. We expect cost of revenue to modestly decline over time due to productivity improvements of our FAE processes.

**Research and development ("R&D") expenses:** R&D expenses consist primarily of salaries and associated personnel-related costs, facilities expenses associated with research and development activities, third-party project-related expenses connected with the development of our intellectual property which are expensed as incurred, and stock-based compensation expense and other allocated costs. R&D expenses have increased significantly for the six

## [Table of Contents](#)

months ended June 30, 2021 in absolute terms and as a percentage of revenue as we added to our engineering headcount in order to accelerate new product development. We expect R&D expenses to increase further in absolute terms and as a percentage of revenue in the short term and to continue to increase in absolute terms in the medium to long term but decrease as a percentage of revenue as certain new products are launched.

**Sales and marketing (“S&M”) expenses:** S&M expenses consist primarily of salaries, commissions, travel and other costs associated with S&M activities, as well as advertising, trade show participation, public relations, and other marketing costs, stock-based compensation expenses and other allocated costs. We expect S&M expenses to increase in absolute terms but decrease as a percentage of revenue due to productivity improvements of our sales processes.

**General and administrative (“G&A”) expenses:** G&A expenses consist primarily of salaries for management and administrative employees, depreciation, insurance costs, accounting, legal and consulting fees, other professional service fees, expenses related to the development of corporate initiatives and facilities expenses associated with G&A activities and stock-based compensation expense, fees for directors and other allocated costs.

Following the closing of this offering, we expect to incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations, and increased expenses for additional G&A personnel, directors and officers insurance, investor relations, and professional services. We expect G&A expenses to increase as our business grows. In addition, we expect G&A expenses as a percentage of revenue to vary from period to period but generally decrease over the long term.

**Gain on extinguishment of debt:** Gain on extinguishment of debt consists of forgiveness of a loan from the US Treasury Department’s Small Business Administration under their Payroll Protection Plan (“PPP Loan”).

**Interest and other expense, net:** Interest and other expense, net consists primarily of interest expense associated with our 2018 Term Loan.

**Provision for income taxes:** Our income tax provision consists primarily of income taxes in certain foreign jurisdictions in which we conduct business and includes foreign non-recoverable withholding taxes. We have a full valuation allowance against our U.S. federal and state deferred tax assets as the realization of the full amount of these deferred tax assets is uncertain, including net operating loss carryforwards and tax credits related primarily to research and development. We expect to maintain this full valuation allowance until it becomes more likely than not that the deferred tax assets will be realized.

## Results of Operations

The following table summarizes our GAAP results of operations for the periods presented. The results below are not necessarily indicative of results to be expected for future periods. Results of operations during the year ended December 31, 2020 and the six months ended June 30, 2021 include one month of results and six months of results from the acquisition of Magillem, respectively.

Our income (loss) from operations in 2019 and 2020 was \$7.3 million and \$(3.8) million respectively, reflecting significantly increased investment in R&D expenses as we invest in new technologies, and increased G&A expenses incurred in relation to the acquisition of Magillem and as we prepare to become a public company, while revenue remained relatively flat. Our income (loss) from operations for the six months ended June 30, 2020 and 2021 are \$(4.3) million and \$(10.0) million, respectively, primarily due to increase in revenue due to addition of new customers as well as increase in new license agreements with existing customers, which was offset by increased R&D expenses due to increased employee-related costs, and increased G&A expenses due to higher professional services costs which were comprised primarily of legal, accounting, and consulting fees and employee compensation costs primarily related to higher headcount to support our continued growth.

## [Table of Contents](#)

These trends are discussed in more detail below. We expect to incur further losses in the short term as we continue to make similar investments.

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	2019	2020	2020	2021
	<i>(in thousands)</i>			
Total revenue	\$ 31,501	\$ 31,812	\$ 10,937	\$ 17,471
Cost of revenue	1,862	1,491	891	1,735
Gross profit	29,639	30,321	10,046	15,736
Operating expenses:				
Research and development (1)	10,051	17,020	7,831	12,963
Sales and marketing (1)	9,782	9,749	4,105	4,729
General and administrative (1)	2,533	7,329	2,423	8,012
Total operating expenses	22,366	34,098	14,359	25,704
Income (loss) from operations	7,273	(3,777)	(4,313)	(9,968)
Gain on extinguishment of debt	—	1,593	—	10
Interest and other expense, net	(290)	(50)	(85)	(324)
Income (loss) before provision for income taxes	6,983	(2,234)	(4,398)	(10,282)
Provision for income taxes	1,144	1,026	2,594	344
Net income (loss)	\$ 5,839	\$ (3,260)	\$ (6,992)	\$ (10,626)

(1) Includes stock-based compensation expense as follows:

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	2019	2020	2020	2021
	<i>(in thousands)</i>			
Research and development	\$172	\$263	\$ 90	\$420
Sales and marketing	77	92	45	76
General and administrative	28	103	35	215
Total stock-based compensation expense	\$277	\$458	\$170	\$711



## Table of Contents

The following table summarizes our results of operations as a percentage of total revenue for each of the periods indicated:

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	2019	2020	2020	2021
	<i>(as a percentage of total revenue)</i>			
Total revenue	100%	100%	100%	100%
Cost of revenue	6	5	8	10
Gross profit	94	95	92	90
Operating expenses:				
Research and development	32	54	72	74
Sales and marketing	31	31	38	27
General and administrative	8	22	22	46
Total operating expenses	71	107	131	147
Income (loss) from operations	23	(12)	(39)	(57)
Gain on extinguishment of debt	—	5	—	—
Interest and other expense, net	(1)	—	(1)	(2)
Income (loss) before provision for income taxes	22	(7)	(40)	(59)
Provision for income taxes	3	3	24	2
Net income (loss)	19%	(10)%	(64)%	(61)%

### Comparison of the Six Months Ended June 30, 2020 and 2021:

#### Revenue

	SIX MONTHS ENDED JUNE 30,		CHANGE	
	2020	2021	\$	%
	<i>(dollars in thousands)</i>			
Licensing, support and maintenance	\$ 8,794	\$ 16,217	\$ 7,423	84%
Variable royalties	1,847	1,174	(673)	(36)%
Other	296	80	(216)	(73)%
Total	<u>\$10,937</u>	<u>\$17,471</u>	<u>\$6,534</u>	<u>60%</u>

Growth in our licensing and support and maintenance continued with an 84% increase from the six months ended June 30, 2020 to June 30, 2021. The increase was primarily due to the addition of new customers, including those gained as a result of the Magillem acquisition, as well as increase in new license agreements with existing customers. The decrease in variable royalty revenue during the six months ended June 30, 2021 was primarily due to a decrease in sales volume of a significant customer as a result of U.S. government trade restrictions limiting its ability to have its semiconductors fabricated.

#### Cost of revenue

	SIX MONTHS ENDED JUNE 30,		CHANGE	
	2020	2021	\$	%
	<i>(dollars in thousands)</i>			
Cost of revenue	\$ 891	\$ 1,735	\$ 844	95%

Cost of revenue increased \$0.8 million, or 95%, from \$0.9 million for the six months ended June 30, 2020, to \$1.7 million for the six months June 30, 2021. The increase in cost of revenue was primarily due to the increase in employee-related costs as a result of increased headcount.

[Table of Contents](#)**Operating expenses**

---

	SIX MONTHS ENDED		CHANGE	
	JUNE 30,		\$	%
	2020	2021		
	<i>(dollars in thousands)</i>			
Research and development	\$ 7,831	\$12,963	\$ 5,132	66%
Sales and marketing	4,105	4,729	624	15%
General and administrative	2,423	8,012	5,589	231%
Total operating expenses	<u>\$14,359</u>	<u>\$25,704</u>	<u>\$11,345</u>	<u>79%</u>

---

**Research and development expenses**

R&D expenses increased \$5.1 million, or 66%, from \$7.8 million for the six months ended June 30, 2020 to \$13.0 million for the six months June 30, 2021. The increase in R&D expenses was primarily due to the increase in employee-related cost of \$5.7 million mainly driven by increased engineering headcount as a result of growth and our investment in our interconnect technology, including additional headcount as a result of the Magillem acquisition.

**Sales and marketing expenses**

S&M expenses increased \$0.6 million, or 15%, from \$4.1 million for the six months ended June 30, 2020 to \$4.7 million for the six months ended June 30, 2021. Marketing and event costs increased by \$0.3 million primarily due to increases in advertising and brand awareness efforts aimed at acquiring new customers.

**General and administrative expenses**

G&A expenses increased \$5.6 million, or 231%, from \$2.4 million for the six months ended June 30, 2020 to \$8.0 million for the six months ended June 30, 2021. G&A expenses as a percentage of our total revenue were 22% and 46% for the six months ended June 30, 2020 and 2021, respectively. The increase in general and administrative expenses was primarily due to an increase of approximately \$2.9 million in professional services, which was comprised primarily of legal, accounting, and consulting fees, and \$2.2 million in employee compensation costs primarily related to higher headcount to support our continued growth.

**Interest and other expense, net**

---

	SIX MONTHS ENDED		CHANGE	
	JUNE 30,		\$	%
	2020	2021		
	<i>(dollars in thousands)</i>			
Interest and other expense, net	\$ (85)	\$ (324)	\$ (239)	281%

---

Interest and other expense, net for the six months ended June 30, 2020 was \$0.1 million, compared to \$0.3 million for the six months ended June 30, 2021. The increase is primarily related to foreign currency exchange, which was partially offset by a reduced interest expense on our 2018 Term Loan in 2020 as a result of the \$0.3 million reduction in outstanding principal.

### Provision for income taxes

	SIX MONTHS ENDED		CHANGE	
	JUNE 30,		\$	%
	2020	2021		
	<i>(dollars in thousands)</i>			
Provision for income taxes	\$ 2,594	\$ 344	\$(2,250)	(87)%

Provision for income taxes for the six months ended June 30, 2021 was \$0.3 million, compared to \$2.6 million for the six months ended June 30, 2020. The decrease in our income tax expense was due to an increase in our forecasted pre-tax loss for the year ended December 31, 2021 compared to the book loss for the year ended December 31, 2020, a change in the forecasted geographic mix of worldwide earnings which are taxed at different statutory tax rates, the impact of losses in jurisdictions which have full federal and state valuation allowances, and a decrease in current year foreign withholding taxes. Included in the provision for income taxes was \$1.5 million and \$0.1 million of forecasted foreign withholding tax for the year ended December 31, 2020 and 2021, respectively. Foreign withholding taxes are generally assessed on gross revenue generated, rather than pre-tax income, in certain countries in which we do not file an income tax return.

### Comparison of the Years Ended December 31, 2019 and 2020

#### Revenue

YEARS ENDED DECEMBER 31,	2019	2020	CHANGE	
			\$	%
	<i>(in thousands)</i>			
Licensing, support and maintenance	\$26,733	\$27,408	\$ 675	3%
Variable royalties	4,595	3,470	(1,125)	(24)
Other	173	934	761	440
Total	<u>\$31,501</u>	<u>\$31,812</u>	<u>\$ 311</u>	<u>1%</u>

Growth in our licensing, support and maintenance and other income continued with a 13% increase from 2019 to 2020, despite the industry headwinds resulting from generally lower activity levels in certain of our customers' operations during the second and third quarters of 2020 as a result of the COVID-19 pandemic. However, total revenue during 2020 remained relatively flat when compared to 2019 due to an 8% decrease from reduction of \$2.6 million point-in-time revenue, as referenced below, and a 4% decrease in royalties resulting from a significantly lower shipments of products containing our IP by a key customer as a result of supply constraints.

In 2019 we recognized point-in-time revenue of \$10.0 million related to a 3-year license agreement to a significant customer, where the customer did not obtain support and maintenance as part of the agreement as we were precluded from providing any form of support and maintenance subsequently to the customer by applicable U.S. government trade restrictions and had no further obligations to the customer after time of the delivery. Additionally, \$0.7 million included in deferred revenue and related to other prior transactions with the same customer was recognized in revenue at that time.

In 2020 we recognized point-in-time revenue of \$7.4 million related to a 2-year license agreement to another significant customer, where the customer did not obtain support and maintenance as part of the agreement as we were precluded from providing any form of support and maintenance subsequently to the customer by applicable U.S. government trade restrictions and had no further obligations to the customer after time of the delivery. Additionally, \$0.2 million included in deferred revenue and related to other prior transactions with the same customer was recognized in revenue at that time. We do not expect these point-in-time IP licensing revenue transactions to continue in the future.

## [Table of Contents](#)

A significant amount of our revenue is derived from a limited number of customers. Revenue from one customer represented 1% and 25% of our total revenue during the years ended December 31, 2019 and 2020, respectively. Revenue from another customer represented 44% and 7% of our total revenue during the years ended December 31, 2019 and 2020, respectively. Revenue from a third customer represented 16% and 15% of our total revenue during the years ended December 31, 2019 and 2020, respectively.

The decrease in variable royalty revenue during 2020 was primarily due to a decrease in sales volume of a significant customer mentioned above as a result of the impact applicable U.S. government trade restrictions on their ability to have their semiconductors fabricated.

The below chart sets forth our revenue by region for the periods presented.

	YEARS ENDED DECEMBER 31,		CHANGE	
	2019	2020	\$	%
	(in thousands)			
Americas	\$ 9,239	\$10,459	\$ 1,220	13%
Asia Pacific	19,917	18,896	(1,021)	(5)
Europe, Middle East	2,345	2,457	112	5
Total	<u>\$31,501</u>	<u>\$31,812</u>	<u>\$ 311</u>	<u>1%</u>

The majority of our revenue during 2019 and 2020 originated in the Asia Pacific region, with China representing 54% and 45% of total revenue in this region during 2019 and 2020, respectively. Revenue in the Asia Pacific region decreased by \$1.0 million during 2020 when compared to 2019 as a result of the net decrease in one-time revenue impacts related to the transactions discussed above, partially offset by increased license revenue from our automotive and AI/ML focused customers in China. We expect the revenue from China to decrease due to the applicable U.S. government trade restrictions. Revenue in the Americas primarily originated in the United States during both 2019 and 2020. The increase of \$1.2 million during 2020 was primarily due to an increased activity from one of our existing customers in the consumer sector.

Revenue in the Europe, Middle East region originated in various countries none of which individually exceeded 10% of total revenue. Revenue in this region remained relatively flat in 2020 when compared to 2019.

### **Cost of revenue**

	YEARS ENDED DECEMBER 31,		CHANGE	
	2019	2020	\$	%
	(in thousands)			
Cost of revenue	\$1,862	\$1,491	\$(371)	(20)%

Cost of revenue decreased, \$0.4 million, or 20%, from \$1.9 million in 2019, to \$1.5 million in 2020. The decrease in cost of revenue in 2020 was primarily due to the decrease in salaries and employee-related costs related to field application engineers driven by the improvements made in the organizational structure to increase efficiency, as well as decrease in travel costs due to travel restrictions imposed by the COVID-19 pandemic when compared to 2019.

[Table of Contents](#)**Operating expenses**

	YEARS ENDED DECEMBER 31,		CHANGE	
	2019	2020	\$	%
	(in thousands)			
Research and development	\$10,051	\$17,020	\$ 6,969	69%
Sales and marketing	9,782	9,749	(33)	(0)
General and administrative	2,533	7,329	4,796	189
Total operating expenses	<u>\$22,366</u>	<u>\$34,098</u>	<u>\$11,732</u>	<u>52%</u>

**Research and development expenses**

R&D expenses increase, \$7.0 million or 69% from \$10.1 million in 2019 to \$17.0 million in 2020. The increase in R&D expenses is primarily due to the increase in salaries and employee-related cost of \$5.8 million mainly driven by additional increased engineering headcount as a result of our growth and investment in our interconnect technology, including additional headcount as a result of the Magillem acquisition, and a \$1.0 million increase in third-party software and engineering services related to ongoing development of our next generation products partially offset by a reduction in various expenses such as travel, utilities and facilities related expenses.

**Sales and marketing expenses**

S&M expenses remained relatively flat in 2020 when compared to 2019. This was driven by a number of factors, including lower commissions in 2020, and lower expenses related to travel to customers and our annual sales conference resulting from of the COVID-19 pandemic, which, together, offset generally higher employee-related costs for sales and marketing personnel.

**General and administrative expenses**

G&A expenses increased, 4.8 million or 189% from \$2.5 million in 2019 to \$7.3 million in 2020. G&A expenses as a percentage of our total revenue were 8% and 22% during the years ended December 31, 2019 and 2020, respectively. The increase in general and administrative expenses was primarily due to an increase of \$2.0 million in professional and consulting fees, majority of which was related to our preparation to become a public company and \$1.4 million in acquisition expenses related to acquisition of Magillem. In addition, there was an increase in salaries and employee-related cost of \$0.6 million, due to increased headcount as a result of our growth.

**Gain on extinguishment of debt:**

	YEARS ENDED DECEMBER 31,		CHANGE	
	2019	2020	\$	%
	(in thousands)			
Gain on extinguishment of debt	\$ —	\$1,593	\$1,593	*

(\*) Not meaningful

Gain on extinguishment of debt increased, \$1.6 million from nil in 2019 to \$1.6 million in 2020. The change is due to the forgiveness in December 2020 of a loan from the US Treasury Department's Small Business Administration under their PPP Loan, which was introduced as an economic stimulus following the COVID-19 pandemic.

**Interest and other expense, net**

	YEARS ENDED DECEMBER 31,		CHANGE	
	2019	2020	\$	%
	(in thousands)			
Interest and other expense, net	\$ (290)	\$ (50)	\$ 240	(83)%

## [Table of Contents](#)

Interest and other expense, net for the year ended December 31, 2019 was \$0.3 million, compared to \$0.1 million for the year ended December 31, 2020. The decrease in interest and other expense, net was primarily due to reduced interest expense on our 2018 Term Loan in 2020, as a result of the \$0.6 million reduction in outstanding principal.

### **Provision for income taxes**

	YEARS ENDED DECEMBER 31,		CHANGE	
	2019	2020	\$	%
Provision for income taxes	\$1,144	\$1,026	\$(118)	(10)%
Effective tax rate	16.4%	(45.9)%		

Provision for income taxes for the year ended December 31, 2019 was \$1.1 million, compared to \$1.0 million for the year ended December 31, 2020. The decrease in our effective tax rate was primarily due to a decrease in our pre-tax income to a \$2.2 million loss for the year ended December 31, 2020 from \$7.0 million income for the year ended December 31, 2019. Included in the provision for income taxes was \$1.3 million and \$1.5 million of foreign withholding tax for the year ended December 31, 2019 and 2020, respectively. Foreign withholding taxes are generally assessed on gross revenue generated, rather than pre-tax income, in certain countries in which the Company does not file an income tax return.

### **Liquidity and Capital Resources**

Since inception, we have financed operations primarily through proceeds received from payments received from our customers, preferred stock issuances, borrowings under our 2018 Term Loan agreement. Our primary sources of liquidity are cash including cash generated from operations and available borrowing capacity. As of June 30, 2021, we had \$14.8 million in cash. Approximately \$8.3 million of total cash was held by our foreign subsidiaries as of June 30, 2021.

In November 2018, we entered into a business financing agreement with Bridge Bank (“Lender”) for a term loan of \$1.5 million with a maturity date of November 2021, repayable monthly (“2018 Term Loan”). The interest rate of the 2018 Term Loan is prime plus 2%.

Under the terms of the 2018 Term Loan, we are required to comply with certain financial and non-financial covenants. Any failure to comply with these covenants and any other obligations under the agreement could result in an event of default, which would allow the Lender to require accelerated repayments of amounts owed. As of December 31, 2020 and June 30, 2021, we were in compliance with all of the financial and non-financial covenants.

As of December 31, 2020 and June 30, 2021, we had \$0.6 million and \$0.2 million, respectively, of outstanding principal balance, net of debt issuance costs, under the 2018 Term Loan, of which nil was classified as long-term liabilities for both periods presented.

In April 2020, the Company entered into a loan agreement under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act known as the Paycheck Protection Program with a Lender for the amount of \$1.6 million at an interest rate of 1% per annum, and repayable in two years. The Company used proceeds of the PPP Loan to fund qualifying payroll and other expenses. In December 2020, the full amount of the PPP Loan, including principal and accrued interest, was forgiven.

We believe our cash, available borrowing capacity and cash expected to be generated from operations will be sufficient to meet our expected working capital needs, capital expenditures, financial commitments and other liquidity requirements associated with our existing operations for at least the next 12 months. If these resources are not sufficient to satisfy our liquidity requirements, we may be required to seek additional financing. If we raise additional funds by issuing equity securities, our stockholders will experience dilution. Debt financing, if available, may contain covenants that significantly restrict our operations or our ability to obtain additional debt financing in the future. Any additional financing that we raise may contain terms that are not favorable to us or our stockholders. We cannot assure you that we would be able to obtain additional financing on terms favorable to us or our existing stockholders, or at all. See “Risk Factors —Risks Related to Our Business and Industry—Our ability to raise capital in the future may be limited and could prevent us from executing our growth strategy.”

## Cash Flows

The following table summarizes changes in our cash flows for the periods indicated:

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	2019	2020	2020	2021
	<i>(in thousands)</i>			
Net cash provided by (used in) operating activities	\$12,199	\$ 2,163	\$ 388	\$ (1,506)
Net cash used in investing activities	(242)	(5,147)	(498)	(359)
Net cash (used in) provided by financing activities	(914)	790	1,273	4,930

### Operating Activities

Cash flows from operating activities may vary significantly from period to period depending on a variety of factors including the timing of our receipts and payments. Our ongoing cash outflows from operating activities primarily relate to payroll-related costs, payments for professional services, obligations under our property leases and design tool licenses. Our primary source of cash inflows is receipts from our accounts receivable. The timing of receipts of accounts receivable from customers is based upon the completion of agreed milestones or agreed dates as set forth in the contracts.

For the six months ended June 30, 2020, net cash provided by operating activities was \$0.4 million primarily due to our net loss of \$7.0 million, adjusted for non-cash charges of \$0.9 million and \$6.5 million provided by changes in our operating assets and liabilities. Non-cash charges primarily consisted of depreciation and amortization, and stock-based compensation. The primary drivers of the changes in operating assets and liabilities were a \$3.2 million increase in deferred revenue, \$2.4 million increase in accrued expenses and other current liabilities, a \$1.1 million decrease in accounts receivable, a \$0.3 million decrease in prepaid expenses and other assets, partially offset by a \$0.3 million decrease in operating lease liabilities and \$0.2 million decrease in accounts payable.

For the six months ended June 30, 2021, net cash used in operating activities was \$1.5 million primarily due to our net loss of \$10.6 million, adjusted for non-cash charges of \$1.4 million and \$7.7 million changes in operating assets and liabilities. The primary drivers of the changes in operating assets and liabilities were a \$3.7 million increase in deferred revenue, \$5.9 million decrease in accounts receivables, partially offset by a \$2.9 million increase in prepaid expenses and other assets.

Net cash provided by operating activities for the year ended December 31, 2019 was \$12.2 million compared to \$2.2 million for the year ended December 31, 2020. The change was primarily due to net loss incurred in 2020 as compared to the net income incurred in 2019, as well as a decrease in cash provided by working capital primarily from customer payment timing differences, which was partially offset by the increase in deferred revenue.

### Investing Activities

Net cash used in investing activities for the six months ended June 30, 2020 and 2021 was \$0.5 million and \$0.4 million, respectively, primarily attributable to purchases of property and equipment to support our office facilities.

Net cash used in investing activities for the year ended December 31, 2019 was \$0.2 million compared to \$5.1 million for the year ended December 31, 2020. The change was primarily due to the cash consideration of \$4.5 million paid related to the Magillem acquisition net of deferred consideration of \$0.5 million.

### Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2021 was \$4.9 million, primarily attributable to proceeds from issuance of common stock of \$5.4 million, partially offset by the principal payments of 2018 Term Loan of \$0.3 million and payments of deferred offering costs of \$0.2 million.

Net cash provided by financing activities for the six months ended June 30, 2020 was \$1.3 million, primarily attributable to proceeds from the PPP loan of \$1.6 million, offset by the principal payments of 2018 Term Loan of \$0.3 million.

## [Table of Contents](#)

Net cash used in financing activities for the year ended December 31, 2019 was \$0.9 million compared to net cash provided by financing activities of \$0.8 million for the year ended December 31, 2020. The change was primarily related to proceeds from the PPP Loan, offset by the principal payments of our 2018 Term Loan during 2020.

### Contractual Obligations

The following table summarizes our contractual obligations outstanding as of December 31, 2020:

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS (in thousands)	3-5 YEARS	MORE THAN 5 YEARS
Short-term debt—principal (1)	\$ 557	\$ 557	\$ —	\$ —	\$ —
Short-term debt—interest (2)	19	19	—	—	—
Operating leases (3)	3,339	920	1,563	430	426
Vendor financing arrangements (4)	1,483	643	613	227	—
Total	<u>\$5,398</u>	<u>\$ 2,139</u>	<u>\$2,176</u>	<u>\$ 657</u>	<u>\$ 426</u>

- (1) Debt issuance costs are excluded from the table. See Note 10 of our consolidated financial statements included elsewhere in this prospectus.
- (2) Future interest payments are related to our 2018 Term Loan. Interest for the 2018 Term Loan was calculated using the prime plus 2%. Future interest payments may differ from actual results. See Note 10 of our consolidated financial statements included elsewhere in this prospectus.
- (3) These obligations represent the minimum rental lease commitments under all noncancelable agreements. See Note 9 of our consolidated financial statements included elsewhere in this prospectus.
- (4) These obligations represent vendor financing arrangements with extended payment terms on the purchase of software licenses and equipment.

During the six months ended June 30, 2021, there have been no significant changes in our contractual obligations and other commitments as described in our consolidated financial statements for the year ended December 31, 2020.

### Recently Issued and Adopted Accounting Pronouncements

For more information regarding recently issued accounting pronouncements, see Note 2 to our consolidated financial statements included elsewhere in this prospectus.

### Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of consolidated financial statements requires us to make certain estimates, judgments, and assumptions. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable based upon information available to us at the time that these estimates, judgments, and assumptions are made. Our estimates and related judgments and assumptions are continually evaluated based on available information and experiences. However, actual amounts could differ from those estimates.

The following are the critical accounting policies requiring estimates, judgments, and assumptions that we believe have the most significant impact on our consolidated financial statements.

#### Revenue Recognition

We recognize license revenues as we transfer control of deliverables (software and services) to our customers in an amount reflecting the consideration to which we expect to be entitled. To recognize revenues, we apply the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied. We account for a contract when it has approval and commitment from all parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. We apply judgment in determining the customer's ability and intention to pay based on a variety of factors including the customer's historical payment experience.



## **Nature of Products and Services**

Our revenue is primarily derived from licensing intellectual property, licensing software, support and maintenance services, professional services, training services, and royalties.

### **Design Solutions**

Interconnect solutions product agreements provide customers the right to software licenses, services, software updates and technical support. We enter into licensing agreements with customers that typically range from two to three years and generally consist of delivery of a design license that grants the customer the right to use our IP to design a contractually defined number of products and stand-ready support services that provide the customer a significant benefit from our RTL as well as ongoing access to application engineer support services to perform certain verifications including benchmark performance, simulations and ultimately, through the RTL, instantiate designs into silicon over the design term.

The support services, including access to application engineering support services and the benefits of the RTL, are integral and fundamental to the customer's ability to derive its intended benefit from the IP.

CAEs are part of the product development team providing detailed requirements for engineering projects, working very closely with a customer's chief technology officer and the marketing department, and performing quality assurance testing of customer products prior to shipment to their customers.

FAEs provide assistance to the customer's engineering team in translating their desired SoC architecture into inputs for NoC IP configuration, assistance in optimizing the NoC configuration, answer to customer questions by the online support system or phone, constructive reviews of the progress achieved by the customer's development team and provision of advice on how to best use the licensed IP, performance of design reviews before customer project RTL freeze and tape-out to ensure the customer used the licensed IP configuration tooling as intended so that the RTL output meets customer requirements and expectations. FAE reviews of the customer's design are mandatory and consist of an understanding of the customer requirements and analysis of the adequacy of the contemplated IP considering the customer's desired architecture and design goals and objectives, taking into consideration bandwidth, coherence/non-coherence, latency, clock and timing, areas, and any and all constraints, as identified and specific to the design under review.

Besides application engineer support services, support and maintenance services also consist of a stand-ready obligation to provide technical support and software updates over the support term. Generally, the first-year of technical support and software updates are bundled with and into the license fee with a customer option to renew additional years of support throughout the license term. However, we continue to provide technical support and software updates throughout the license term even if the customer does not renew these services in subsequent years, making the license term and support and maintenance term co-terminus.

Considering the nature of the combined design tool and assisting our customers in applying our IP technology in our customers' development environment and the relative significance thereof, we have concluded that our Interconnect Solutions IP licensing agreements are not distinct from its obligation to provide the application engineering support services and benefits of the RTL. The Interconnect Solutions IP, RTL, and the application engineering support services serve to fulfill our commitment to the customer, as they represent inputs to a single, combined performance obligation that commences upon the later of the agreement effective date or transfer of the software license. The design license and the regular two-way interaction between the design tool, RTL, and the application engineering support services give the customer the intended benefit from the arrangement, which is the ability to commercialize their design. Customers cannot benefit from the design license on its own or together with other readily available resources as no other RTL or application engineer support service exists in the marketplace that a customer could use with the design license. Consequently, the RTL and application engineer support service cannot be used on its own or together with any other design license as we do not allow the use of the RTL or provide application engineer support services separately from the design license. Further, although technical support and software updates is a distinct performance obligation, it is accounted for as if it were part of a single performance obligation that includes the licenses, RTL and application engineer support services because the technical support and updates are provided in practice for the same period of time and have the same time-based pattern of transfer to the customer as the combined design license, RTL, and application support services.

## [Table of Contents](#)

Revenues that are derived from the sale of a licensee's products that incorporate our IP are classified as royalty revenues. Royalty revenues are recognized during the quarter in which the sale of the product incorporating our IP occurs. Royalties are calculated either as a percentage of the revenues received by a licensee's sale of products incorporating our IP or on a per unit basis, as specified in the agreements with the licensees. For a majority of our royalty revenues, we receive the actual sales data from its customers after the quarter ends and accounts for it as unbilled receivables. When we do not receive actual sales data from the customer prior to the finalization of our financial statements, royalty revenues are recognized based on our estimation of the customer's sales during the quarter.

### *Deployment Solutions*

Deployment Solutions product agreements provide customers the right to software licenses, software updates and technical support. The software licenses are time-based licenses with terms generally ranging from one to three years. These agreements generally have two distinct performance obligations that consist of transferring the licensed software and the support and maintenance service. Support and maintenance services consist of a stand-ready obligation to provide technical support and software updates over the support term. Revenue allocated to the software license is recognized at a point in time upon the later of the delivery date or the beginning of the license period, and revenue allocated to support services is recognized ratably over the support term.

A limited number of Deployment Solutions contracts include tokens, a mechanism used to both enable "peak" users to choose a combination of the software products on a monthly basis and restrict the number of users. We recognize revenue related to these tokens at a point in time, based on quarterly consumption information provided by the customer.

### *Professional Services*

Our agreements often include service elements (other than maintenance and support services). These services include training, design assistance, and consulting. Services performed on a time and materials basis are recognized over the period the services are provided either using an output method such as labor hours, or a method that is otherwise consistent with the way in which value is delivered to the customer. Services performed on a fixed price basis are recognized over time, generally using costs incurred or hours expended to measure progress.

### *Multiple Performance Obligations*

Most of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately, if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis, which are estimated considering multiple factors including observable industry pricing practices and internal pricing strategies and objectives. Standalone selling prices of software licenses are typically estimated using the residual approach. Standalone selling prices of professional services are typically estimated based on observable transactions when these services are sold on a standalone basis.

### *Transaction price*

Revenue is recognized when, or as, control of a promised product or service transfers to a client, in an amount that reflects the consideration to which we expect to be entitled in exchange for transferring those products or services. If the consideration promised in a contract includes a variable amount, we estimate the amount to which we expect to be entitled using either the expected value or most likely amount method, to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. Generally, the transaction price of our contracts is fixed at the inception of the contract. Our contracts generally do not include terms that could cause variability in the transaction price.

We assess the timing of the transfer of goods or services to the customer as compared to the timing of payments to determine whether a significant financing component exists. As a practical expedient, we do not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of finance to either the customer or us, no financing component is deemed to exist. When contracts involve a significant financing component, we adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provide the customer with a significant benefit of financing.

## [Table of Contents](#)

We report revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions.

In instances where foreign licensees withhold and remit taxes to local authorities in accordance with local laws and regulations, we recognize and present revenue on a gross basis, and include the withholding tax in income tax expense.

### *Flexible Spending Accounts*

Some customers enter into a non-cancelable Flexible Spending Account ("FSA") agreements whereby the customer commits to a fixed dollar amount over a specified period of time that can be used to purchase from a list of our products or services. These agreements do not meet the definition of a revenue contract until the customer executes a separate order to identify the required products and services that they are purchasing. The combination of the FSA agreement and the subsequent order creates enforceable rights and obligations, thus meeting the definition of a revenue contract. Each separate order under the agreement is treated as an individual contract and accounted for based on the respective performance obligations included within the FSA agreements.

### *Contract modifications*

Our contracts may be modified to add, remove or change existing performance obligations. The accounting for modifications to our contracts involves assessing whether the products and services added to an existing contract are distinct and whether the pricing is at the standalone selling price. Products and services added that are not distinct are accounted for on a cumulative catch-up basis, while those that are distinct are accounted for prospectively, either as a separate contract if the additional services are priced at the standalone selling price, or as a termination of the existing contract and creation of a new contract if not priced at the standalone selling price. Our more significant contract modifications include extensions of the design license term and the purchase of additional years of support and maintenance.

### *Judgments*

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together requires significant judgment. Judgment is also required to determine the standalone selling price for each distinct performance obligation.

### *Contract Balances*

The timing of revenue recognition may differ from the timing of invoicing to customers, and these timing differences result in receivables (billed or unbilled), contract assets, or contract liabilities (deferred revenue) on our Consolidated Balance Sheet. We record a contract asset when revenue is recognized prior to the right to invoice. We record deferred revenue when we invoice customers and revenue is not yet recognized. For time-based software agreements, customers are generally invoiced in single or annual amounts, although some customers are invoiced more frequently over-time. We record an unbilled receivable when revenue is recognized and it has an unconditional right to invoice and receive payment.

We capitalize sales commission as costs of obtaining a contract when they are incremental and, if they are expected to be recovered, amortized in a manner consistent with the pattern of transfer of the good or service to which the asset relates. If the expected amortization period is one year or less, the commission fee is expensed when incurred.

### **Income Taxes**

We account for income taxes under the asset and liability method. Under this method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. We provide for a valuation allowance when it is more likely than not that some portion, or all of our deferred tax assets will not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. As of December 31, 2019 and 2020 and as of June 30, 2021, we recorded a full valuation allowance against our U.S. deferred tax assets.

### Stock-based Compensation

We measure equity classified stock-based awards, including stock options, RSUs, and RSAs granted to employees, directors, and non-employees based on the estimated fair values of the awards on the date of the grant. Stock-based compensation expense for awards with service-based vesting only is recognized on a straight-line basis over the requisite service period which is generally the vesting period of such awards, as a component of operating expenses within the Consolidated Statements of Income (Loss). For awards that include performance conditions stock-based compensation expense is recognized on a graded vesting basis over the requisite service period. Compensation expense is not recognized until the performance condition becomes probable.

The performance-based vesting condition of certain awards is satisfied in connection with us becoming a publicly listed company or a change in control. Our initial public offering ("IPO") is not deemed probable until consummated. Accordingly, no expense is recorded related to these awards until the occurrence of the performance-based vesting condition becomes probable. In connection with our IPO, we expect to record stock-based compensation expenses for these awards with performance-based vesting conditions for the service period rendered from the date of grant through the IPO date.

We account for forfeitures related to these awards as they occur.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. This valuation model for stock-based compensation expense requires us to make assumptions and judgments about the variables used in the calculation including the expected term, the volatility of our common stock, and an assumed risk-free interest rate. As a result, if we revise our assumptions and estimates, our stock-based compensation expense could change. We determine valuation assumptions for Black-Scholes as follows:

*Fair Value of the Underlying Common Stock*—Because our common stock is not yet publicly traded, we estimate the fair value of common stock, as discussed in the section titled "—Common Stock Valuations" below.

*Risk-Free Interest Rate*—We base the risk-free interest rate used in the Black-Scholes option-pricing model on the implied yield available on US Treasury zero coupon issues with an equivalent expected term of the options for each option group.

*Expected Term*—The expected term represents the period that our stock-based awards are expected to be outstanding. The expected term assumption is based on the simplified method. We expect to continue using the simplified method until sufficient information about our historical behavior is available.

*Volatility*—We determine the price volatility factor based on the historical volatilities of our peer group as the we do not have trading history for its common stock.

*Dividend Yield*—We have never declared or paid any cash dividend and does not currently plan to pay a cash dividend in the foreseeable future. Consequently, we used an expected dividend yield of zero.

The following table summarizes the valuation assumptions:

---

	<b>SIX MONTHS ENDED JUNE 30, 2020</b>
Fair value of common stock	\$0.60
Expected volatility	33.9% - 37.6%
Expected term (in years)	5.7 - 6.1
Risk-free interest rate	0.4% - 1.5%
Expected dividend yield	0%

---

We had no stock option grants during the six months ended June 30, 2021.

The fair value of RSUs and RSAs granted is measured as the fair value per share of our common stock on the date of grant.

### **Common Stock Valuations**

The fair value of the common stock underlying our stock-based awards has historically been determined by our board of directors, with input from management and contemporaneous independent third-party valuations. We believe that our board of directors has the relevant experience and expertise to determine the fair value of our common stock. Given the absence of a public trading market of our common stock, and in accordance with the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held Company Equity Securities Issued as Compensation, our board of directors exercised reasonable judgment and considered numerous objective and subjective factors to determine the best estimate of the fair value of our common stock, including:

- independent third-party valuations of our common stock;
- the rights, preferences and privileges of our redeemable convertible preferred stock relative to those of our common stock;
- our financial condition, results of operations and capital resources;
- the industry outlook;
- the valuation of comparable companies;
- the lack of marketability of our common stock;
- the fact that option and RSU grants have involved rights in illiquid securities in a private company;
- the likelihood and timeline of achieving a liquidity event, such as an initial public offering or a sale of our company given prevailing market conditions;
- the history and nature of our business, industry trends and competitive environment; and
- general economic outlook including economic growth, inflation and unemployment, interest rate environment and global economic trends.

Following the completion of this offering, the fair value of our common stock will be based on the closing price as reported on the date of grant on the primary stock exchange on which our common stock is traded.

### **Business Combinations**

We allocate the purchase price to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. These estimates are based on information obtained from management of the acquired companies, our assessment of this information, and historical experience. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customers, acquired technology, and trade names from a market participant perspective, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. In addition, unanticipated events and circumstances may occur that may affect the accuracy or validity of such estimates, and if such events occur, we may be required to adjust the value allocated to acquired assets or assumed liabilities. During the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Income (Loss). Acquisition costs, such as legal and consulting fees, are expensed as incurred.

### **Goodwill and Intangible Assets**

We perform our goodwill and other indefinite-lived intangible assets impairment tests annually or more frequently if events or changes in circumstances occur that would more likely than not reduce the fair value below its carrying value. For the year ended December 31, 2020 and the six months ended June 30, 2021, we did not have any goodwill or other indefinite-lived intangible assets impairment.

Acquired finite-lived intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets, which range from five to eight years, unless the lives are determined to be indefinite. We routinely review the remaining estimated useful lives of finite-lived intangible assets. Amortization expenses are recorded operating expenses on the Consolidated Statements of Income (Loss).

**Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial condition due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign currency exchange rates.

**Foreign Currency Exchange Risk**

Operating in international markets involves exposure to possible volatile movements in currency exchange rates. A majority of our revenue and expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars reducing the exposure to currency fluctuations.

If the volume of our international operations increases and foreign currency exchange rates change, the impact to our consolidated statements of operations could be significant and may affect the comparability of operating results. The impact from foreign currency transactions during 2020 and the six months ended June 30, 2021 were not material. We do not believe a 10% increase or decrease in foreign exchange rates would have resulted in a material impact to our operating results.

**JOBS Act**

We are an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). As an emerging growth company, we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, disclosing only two years of audited financial statements and only two years of related selected financial data and management's discussion and analysis of financial condition and results of operations disclosure; not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Further, section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable.

We will continue to be an emerging growth until the earliest to occur of (i) the last day of the fiscal year during which we have total annual gross revenues of at least \$1.07 billion (as indexed for inflation); (ii) the last day of our fiscal year following the fifth anniversary of the date of our first sale of common stock under a registration statement; (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; or (iv) the date on which we are deemed to be a "large accelerated filer," as defined under the Exchange Act.

We elected to take advantage of the extended transition period to comply with new or revised accounting standards and to adopt certain of the reduced disclosure requirements available to emerging growth companies. This may make comparison of our financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

## BUSINESS

### Overview

We are a leading provider of interconnect and other intellectual property (“IP”) technology that manages the on-chip communications in System-on-Chip (“SoC”) semiconductor devices. Our products enable our customers to deliver increasingly complex SoCs that not only process data but are also able to make decisions. Growth in the total addressable market (“TAM”) for our solutions is being driven by the addition of more processors, channels of memory access, machine learning sections, chiplets, additional input/output (“I/O”) interface standards and other subsystems within SoCs. The growth in the numbers of these connected on-chip subsystems place an increasing premium on the interconnect IP’s capability to move data inside complex SoCs. We believe this increase in SoC complexity is creating a significant opportunity for sophisticated SoC system IP solutions, which consist of Network-on-Chip (“NoC”) interconnect IP, IP deployment software and NoC interface IP (consisting of peripheral data transport IPs and control plane networks connected to NoC interconnect IP).

Founded in 2003, we believe we have pioneered and emerged as a global leader in the development of interconnect IP technology for on-chip communication that address the complexity, performance and cost requirements of advanced SoC semiconductors. Over time, we have expanded and scaled our interconnect IP and other IP businesses to provide hardware, software, documentation licenses, support and training under a license fee and a royalty business model, to companies that design and produce semiconductors worldwide. Our IP deployment solutions, which were significantly enhanced by our acquisition of Magillem Design Services SA (“Magillem”) in late 2020, complement our interconnect IP solutions by helping to automate not only the customer configuration of interconnects but also the process of integrating and assembling all the customer’s IP blocks into an SoC. Products incorporating our IP are used to carry important data inside complex SoCs for sophisticated applications, including automated driving, artificial intelligence/machine learning (“AI/ML”), 5G and wireless communications, data centers, and consumer electronics, among other applications.

Our interconnect IP solutions offer proven connections to multiple industry standard processors such as Arm, RISC-V, CEVA, Synopsys ARC and MIPS, as well as memory controllers, I/O and a variety of IP subsystems, to enable customers to integrate such IP blocks with high levels of efficiency and performance. Our solutions enable customer innovation because they are configurable for each customer’s design flow and SoC development projects, and have wide applicability for many types of complex SoCs. Our products have been designed into billions of SoCs.

Traditional on-chip communication methods, including bus and crossbar, are generally inadequate in handling advanced semiconductor communications for sophisticated applications. Technological advancements have led to increasingly complex SoCs that integrate numerous functions into a single semiconductor device. Massive amounts of wires, challenging timing closure and routing congestion lead to greater die area and chip cost. Increased transistor density and design frequencies create higher power consumption leading to heat dissipation challenges and shorter battery life for electronic devices. These challenges have significantly complicated SoC innovation.

We leveraged our extensive technological expertise to develop a new method for on-chip communication to address these critical semiconductor development challenges. We accomplished this by pioneering the use of proprietary networking techniques for on-chip communications to remove the inherent architectural limitations of traditional on-chip communications, thereby improving ease of integration, performance, silicon area, and power consumption. In doing so, we enable our customers to achieve their design goals faster, easier and at lower costs. We also offer an interconnect configuration cockpit that intelligently assembles a NoC interconnect from a library of NoC interconnect IP elements. In addition, our IP deployment software enables easier IP integration of our interconnect IPs – among other IP blocks that make up an SoC.

We work directly with our customers throughout the SoC development process and seek to develop long-term, sustainable relationships with them as our technology becomes embedded in their products. We also leverage our long history in interconnect IP designs and are able to serve a broad range of applications and deliver customer-specific features that are useful to our other customers. For example, we are a leader in the market of interconnect for advanced driver assistance systems (“ADAS”) SoCs, which we believe is a result of our quality, reliability, and innovative technology targeted at that business application.



## [Table of Contents](#)

We provide solutions for the global SoC market and we estimate our TAM for SoC system IP solutions is \$1.1 billion in 2020. We estimate that our TAM will reach \$3.2 billion in 2026, driven by an increasing number of SoC designs and growing complexity, increasing average selling prices of interconnect IP and IP deployment software and our move deeper into the NoC interface IP market segment. More specifically, we believe our growth will be driven by technology trends requiring more sophisticated on-chip processing in the automotive, AI/ML, 5G and wireless communications, data center and consumer electronic markets. Also, the need for sophisticated SoC system IP products is growing rapidly in order to address the requirements of smaller die size, lower power consumption and higher operation frequency, as well as management of critical net latency in a timely and cost-effective manner. As a result, we believe these trends have led to an increased economic benefit of in-licensing commercial semiconductor design IP.

During 2020, we generated \$31.8 million in revenue, which includes in each period revenue recognized pursuant to substantial up front licensing payments due to how we structured certain customer contracts during these periods, \$2.2 million in cash flows from operating activities, and \$3.3 million in net loss. We expect to incur further net losses in the short term as we invest in our business. As of December 31, 2020, we had Annual Contract Value, which we define for an individual customer agreement as the total fixed fees under the agreement divided by the number of years in the agreement term, of \$37.7 million. Since inception, our interconnect IP solutions have been used in over 500 unique SoC Design Starts. As of June 30, 2021, we had 166 Active Customers for both IP licensing and software products in our installed base across multiple applications that are utilizing our SoC system IP solutions in production.

### **Industry Background**

*Semiconductor complexity is increasing as the industry moves from SoCs that process data to SoCs that make decisions.* Historically, a chip's complexity was much lower as processors were connected to memories with relatively few peripheral IP block functions. Once the industry moved to 40 nanometer ("nm") and more advanced process geometries, it became possible to build more complex SoCs, such as mobile phone application processors, which contained many more IP blocks and consequently required more sophisticated on-chip communications. With the rise of machine learning algorithms, such as convolutional neural networks, and semiconductor process technologies at 16 nm or smaller geometries, it became possible to build decision-making SoCs for applications such as automated driving and data center advertising acceleration. Integration of processors, accelerators, machine learning subsystems, sophisticated multi-channel memories, and an ever-larger number of interface standards have placed a premium on the ability to move data efficiently inside the SoC and between SoC chipllets. These trends further highlight the growing importance of interconnect IP in complex SoCs.

*Increasing chip design complexity leads to rising costs.* The slowing of Moore's law and the need for more functionality and performance has necessitated new architectural paradigms and accelerated the move to more advanced process nodes. This has resulted in the adoption of significantly more expensive and complex chip design methods and manufacturing processes, creating a substantial rise in semiconductor design costs. Costs are projected to continue to rise as the number of IP blocks on an SoC are projected to increase more than 20% from 2021 to 2024 according to Semico Research, placing increasing importance on the cost efficiencies provided by SoC system IP solutions.

*Increasing SoC complexity leads to increasing interconnect IP complexity.* It is common for today's SoC to contain multiple types of data traffic in the same design. In addition, the large number of IP blocks in complex SoCs means that more data traffic must be successfully managed. Data must be successfully brought to each of these IP blocks at a time where such data is required—otherwise that IP block will be "starved" of data. As SoC size has grown, partially due to incorporation of Machine Learning sections, SoCs are being split into chipllets, which are smaller pieces of silicon packaged together into one SoC unit. Communication between chipllets adds complexity, which increases the value of interconnect IP.

*Increasing SoC complexity puts pressure on assembling IP blocks coming in from variety of sources.* With potentially hundreds of IP blocks coming from a variety of vendors and internal development groups, SoC teams need to manage the IP supply chains with increasingly capable IP deployment software. These teams and their electronic design automation ("EDA") groups also need to put in place increasingly capable SoC integration methodologies to improve SoC development success. These developments have driven the semiconductor industry to use IP deployment



## [Table of Contents](#)

standards such as IP-XACT that are becoming increasingly sophisticated with each generation and require more sophisticated software to support them.

*Increasing demand from emerging end markets and new market participants.* New applications in markets such as automotive, AI/ML, 5G and wireless communications and data centers have increased the diversity and overall demand in the semiconductor market. These new applications have led to an increase in number of complex SoC designs. Chips used for AI training and inference acceleration have increased in die size, further increasing design costs with new design complexities and performance requirements. Also, new market participants, such as electronic system companies, Internet hyperscalers, and automotive original equipment manufacturers (“OEMs”), have begun internally developing their own chips. The increasing demand from current and new market entrants is increasing the need for SoC system IP solutions.

*Shift to third-party IP for cost benefits, product differentiation, and accelerated time to market.* It is difficult, time consuming and expensive to develop state-of-the-art SoC interconnect IP solutions. We believe this dynamic is accelerating the degree to which interconnect IP solutions are outsourced to commercial vendors. Commercial interconnect vendors, such as Arteris IP, have the potential to accelerate time-to-market because they engage with a greater variety of SoC applications and a greater variety of designs than the typical internal interconnect teams. Commercial vendors are therefore often able to spread interconnect and SoC development costs across a greater number of projects than internal interconnect and design teams.

### **SoC System IP Market**

SoC-type semiconductors consist of pre-made IP blocks that are either licensed from third parties by semiconductor and electronics companies or developed in-house. These IP blocks must be assembled into SoCs as efficiently as possible to address end equipment and OEM customer requirements. Many of these IP blocks, including processors and other functional blocks, such as modems and vision subsystems, perform processing functions and execute complex software stacks. These IP blocks can number in the hundreds on a single chip and generate and consume commands and data, as well as work together as a unit. As SoCs become more complex, there has emerged a class of “system IP and software tools” designed to assemble these IP blocks into a functioning SoC at target cost and performance. We call this the SoC system IP market. The SoC system IP market consists of interconnect IP, IP deployment software and NoC interface IP. In 2020, there were approximately 400 SoC companies and 25 billion SoC units were shipped. Our SoC system IP is used across a broad set of applications, with a market that we estimate to be \$1.1 billion in 2020 and expanding to \$3.2 billion in 2026. We believe our 2026 estimated TAM will comprise an approximately \$1.6 billion NoC Interconnect IP market, an approximately \$500 million IP deployment software market and an approximately \$1.1 billion NoC Interface IP market. According to Deloitte, automotive electronics and industrial electronics are expected to be the fastest growing markets in the semiconductor industry, with revenue from consumer electronics, data processing and communication electronics set to grow steadily. As SoC technology evolves, we believe that there is a significant opportunity for us to grow our value by introducing additional functionality for our customers to integrate their SoCs efficiently using our SoC system IP solutions.

### **Automotive Market**

The automotive market is undergoing technology disruption with the advent of automated driving, electrification, electronic control unit consolidation and vehicle connectivity to the internet. Furthermore, cars are becoming increasingly connected to a large network of data centers, roadside and city infrastructures, and other vehicles, creating the “Internet of Cars.” Based on an IHS report, management believes there will be an average of 23 complex SoCs per electronically enabled vehicle by 2026. These trends have resulted in increased ADAS adoption. As a result, the number of complex SoCs and MCUs in ADAS vehicles is expected to grow at a compound annual growth rate (“CAGR”) of 33% between 2020 and 2026. These innovations are expected to lead to dramatic increases in the amount spent on semiconductor content in cars from \$92 billion in 2020 to a projected \$129 billion by 2025, according to McKinsey and Company. As the electronically enabled car has continued to grow in sophistication and performance, complex SoCs must increasingly receive, process and communicate data, further requiring advanced interconnect IP solutions.

The different levels of automated driving are defined as “Level 1” to “Level 5” with “Level 1” being highly sophisticated cruise control and “Level 5” being fully automated without the need for human driving intervention. According to IHS Markit, the annual production of vehicles equipped with ADAS systems considered “Level 1” and

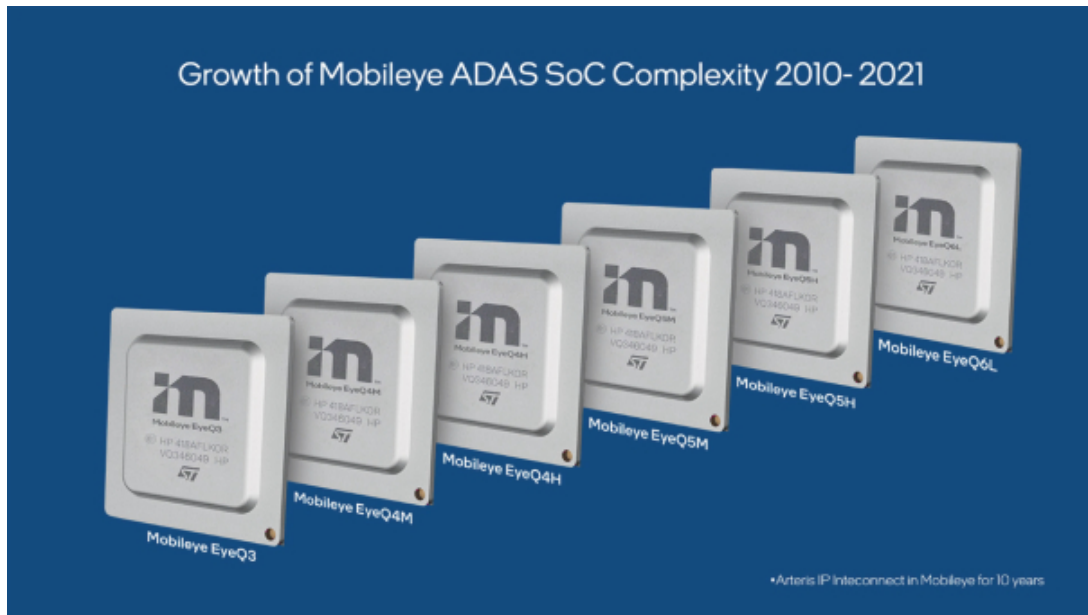
## [Table of Contents](#)

above is estimated to grow at 10.7% CAGR from 2020 to 2026 and is estimated to reach 62 million units in 2026. The average number of NoC-enabled SoCs and high-end microcontroller units (“MCU”) in these vehicles is expected to be over 23 in 2026, for a total estimate of over 1.4 billion chips.

Due to the complex requirements of electronically enabled vehicles and the high rate of innovation required to compete in the “Internet of Cars” revolution, industry players are designing SoCs tailored to their sophisticated software and applications. This will result in more complex automotive-targeted SoCs, which we expect will continue to grow demand for reliable, configurable and proven interconnect technologies that accelerate a product’s time to market while reducing overall costs.

The “Internet of Cars” revolution is also disrupting the automotive supply chain. New business models such as ride sharing, transportation subscriptions and transportation as a service are being created. New potential entrants such as ride sharing companies, large data center companies and new automotive startups are changing the automotive business and increasing demand for more sophisticated transportation targeted semiconductors and therefore SoC system IP solutions. In addition, the traditional automotive supply chain is also restructuring, with semiconductor vendors, automotive “tier 1” suppliers and OEMs competing to own and control the electronic architecture of these cars. To compete, companies at all levels of the automotive supply chain have started creating their own chips, thus increasing the number of SoCs in the automotive industry and increasing demand for interconnect IP solutions.

**Arteris IP interconnect IPs have been in all Mobileye SoCs since 2010. (Source: Mobileye)**



### **Artificial Intelligence/Machine Learning Market**

With the advent of AI/ML, semiconductors have changed from being data processors to sophisticated and adaptive decision-making devices. AI/ML SoCs must be “trained” on large data sets that have to be collected from real world data utilizing “training” SoCs. A different class of AI/ML SoCs uses such data to match the training data against actual data collected by sensors of the system utilizing “inference” SoCs. AI/ML is deployed in cloud data centers for applications such as personalized advertising and credit card fraud detection. AI/ML is also deployed at the edge of networks for applications such as automated driving, cell phones and numerous other applications.

AI/ML semiconductor structures require multiple IP blocks that use peer-to-peer on chip communications that have different data traffic characteristics than other parts of the SoC and thus require special interconnect features. Such interconnect features require greater attention to challenges including deadlock avoidance and mesh performance and the ability to transfer large amount of data to memories.

## [Table of Contents](#)

McKinsey and Company expects machine learning SoCs to comprise at least 50% of the custom application-specific integrated circuits (“ASICs”) or field programmable gate arrays (“FPGAs”) by 2025, as opposed to off-the-shelf central processing units (“CPUs”) or graphics processing units (“GPUs”). McKinsey and Company also expects the proportion of AI/ML edge chips that are custom ASICs will represent 70% of all edge inference chips by 2025. Further, Omdia forecasts that global AI edge chipset revenue will grow from \$7.7 billion in 2019 to \$51.9 billion by 2025, representing a 37% CAGR.

### **5G and Wireless Communications Market**

According to Gartner, 5.8 billion enterprise and automotive IoT endpoints were connected to the internet in 2020. Today, many of these endpoints are connected using 5G wireless communications and we believe that the number of 5G connected endpoints will significantly grow in the future. The wireless communications market is in the midst of disruption as it allows efficient machine-to-machine communications at a massive scope and scale. 5G technology allows the cost-efficient connections of massive numbers of embedded sensors and other devices into ultra-reliable, high-bandwidth and low latency networks. In short, 5G enables smart devices utilizing sophisticated SoCs to communicate more information at faster speeds while using less power. As 5G is adopted as the wireless market standard, it is expected to revolutionize markets, including cars and smart city vehicle infrastructure, factory automation, logistics, and consumer and business broadband.

We believe the transition to 5G will accelerate SoC System IP market growth because the high complexity of 5G chips require more stringent requirements for bandwidth, latency, and power consumption, making an easy-to-integrate, high performance and low power on-chip interconnect a critical requirement. Gartner estimates 5G infrastructure semiconductor revenue will exceed \$1 billion by 2024.

### **Other Applications**

Large scale cloud data centers are augmenting and replacing corporate data centers. This evolution expands the market size and value for enterprise solid state storage systems and the custom ASICs that control them, further strengthening demand for interconnect technologies that improve storage performance and provide data integrity. In addition, hyperscale computing companies like Google, Amazon, Microsoft and Facebook are now creating proprietary chips for their own products that may create opportunities for third-party SoC system IP solutions. We believe that these new entrants into semiconductor design will increasingly provide market opportunities for third-party SoC system IP solutions.

The consumer electronics market is also expected to require increasingly complex chips primarily driven by the incorporation of AI/ML processing and 5G communications. In addition, the consumer electronics chip market is sensitive to time-to-market pressures, which also generates the need for increased semiconductor design productivity and faster implementation as enhanced by sophisticated interconnect IP solutions. Our low power features are valuable for battery life and power consumption in our targeted markets.

### **Industry Challenges**

Interconnect IP development is a challenging, time consuming, and expensive process. The need for robust, maintainable interconnect technology becomes increasingly important as chip designs become more complex and larger in size, both driven by advances in semiconductor manufacturing technology. As semiconductor manufacturing technology has advanced, it has increased the number of IP block functions that can be added to SoC type semiconductors. However, as more IP block functions are added to a chip, the sheer number of physical connections required for communications between the on-chip IP blocks grows massively. Therefore, the larger and more complex the SoC, the more important the on-chip interconnect for overall chip performance, power consumption and cost. Interconnect and IP deployment technology is key to allowing SoC designers to design these types of chips while meeting their technical and time-to-market requirements. The industry is challenged to meet these requirements by itself because of the technical know-how to do so. Further, any failures due to quality issues are enormously expensive and industry standards for mission-critical applications like automotive are costly to meet. All these technology trends combine to require a large initial investment and a long-time commitment for a chip design team or commercial interconnect IP company to create semiconductor IP and software technologies that satisfy industry needs.

- **Deep technical expertise and knowledge.** Interconnect development requires an interdisciplinary engineering team with expertise and skill sets across a wide-range of engineering and scientific domains including hardware architecture, design, verification, EDA-class software development, and SystemC modeling, as well as deep understanding of physical design, design methodologies and networking architectures. The design process requires expertise in developing advanced hardware architectures to handle data coherency and consistency across the interconnect to achieve a high-performance, low power implementation. Complex flows and methodologies as well as specialized languages to generate configurable hardware and interconnect configuration software must also be designed, with hardware configurations defined using thousands of parameters that need to be meticulously managed, with millions of combinations to be considered. The interconnect design process also requires engineers to have an awareness of the physical implementation and floorplan of the target chip in order to generate an architecture that meets SoC requirements in terms of timing, area, and power. Designers require an in-depth knowledge of graph theory, common interface protocols, data models, and graphical user interfaces. In addition, they require the skills to develop design methodologies to manage dependencies in project execution where the interconnect configuration software generates the hardware IP and associated data evidence of product quality and compliance with industry standards.
- **High quality.** Interconnect IP requires a systematic deployment of quality-oriented methodologies, as any customer-level problems in the interconnect will result in SoC project delays or even project failures. Engineering teams creating interconnects must invest heavily not only in skilled engineering resources to develop and verify, but also processes and methodologies that provide early indication of any potential quality issues. The best interconnect engineering teams also leverage these methodologies to help automate design and verification tasks, which helps improve time to market for the interconnect IP provider. If the interconnect has serious problems, the SoC will not be operational, resulting in significant economic losses.
- **Safety standards.** High reliability of the interconnect is a heightened requirement for mission-critical markets including automotive, industrial robotics, medical and space. An in-depth knowledge of and adherence to standards, such as the ISO 26262 automotive functional safety standards, further increases the challenge of developing a reliable interconnect targeted at these applications.
- **Long time commitment and high investment cost.** We believe the engineering development cycle for each new interconnect and the market development cycle to establish a significant market position for a customer or for a commercial vendor requires large teams, many years and great expense. Additionally, we believe the investment required by a customer to internally create a configurable interconnect technology for a new SoC can be very expensive compared to the cost of licensing from a proven interconnect IP provider.

Given the above requirements and challenges, developing commercial interconnect IP and software tools requires large engineering teams with advanced skillsets, significant amounts of time, and substantial financial investment. By licensing commercial interconnect IP, companies can free up resources to focus on developing new product capabilities and differentiators. Further, we believe the large investments needed to develop commercial interconnect IP also create barriers to entry for potential commercial competitors.

### Our Solutions and Competitive Strengths

We are a leading provider of interconnect and other IP technology that manages the on-chip communications in SoC semiconductor devices. We believe our SoC system IP is integral to our customers in the automotive, AI/ML, 5G and wireless communications, data centers, consumer electronics and other markets. Our core strengths include:

- **We help accelerate our customers' time to market.** Our interconnect hardware and SoC cockpit software helps accelerate SoC development and integration at several different steps in the SoC design cycle. For example, we offer design exploration and modelling capability for SoC architects to explore the interconnect IP performance of their designs ahead of hardware description language generation in order to speed up SoC architecture definition. As another example, we have automated test bench generation to accelerate verification of our interconnect IP products. Still further, our physical awareness capability allows estimation of critical net latencies and estimates whether the interconnect IP will meet our customers' required timing. Our SoC system IP product lines are structured so that our customers can customize the interconnect for their needs, helping accelerate interconnect IP customization for their particular SoC configurations. In

addition to interconnect IP productivity features, we offer a combination of automated interconnect configuration software, pre-verified interfaces to IP block protocols, pre-verified interfaces to EDA tools and a pre-verified interconnect IP element library for rapid generation of customer specific interconnect IP products. Our IP deployment solutions also help accelerate SoC development by enabling the IP blocks making up an SoC to be packaged in a standard format called IP-XACT (Institute of Electrical and Electronics Engineers—IEEE 1685), which provides a uniform IP block assembly and reuse methodology. The IP deployment tool suite includes numerous packages that allow configuration of IP block exit port registers, establish high level SoC connectivity and link documentation to the IP-XACT design information.

- ***Our products help improve performance of our customers' SoCs.*** We believe that using our SoC system IP solutions can result in improved SoC metrics such as higher performance, lower power consumption and smaller die area. We have extensive low power management features such as three levels of clock gating and power domain features for low power applications such as smart phone application processors and other SoCs for hand-held applications. We enable customers to partition their designs into “frequency domains”, allowing some domains to run at higher frequencies than others, in order to trade-off performance against SoC power consumption.
- ***We enable lower customer research and development and SoC unit costs.*** We believe that we enable lower chip research and development costs, lower SoC unit costs and reduce project risk as compared to solutions developed internally or licensed from another vendor. We have targeted our interconnect IP to be area-efficient so that we can offer silicon area savings, and resulting chip cost savings, compared to other interconnect IP alternatives. For example, the interconnect IP generally makes up a meaningful proportion of the overall SoC area at the completed SoC stage, and savings of 1 square millimeter of area can potentially offer a significant savings in term sof SoC unit costs. We provide an integrated package of software, hardware, documentation, verification tools and pre-verified interfaces to major IP blocks and EDA tools. We believe IP and software can save our customers time and money, and enable them to focus on product differentiation and revenue generation.
- ***We believe we have grown our product portfolio through robust and focused research and development.*** Developing commercial interconnect IP and software tooling requires large and specialized engineering teams, significant amounts of time and extensive periods of commercial productization. We believe we have been the pioneer of using networking technology for on-chip communications and have been licensing such interconnect IP products since 2006. Our strategy is to deliver one new interconnect IP or IP deployment product per year and we have done so since 2013, most recently with the introduction of our Ncore 3 cache coherent, multi-protocol interconnect IP product in 2020. As of June 30, 2021, we have 135 development engineers on staff covering hardware, software, verification, testing and methodology development. Such a sizeable, multi-disciplinary engineering team allows us to undertake SoC system IP products of sizeable scale and permits us to work on multiple product development projects at the same time.
- ***We have grown our solutions through targeted acquisitions.*** We intend to continue to support a robust internal technology development program that is complemented by synergistic acquisitions to increase customer productivity and to lower SoC development and production costs. We believe we have the ability to complement our product development with selective acquisitions to strengthen our SoC system IP product portfolio. With our acquisition of Magillem in 2020, we added complementary technology that helps automate not only the customer configuration of their interconnect, but also the process of integrating and assembling all the customers' IP blocks into an SoC.
- ***We are able to address mission critical applications.*** Currently we are the market leader in the ADAS SoC interconnect IP market segment, capturing 70-80% of the market as of December 31, 2020, according to our analysis. We believe we are positioned to take advantage of the rapid growth of semiconductor content in cars. We have been focused on the automotive market segment since 2012 and have over 60 automotive SoC design wins. Additionally, we have established customer relationships with market leaders such as Mobileye/Intel, NXP and Bosch. In addition to ADAS and autonomous driving control systems, our interconnect IP is used in radar, Lidar, communications, and dashboard/driver management. As cars continue to grow in complexity and connectivity, we believe there will be significant growth in the number of increasingly powerful SoCs that will need automotive grade on-chip interconnect IP. Our interconnect IP is designed to meet the automotive safety integrity level D (“ASIL D”) of the ISO 26262 automotive functional

safety standard, which is the highest level, helping to position us as an ideal partner to innovative companies in the advanced automotive SoC market. We believe our solutions make it easier for our automotive semiconductor “tier 1” and OEM customers to collaborate and meet functional safety standards by establishing traceability between requirements, specifications, hardware and software implementation, verification and testing, and quality assurance. Because of this, our IP deployment software is a complement to our interconnect IP in helping our customers meet their ISO 26262 functional safety requirements.

- **We have developed a “connected by Arteris IP” ecosystem to provide a broad set of SoC system IP solutions.** Interconnect IP is the data transport backbone of the SoC, connecting IP blocks such as CPUs, GPUs and memory controllers. We work with industry-leading companies who provide these blocks, including IP companies such as Arm Ltd., MIPS Technologies, Inc., Synopsys, Inc., Cadence Design Systems, Inc., Codaip GmbH, and other RISC-V IP vendors to support their products and protocols working with our IP deployment solutions and interconnect IP products. By offering an unbiased, standards-based interconnect infrastructure to which other IP vendors can connect, and supporting a broad range of transaction protocols, we believe we have simplified the industry's development of heterogeneous SoCs while solidifying our role as a neutral, technology-agnostic provider across the semiconductor industry. In addition to on-chip integrations with partners, we work with EDA companies such as Synopsys, Cadence and Siemens EDA to provide prepackaged interfaces to their EDA tools such as simulators, modeling systems, and logic and physical synthesis tools. By working closely with semiconductor IP and EDA leaders, some of whom compete with each other, we believe we have established credibility as a trusted enabler to integration of their products within our joint customers' chips and design flows.
- **We believe we benefit from distinct competitive advantages.** We believe our interconnect IP technology benefits from barriers to entry due to our many years of experience and the strength of our proprietary solutions, as well as the significant technical expertise and research costs required to develop a competitive product. We were founded in 2003 when we believe we helped pioneer the industry's NoC interconnect IP and have maintained our competitive position with our global team of over 135 hardware and software engineers as of June 30, 2021. Developing interconnect IP requires an interdisciplinary engineering team with expertise and skillsets across a wide range of sciences and domains as well as a deep understanding of semiconductor physical design, design methodologies, and networking architectures. Building such teams and keeping them together over long periods of time presents a challenge for many companies and we believe it provides a competitive advantage to us. Additionally, strategic patience and focus are required to participate in the market. For example, we believe that the customer acquisition process has a typical duration of two to nine months; following this, a customer's chip design cycle is typically between one to three years. Customers typically start shipping their products containing our interconnect IP solutions between one to five years following completion of their product design, known as mass production at which point we start to receive royalties; this lasts for up to seven years or longer depending on the market segment. We also leverage our long history of interconnect IP design to deliver customer-specific features, further deepening our relationship and integration with the customer's product. We are able to market such features to the rest of our customer base, sharing the benefits of our research and development with them. With our SoC system IP products embedded in our customers' SoCs, there are significant switching costs in moving to alternative solutions. We believe that our product quality and technical strength have enabled our high customer retention rate.
- **We offer global support for our SoC system IP customers.** Interconnect IP technology is complex, and our customer support is critical for the successful deployment of our IP in our customers' designs. We support customers utilizing our interconnect IP solutions on a global basis with architectural reviews, training, implementation support, and tape-out support. We work directly with our customers throughout their design processes to develop long-term sustainable relationships as our technology becomes embedded in their products. We have more than 25 corporate and field application engineers in our global support organization. Many of our application engineers have advanced degrees, years of SoC design experience and passion for helping our customers drive their SoC designs to production status. We believe our application engineers are critical advisors to our customers' design teams.



## Our Growth Strategy

We believe that as SoCs become more complex, the value of SoC system IP technology increases since it enables the efficient movement of data within the SoC. We also believe that, as SoCs become more complex, interconnect IP technology becomes more time-consuming and riskier to develop internally within semiconductor companies, favoring interconnect solutions provided by outside parties such as Arteris IP. As a dedicated interconnect IP provider, we enable our customers to leverage the knowledge and deep expertise developed by us through many years of focus on solutions for a variety of customers.

Our growth strategy includes the following:

- **Leverage our SoC system IP technology leadership and focused research and development to provide solutions for the semiconductor industry that builds SoCs.** We devote the majority of our operating expenses to research and development of interconnect IP and IP deployment related solutions and technologies to retain our SoC system IP market position. We believe that the semiconductor industry needs an independent interconnect IP infrastructure that various IP block technologies can connect to without competitive bias. We intend to remain neutral regarding the connection and integration of SoC IP blocks whether they are sourced from IP block vendors or are internally developed. We intend to continue to compete vigorously in the interconnect IP segment and to support, and minimize risks of competing with, our valued partners and customers developing non-interconnect IP block technologies. We intend to remain focused on providing interconnect IP and software technologies for the entire semiconductor industry that build SoCs.
- **Address high growth segments such as automotive, AI/ML, 5G and wireless connectivity, data centers, and consumer electronics.** We are focused on fast growing semiconductor market segments. We have been focused on the automotive market segment since 2012 and have at least 60 design wins in this sector. We intend to continue providing regular introductions of interconnect IP products to enable the semiconductors that are connecting cars, roads, and the cloud resulting in the “Internet of Cars.” We are also focused on the emerging AI/ML and 5G and wireless communications markets, which are particularly sensitive to power consumption and idle power, and we believe these market segments can continue to benefit greatly from our low power interconnect IP solutions. In addition, we are targeting the emerging AI/ML-enabled applications which leverage massively multi-core architectures. As of June 30, 2021, we had 54 customers building advanced AI/ML-enabled applications, which accounted for 109 of the most recent design starts. We intend to maintain our focus on the automotive, AI/ML and 5G and wireless communications markets while expanding further within high growth segments such as data centers and consumer electronics.
- **Expand our customer base through ongoing SoC system IP innovation.** SoC evolution has continued at a rapid pace, and with it the demand for SoC system IP solutions. New technologies and trends driving the need for SoC system IP development include innovations such as cache coherency outside of the processor subsystem, machine learning SoCs utilizing peer to peer data traffic, greater use of separate sets of dies, or chiplets, inside SoCs and the increasing emphasis on silicon functionality and safety. We believe that the complexity of these trends necessitates ever increasing sophisticated SoC system IP solutions and represents a great opportunity for Arteris IP as a leading commercial company focused exclusively on these solutions. Our goal is to deliver interconnect IP technology and deployment solutions ahead of when the SoC industry requires them. We aim to deliver at least one new interconnect IP or IP deployment product every year, addressing new SoC technology needs. We intend to expand the functionality of interconnect by adding NoC interface IP products that leverage SoC data moving through our interconnect IP products. Such NoC interface IP products may include a variety of types of inter-chip links for seamless connectivity of chiplets, which make up larger system-in-package type SoCs and memory schedulers. These offer end-to-end quality of service (“QoS”) and error correction code (“ECC”) as well as a variety of new last-level cache memory products giving our customers the choice to either keep data on-chip or move it to off-chip dynamic random-access memory (“DRAM”). We believe such roadmap products can expand our TAM and offer an opportunity for us to further expand the value of our SoC system IP products. In addition, we plan to continue to work with customers to deliver product enhancement releases for existing products. These requirements are identified in part by our global sales and application engineering organization that is engaged in helping customers utilize our products and solutions.

- **Expand our customer base through increased investment in sales and marketing.** We plan to continue to expand our global sales and application engineering organization, which has a strong presence in North America, Europe, the Middle East, China, South Korea, Japan, and India. We hire local talent who are attuned to the key regional needs of local markets, customers and languages. While most of our customer engagements are handled directly by our regional sales and application engineering forces, we utilize distributors in Israel and India for interconnect IP and in Korea for IP deployment solutions, although this represented less than 10% of our worldwide revenue in each of 2019 and 2020. Our marketing is focused on helping customers understand the value of our solutions and creating awareness of the latest developments in our markets. We believe a key measure of our success is the number of successful SoCs produced by our customers utilizing our technology. To date, there have been over 300 production SoCs designed with our technology, which have been incorporated in approximately 2.8 billion SoCs that have been shipped in electronic systems.
- **Continue to pursue selective acquisitions and other strategic transactions to acquire complementary solutions and accelerate growth.** We intend to continue to target acquisitions to achieve our objective of making our SoC system IP solutions critical to the next generation of SoC design and development. For example, we acquired the assets of Magillem in November 2020 to deliver synergy between the interconnect semiconductor IP and software for IP packaging and assembly. With this acquisition, we added complementary technology to our portfolio that helps automate customer configuration, integration and assembly of the interconnect into an SoC. In addition, this IP deployment software allows us to gain a deep understanding of the entire “bill of materials” of the IP blocks integrated into an SoC, as the interconnect IP is the on-chip means to connect these blocks. We believe our planned continued integration of these technologies can provide substantially increased efficiency in the assembly of SoCs. In addition, we anticipate this integration can lead to added benefits such as automated documentation, traceability for quality processes and functional safety, and software driver generation to reduce defects, providing significant customer value.

### **NoC Interface IP Growth Opportunity**

Interconnect IP carries majority of the data in an SoC. As a result, there is an opportunity to add additional customer value by developing additional data plane and control plane capabilities that attach directly to our interconnect IPs and are implemented in SoCs by our IP deployment software. Currently, we offer NoC interface IP products such as a memory schedulers, last level caches and SoC data visibility and SoC debug IPs. We see an opportunity to further expand our product portfolio and TAM with additional control networks and subsystems that can accelerate our customers' ability to deliver production SoCs to their end markets. Such networks may include clocking, register management and interrupt networks. Control subsystems such as power management, security, performance monitoring and debug may provide additional value to customers looking to lower the cost and risk of SoC development. With the integration of interconnect IP and NoC interface IPs, we believe we would be able to provide end-to-end solutions for quality of service, system level security and SoC resilience. NoC interface IP represents a natural expansion of our technical and business capabilities.



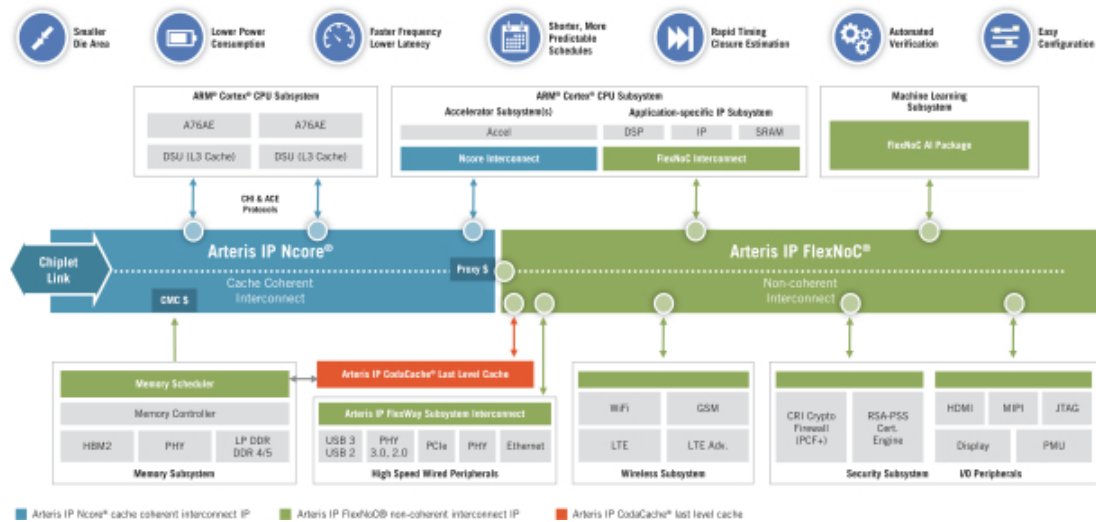
## Our Solutions

We provide semiconductor interconnect IP and IP deployment solutions to serve our target end-markets, including automotive, AI/ML, 5G and wireless communications, data centers, and consumer electronics. We regularly release new products to address the rapid evolution of SoC technology.

PRODUCT	LAUNCHED	APPLICATION
FlexNoC	2010	Non-coherent interconnect
FlexWay	2010	IP subsystem interconnect
FlexPSI	2013	All-digital inter chip link
FlexNoC Resilience	2014	Resilience for ISO 26262 compliance
FlexNoC Physical	2015	Links to physical placement and routing tools
Ncore	2016	Cache coherent interconnect
PIANO	2017	Automated timing closure
CodaCache	2018	Independent last-level cache
AI Package	2019	Machine learning interconnect
Ncore 3	2020	Multi-protocol cache coherency

In addition to historical annual introductions of new interconnect IP solutions, we regularly develop and deliver updates that provide product enhancements to our customers. We believe the combination of our solutions and the strategic neutrality that we offer to the semiconductor industry positions us well as a reliable, trusted and innovative SoC system IP solution for our customers.

## Interconnect IP Products



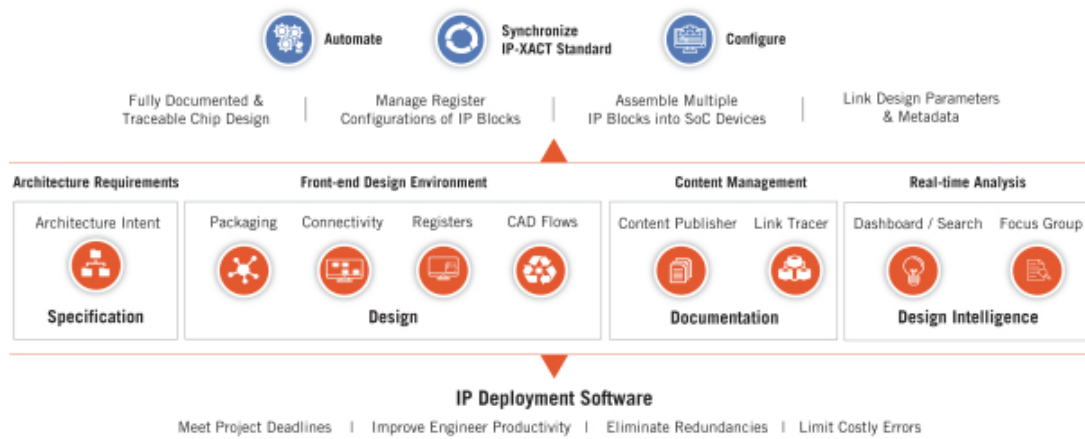
We believe we offer the semiconductor industry an industry-leading commercially available interconnect IP portfolio. By pioneering the use of our proprietary networking techniques for on-chip communications, we believe our solutions enable our customers to deliver higher SoC performance with shorter design schedules, lower research and development costs, lower SoC unit costs, and reduced project risk as compared to their own internally developed solutions. Select offerings of our interconnect IP product portfolio include:

- FlexNoC:** FlexNoC is a silicon-proven interconnect IP product that has been integrated into hundreds of chip designs. The product's network-on-chip technology converts on-chip communications signals between IP blocks, such as reads from and writes to memory, into digital packets. Packetizing on-chip communications allows the interconnect to be configured for enhanced performance and simplifies the connections of

on-chip IP blocks, similar to how the internet eases the simultaneous connectivity of large numbers of computing devices. We also provide optional add-on packages for FlexNoC, such as the FlexNoC Resilience Package, which provide on-chip data protection that enables customers to meet the ISO 26262 and IEC functional safety standards for markets like automotive, and the FlexNoC AI Package that addresses highly scalable peer-to-peer on-chip communications required by machine learning neural network chip designs. FlexNoC started shipping in 2010 and has been incorporated into approximately 2.8 billion SoCs that have been shipped in electronic systems.

- *Ncore*: Ncore is a silicon-proven, cache coherent interconnect IP product that provides scalable, configurable and area efficient characteristics for use across multiple end-markets. In an SoC, cache coherency is a special data traffic class that requires complex interconnect IP features. In a multiprocessor system, cache coherency ensures all processors in the SoC have the same view of memory in order to simplify the task of programming software by making it unnecessary to understand the exact hardware implementation. Each CPU has its own cache memories where the same copy of the data is kept. As CPUs are changing their local copies of the data, a mechanism is implemented to ensure that other copies of the data in other CPUs and caches are maintained in a coherent manner and do not become stale and out of synchronization. Coherent interconnects have directories that keep track of the shared data across the different CPU and use messages to keep the shared data consistent across the cache coherent subsystem. Ncore uses a messaging protocol to keep data consistent across different processors and directories to keep track of shared data across the coherent sub-system. Hardware cache coherency eliminates the need for cumbersome software to maintain the data coherency. As compared to software-based solutions, we believe the Ncore hardware cache coherent interconnect provides higher performance, simplifies software programming, and reduces the chances of introducing software bugs, thereby increasing overall system quality. Since initial shipment in 2016, we have launched eight releases of Ncore which have been designed into numerous production cache coherent SoCs.
- *CodaCache*: CodaCache is a last-level cache (or local memory) interconnect IP product, used anywhere in the network-on-chip, for minimization of SoC data latency or improvement of performance. CodaCache is designed to decrease critical net latency of SoCs by minimizing off-chip read/write accesses to separate dynamic random-access memory ("DRAM") chips. Off-chip DRAM access takes many more cycles, thereby increasing latency, compared to having certain data stored in a local on-chip CodaCache memory. For example, a complex SoC may have four DRAM memory controllers or have one CodaCache and only two DRAM memory controllers. Such a scheme offers lower cost in certain SoC architectures.
- *PIANO*: Physical Interconnect Aware NoC Optimizer ("PIANO") is a software tool that estimates physical layout effects during the architecture and logic development stages of an SoC interconnect design. At 16 nm process geometries and below, PIANO enhances the ability to design a valid SoC interconnect architecture that could be difficult to layout physically. PIANO also enables input of a SoC floorplan with physical locations of IP blocks, routing channels and blockages. With this information, PIANO is able to place SoC library elements in available channel space, enabling computation of critical connection latencies. This information can be used to further optimize latency, lower power consumption and reduce die area of a particular SoC interconnect implementation. PIANO can also automatically provide timing closure estimation to validate the timing that can be closed on a particular SoC interconnect implementation. This information can then be sent to downstream physical placement and routing tools as a starting point for layout implementation, thereby reducing the number of place and route iterations and shortening time to market.

**IP Deployment Products**



**Develop SoCs faster with IP deployment technology & methodology**

We provide a suite of IP deployment software solutions that enables the packaging, reuse and integration of most types of IP blocks using the IP-XACT (IEEE 1685) standard. This suite of IP deployment software provides a platform to any semiconductor design company from the architecture of the SoC through delivery of a fully documented and traceable chip design. This software suite manages register configurations of IP blocks, assembles multiple IP blocks into SoC devices, and links design parameters and metadata to documentation. Our IP deployment software is designed to shorten our customers' design schedules and improve SoC engineers' productivity. Our IP deployment products also deliver EDA front-end design environment software that provides seamless integration across specification, design, and documentation processes, along with design data intelligence. We believe the combination of IP deployment software and SoC interconnect hardware provides more comprehensive SoC integration capabilities to our customers. Our IP deployment product portfolio includes:

- **Specification:** Our IP deployment product suite captures connectivity and memory requirements and executes specifications to predict device behavior to streamline the design phase. The suite enables customers to build the architecture of semiconductor systems, either from the software map (software intent flow), or from the hardware block diagram (hardware intent flow) and enables full compliance and traceability of its systems top-down and bottom-up, across software and hardware intent flows. Users can automatically build a virtual prototype of an electronic device, and run and debug software on that virtual prototype. This enables software development far before the physical hardware board is ready to facilitate early software development.
- **Design:** We provide a broad suite of software tools that can accelerate designs with highly configurable and scalable solutions. Our solutions address packaging, connectivity, register configuration, embedded software, and EDA flows and we believe we provide best-in-class front-end design environments based on worldwide IP-XACT extensible markup language (“XML”) standards through our ready-made design solutions.
- **Documentation:** Our documentation capabilities provide full traceability and consistent product information with content reuse and multi-channel publishing to manage, update, and synchronize content. The product suite addresses challenging content management use cases by enabling the consistency, integrity, and quality of all design-related content. The product also provides an incremental traceability framework that allows system engineers to create, edit, and manage interdependencies between the various and heterogeneous system data and properties that make up a design flow.
- **Design Data Intelligence:** Our design data intelligence capabilities enable our customers to unlock their data potential to better understand their business contexts. The product suite includes a design environment that enables SoC developers to efficiently view, track, monitor and share their design objects stored on a central server through a thin client web browser and generate real-time, customizable reports on their design data.

## [Table of Contents](#)

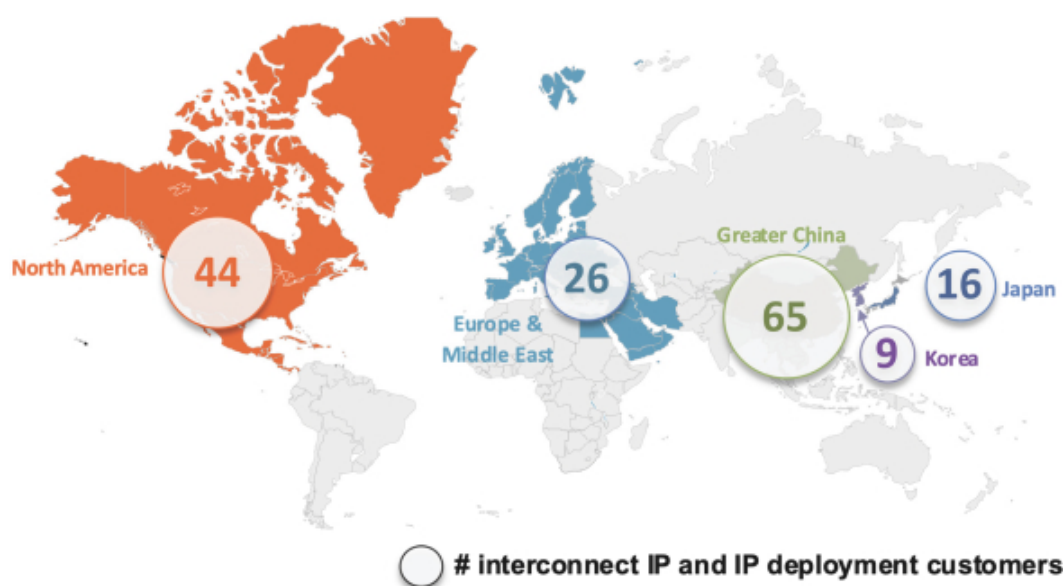
It also provides a knowledge capture toolset that enables real-time collection and analysis of large volumes of free-format text, enabling our customers to extract the collective intelligence of its teams.

### Customers

We sell to a global and diverse customer base, including semiconductor manufacturers, OEMs, hyperscale system houses, semiconductor design houses and other producers of electronic systems. We work directly with our customers throughout their design processes and seek to develop long-term, sustainable relationships with them as our technology becomes imbedded in their products. As a result, we believe we are well-positioned to continue to attract and retain customers, and to continue developing next-generation SoC system IP solutions for their future products. As of June 30, 2021, we have over 160 Active Customers, which we define as customers who have entered into a license agreement with us that remains in effect. We have 128 Active Customers for our interconnect IP solutions and 38 Active Customers for our IP deployment software solutions as of June 30, 2021.

During 2020, in addition to growth within our existing customer base, we added 24 net new customers for our interconnect IP products, and 38 new customers through our acquisition of Magillem. We have commenced 2021 by continuing this trend, having added 16 net new customers by June 30, 2021. We have added 123 new customers since the beginning of 2014. In 2020, we had two customers that each represented more than 15% of our revenue.

As of June 30, 2021, our customers were geographically distributed as follows:



Note: Customer data as of May 13, 2021. Chart shows number of active customers whose headquarters or primary site for development is in that geographic region. Excludes double-counting of customers either of SIP or IPD who have presence in more than one region.

During fiscal year 2020:

- 33% of our revenue was derived from customers based in the Americas;
- 8% of our revenue was derived from customers based in Europe and the Middle East; and
- 59% of our revenue was derived from customers based in the Asia Pacific region.

As of June 30, 2021, we had 166 Active Customers for both IP licensing and software products. This includes 39 customers whose primary vertical is automotive, 38 customers in machine learning/artificial intelligence, 13 customers in 5G and wireless communications, 31 customers in infrastructure, 38 customers in consumer electronics and 7 customers in other verticals.

Our key customers include Intel/Mobileye, Samsung, NXP, Bosch, and STMicroelectronics.

## **Sales and Marketing**

We work closely with our customers throughout the SoC design lifecycle to help them use our SoC system IP solutions to meet their specific needs. It is important to our success that we engage our customers early and collaborate throughout the design cycle. Our support organization is able to communicate best SoC design practices and receive early insight into customer requirements. This insight often results in new and innovative product features.

SoC system IP sales cycles range from two to nine months or longer. For repeat customers, our sales cycle length is generally shorter.

As of June 30, 2021, we maintained sales offices, sales personnel, or sales representatives in the United States, China, France, South Korea, Japan, Israel, and India. As of June 30, 2021, our sales management had an average of 23 years of sales experience. As of June 30, 2021, we had 31 corporate and field application engineers, which we believe is the largest such support force in the interconnect IP market. Corporate and field application engineers work closely with our customers in both presales and support roles, providing expert advice to our SoC architect and engineering users on how best to use our IP and software to design and implement their SoCs. As a result of these close relationships and detailed information sharing, our application engineers gather early knowledge of future expected customer needs including potential new sales opportunities within the customer and requirements for new capabilities for our products. As a result, we believe our close relationships and technical credibility with our customers provide a competitive advantage.

Our marketing strategy emphasizes thought leadership and educates potential customers about how our products can address their system IP challenges. We use technical papers, in-person and online events, to highlight our capabilities.

## **Research and Development**

We devote the majority of our operating expenses to research and development of interconnect IP and IP deployment solutions and technologies. The development of interconnect IPs for complex SoCs is a challenging task that requires multiple competencies and close contact with customers in order to deliver sophisticated solutions. The development and maintenance of these solutions requires:

- Management of an interdisciplinary engineering team with expertise and skillset across a wide-range of sciences and domains such as architecture, design, design verification, EDA-class software development, and SystemC modeling, as well as deep understanding of physical design, design methodologies and networking architectures;
- Advanced SoC architectures for handling data coherency and consistency that result in a high-performance implementation with low power;
- Complex design flows and methodologies, as well as specialized languages for generating configurable interconnect IP. The designs require configuration using thousands of parameters that must be meticulously managed with millions of combinations;
- Capability to understand the physical implementation and floorplan of the target SoC in order to generate a design that meets physical implementation requirements in terms of timing, area and power;
- Sophisticated design verification methodologies to ensure quality of configurable interconnect IP across millions of possible combinations, as well as complex test benches for simulation and emulation;
- In-depth knowledge of common interface protocols, graph theory, data models and graphical user interfaces;
- Sophisticated design flow to manage dependencies resulting from the interaction of hardware and software in the SoC;
- In-depth knowledge of safety standards, including ISO 26262 ASIL B/D for automotive and IP-XACT IP packaging standards for all SoCs; and
- Support of a broad ecosystem of SoC design tools, semiconductor foundry libraries, processor and other IP.

## [Table of Contents](#)

IP deployment software development is similarly challenging as it requires broad support of the IP packaging standard, IP-XACT, and the ability to deliver features and enhancements required as customers deploy ever changing IP block libraries for their SoC projects. Our IP deployment software has to conform not only to industry standards, but also to ever evolving SoC integration methodologies.

Once interconnect IP is designed into customer SoC projects, there are significant switching costs to adopting different interconnect IP and IP deployment solutions, especially in the automotive sector where switching interconnect IP solutions may involve product functional safety re-certification.

Our research and development strategy includes offering customers several product enhancement releases per year, complemented with a planned introduction of at least one new interconnect IP or IP deployment product every year.

We believe we have assembled one of the premier engineering teams for interconnect IP development and IP deployment in the world. As of June 30, 2021, we have 82 engineers devoted to interconnect IP development and 53 engineers devoted to IP deployment software totaling 135 employees. In 2020, we spent \$17.0 million on research and development, which represented 54% of our revenue.

### **Competition**

For interconnect IP, we primarily compete with interconnect solutions developed internally by our SoC customers. Many of the largest semiconductor companies have their own interconnect IP development teams which makes customer penetration relatively difficult, time consuming and expensive. However, we believe that over time the expense and difficulty of developing a broad suite of interconnect IP and IP deployment solutions has the potential to expand the use of commercial SoC integration solutions. In addition, we also compete with third-party providers, including Arm and several smaller companies. While we do compete with Arm in the interconnect IP market, we believe our solutions are complementary to Arm's processor portfolio and protocol deployment. We often execute integration of Arm processors in heterogeneous environments, which can accelerate deployment of Arm processors. While there are several smaller companies developing interconnect solutions, we believe that our extensive investment in research and development over many years creates a barrier to entry. Developing interconnect IP solutions that are robust, configurable, and capable of handling multiple functionalities requires deep technology expertise and large research and development investments. We compete based on die area reduction, lower idle power consumption, improved data movement performance such as frequency, latency and bandwidth, as well as faster time to market. We believe we compete favorably with respect to these factors.

IP deployment similarly competes mainly against internally developed solutions. Commercial competitors consist mainly of smaller companies that generally provide point products rather than complete solutions.

Based on management's experience, we believe that in order to develop a new interconnect IP product, it would take a new entrant in the interconnect IP market three to four years to develop a mature product, two to four years of market development and five to seven years to build a royalty generating customer base.

### **Intellectual Property and Proprietary Rights**

We rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, and contractual protections, to protect our core technology and intellectual property. As of June 30, 2021, we had 76 total issued patents, pending patent applications and non-expired provisional patent applications worldwide. Of these, we had 32 issued patents, 31 of which are U.S. issued patents and 1 is a U.K. issued patent. The 32 issued patents generally expire between 2035 and 2041. As of June 30, 2021, we had 44 pending non-provisional and provisional patent application filings, including 31 in the United States, 5 in Europe, 6 in China, 1 in Korea and 1 in Japan. In addition, we have a trademark program covering, where feasible and in accordance with local laws, our products as well as our corporate names and logos.

Our progress in developing our technology and products, and our ability to compete worldwide, is a direct result of our commitment to develop and maintain leadership of our proprietary products and to develop and file to protect our intellectual property. We rely on a combination of patent, trademark, trade secret and copyright laws, as well as contractual and licensing restrictions to protect the proprietary aspects of our technology. We also take steps to

protect against misuse of our licensed products, for example with license keys that limit the time allowed for our licensee customers to use configuration tools to generate hardware description source code that is used in their semiconductor hardware products.

We routinely use non-disclosure agreements, limited evaluation agreements, and substantive license agreements with procedures to assist customer usage while limiting wrongful disclosure or misuse of our intellectual property. In addition, we are committed to develop products not only in the U.S. but in France and other countries, where the country or origin may favorably impact the ability to license our IP solutions and technology in accordance with applicable export laws and regulations. Technological change and customer needs for emerging feature needs in our solutions inspire and motivate our personnel to update and enhance our offerings every year.

We focus patent protection beyond the United States in countries and jurisdictions where we determine that such filings will assist the strategic reach and value of our patent portfolio. Patents and other legal IP protections arise when we have conceived or developed novel and valuable new or improved technology relating to our IP solutions, that may affect our customer and our own licensing business outside the U.S. Certain countries in which our IP solutions are or may be developed, manufactured or sold may not have or enforce laws that protect our technology and intellectual property rights to the same extent as under U.S. law.

## **Material Agreement**

### ***Qualcomm Agreements***

In connection with an Asset Purchase Agreement by and among Qualcomm Technologies, Inc. and Qualcomm France SARL (collectively, "Qualcomm") and us and certain of our subsidiaries dated as of October 9, 2013 pursuant to which we sold to Qualcomm certain assets and intellectual property related to our FlexNoC product (the "Purchase Agreement"), we and our affiliates retained a non-exclusive, worldwide, perpetual right under patents acquired under the Purchase Agreement to, among other things, manufacture, license and distribute certain FlexNoC products and certain modifications thereto (the "Retained Rights"). In addition, we and Qualcomm Technologies, Inc. entered into a License Agreement dated as of October 11, 2013 (the "License Agreement") pursuant to which we and our affiliates obtained a license to, among other things, reproduce, use, license and distribute certain FlexNoC-related works of authorship and technology that were acquired or owned by Qualcomm in connection with the Purchase Agreement for the purpose of enabling us to continue to offer and support FlexNoC products and certain modifications thereto (the "Licensed Rights"). There is no charge under the Purchase Agreement for our use of the Retained Rights or the Licensed Rights. Our rights in the Retained Rights continue until the last to expire of the relevant patents, and the License Agreement continues in perpetuity, in each case unless terminated as described below.

Qualcomm may terminate the Retained Rights in the event (i) we or our subsidiaries that are party to the Purchase Agreement breach any material terms of the Purchase Agreement applicable to the Retained Rights or any material terms of the License Agreement and fail to cure any such breach within 90 days after notice of such breach from Qualcomm, or (ii) we or any of our affiliates initiate a claim of patent infringement against Qualcomm or its affiliates (excluding such claims that are counterclaims in proceedings initiated by Qualcomm or its affiliates) and does not withdraw such claim within 30 days after Qualcomm's written request to do so. Qualcomm may terminate the License Agreement in the event we breach any material terms of the License Agreement or any material terms of the Purchase Agreement applicable to the Retained Rights and fail to cure such breach within 90 days after notice of such breach from Qualcomm. Qualcomm may also terminate rights granted under the License Agreement to a certain development environment used in connection with our FlexNoC product (which could effectively preclude us from continuing to enhance our FlexNoC product and adversely affect our FlexNoC business) in the event of a change of control of our company (as defined in the License Agreement) which would effectively include, in a transaction or series of related transactions, a sale of our company, or the sales of securities by us or our stockholders that would result in the stockholders and optionholders of our company as of the date of the License Agreement not retaining beneficial ownership of more than 50% of our company. We believe that, as we have and continue to deliver new products since the date of the License Agreement, such as our range of IP deployment products, Ncore cache coherent interconnect, Codacache last level cache and PIANO physical awareness, the importance to our business and product portfolio of the FlexNoC development environment will decrease over time.



## [Table of Contents](#)

We may not assign the License Agreement without Qualcomm's written consent (and a change of control of our company shall be considered an assignment for the purposes of such prohibition) except that we may assign the License Agreement to an acquirer of our business that consists of licensing certain FlexNoC products, and we may only assign the Retained Rights to an entity to whom we have assigned the License Agreement.

### **Governmental Regulation**

We are subject to regulation by various governmental agencies in the United States and other jurisdictions in which we operate. These laws and regulations (and the government agency responsible for their enforcement in the United States) cover: radio frequency emission regulatory activities (Federal Communications Commission); anti-trust regulatory activities (Federal Trade Commission and Department of Justice); consumer protection laws (Federal Trade Commission); import/export regulatory activities (Department of Commerce); product safety regulatory activities (Consumer Products Safety Commission); worker safety (Occupational Safety and Health Administration); environmental protection (Environmental Protection Agency and similar state and local agencies); employment matters (Equal Employment Opportunity Commission); and tax and other regulations by a variety of regulatory authorities in each of the areas in which we conduct business. Our operations are also subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended (the "FCPA"), the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, as well as the anti-corruption, anti-bribery, and anti-money laundering laws in the countries where we conduct business.

In addition, certain of our products, including our IP interconnect and other solutions and technology are subject to U.S. export controls, including the U.S. Department of Commerce's Export Administration Regulations ("EAR") and economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. These regulations may limit the export of our products and technology, and provision of our services outside of the United States, or may require export authorizations, including by license, a license exception, or other appropriate government authorizations and conditions, including annual or semi-annual reporting. Export control and economic sanctions laws may also include prohibitions on the sale or supply of certain of our products to embargoed or sanctioned countries, regions, governments, persons, and entities. In addition, various countries regulate the importation of certain products, through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products. The exportation, re-exportation, and importation of our products and technology and the provision of services, including by our partners, must comply with these laws or else we may be adversely affected through reputational harm, government investigations, penalties, and a denial or curtailment of our ability to export our products and technology. In March 2021, we submitted an initial voluntary self-disclosure ("VSD") to the Bureau of Industry and Security ("BIS"), noting potential violations of the EAR. We submitted a final VSD to BIS on July 23, 2021. In our VSD submission, we identified two parties included on the BIS Entity List. Our VSD is currently under review at BIS. While BIS has historically closed a significant majority of voluntary self-disclosures with warning letters and no monetary penalty because, in part, BIS gives great weight and mitigating credit to companies that submit a VSD, we cannot rule out the possibility that BIS could impose a civil monetary penalty. The maximum civil monetary penalties imposed by BIS are currently \$308,901 per violation or twice the value of the transaction, whichever is greater. In addition, BIS also has the power to impose a denial of export privileges, which is rarely imposed in cases involving VSDs. We believe it is premature and speculative to provide further guidance on the likelihood that a civil penalty or other penalty would or could be imposed, or the amount and nature of such penalty, because BIS has discretion whether to issue a warning letter or proposed charging letter. With respect to government authorizations, we have no pending export license requests to BIS or any other government agency, and no export licenses are currently required to export our products from the United States or other countries to countries where we do business.

Complying with export control and sanctions laws may be time consuming and may result in the delay or loss of sales opportunities. Although we take precautions to prevent our products and technology from being provided in violation of such laws, our products and technology have previously been, and could in the future be, provided inadvertently in violation of such laws, despite the precautions we take. If we are found to be in violation of U.S. sanctions or export control laws, it could result in substantial fines and penalties for us and for the individuals working for us. Changes in export or import laws or sanctions policies may adversely impact our operations, delay the introduction and sale of our products in international markets, or, in some cases, prevent the export or import of our products and technology to certain countries, regions, governments, persons, or entities altogether, which could harm our business.



## [Table of Contents](#)

From time to time, we have adopted and in the future may continue to adopt remedial measures in response to government regulation. For example, we have adopted several remedial measures in connection with the initial notification of voluntary self-disclosure we submitted to BIS. These compliance enhancements were developed and implemented in consultation with outside counsel specializing in U.S. trade compliance. These steps have included updating our written export control policies and procedures, including adopting a revised export compliance manual in April 2021. We also mandated additional export awareness training for relevant personnel in April 2021. We previously provided our sales employees worldwide with training on export compliance in February 2020. We engaged a third-party vendor to assist us with ongoing screening of new and existing customers, third-party agents or representatives, suppliers, and other vendors against U.S. prohibited or restricted party lists. We have screened all customers for the past five years against applicable lists of denied or restricted parties, including the Entity List administered by BIS as well as the list of Specially Designated Nationals and Blocked Persons, administered by the Treasury Department's Office of Foreign Assets Control.

For a discussion of the various risks we face from regulation and compliance matters, see "Risk Factors—Risks Related to Our Business and Industry—We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and consumer protection laws across different markets where we conduct our business. Our actual or perceived failure to comply with such obligations could harm our business," "Risk Factors—Risks Related to Legal, Regulatory, Accounting and Tax Matters—Our failure to comply with the large body of laws and regulations to which we are subject could materially harm our business," "Risk Factors—Risks Related to Legal, Regulatory, Accounting and Tax Matters—Our failure to comply with the Foreign Corrupt Practices Act, other applicable anti-corruption and anti-bribery laws, and applicable anti-money laundering laws could subject us to penalties and other adverse consequences," "Risk Factors—Risks Related to Legal, Regulatory, Accounting and Tax Matters—We are subject to government regulation, including import, export and economic sanctions laws and regulations that may expose us to liability and increase our costs," "Risk Factors—Risks Related to Legal, Regulatory, Accounting and Tax Matters—We will lose sales if we are unable to obtain government authorization to export certain of our products, and we will be subject to legal and regulatory consequences if we do not comply with applicable export control laws and regulations."

### **Employees and Human Capital Resources**

As of June 30, 2021, we had 211 full-time equivalent employees as follows:

---

<b>FUNCTION</b>	<b>NUMBER</b>
Research and development	135
Sales and marketing	48
Administration	28
United States	100
France	89
China	11
South Korea	5
Japan	5
Elsewhere	1

---

We consider relations with our employees to be good and have never experienced a work stoppage. None of our employees are either represented by a labor union, although our employees in France are subject to a collective bargaining agreement.

Our human capital resources objectives include, as applicable, identifying, recruiting, retaining, incentivizing and integrating our existing and additional employees. The principal purposes of our equity incentive plans are to attract, retain and motivate selected employees, consultants and directors through the granting of stock-based compensation awards and cash-based performance bonus award.

## **Facilities**

As of June 30, 2021, our principal executive office is located in Campbell, California and consists of approximately 12,600 square feet of space under a lease that expires in May 2023. In addition to our headquarters, we lease office space in Austin, Texas, which consists of approximately 3,700 square feet of space under a lease that expires in July 2023. In France, we lease office space in Paris and in Guyancourt, which consists of approximately 5,500 and 4,100 square feet of space, respectively. We also lease space in Nanjing and Shanghai, China; Tokyo, Japan; and Seoul, South Korea.

We lease all our facilities and do not own any real property. We believe our facilities are adequate and suitable for our current needs and that, should it be needed, suitable additional or alternative space will be available to accommodate our operations.

## **Legal Proceedings**

We are currently not a party to any material legal proceedings. We may from time to time become involved in litigation relating to claims arising from our ordinary course of business. These claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

## MANAGEMENT

### Executive Officers and Directors

The following sets forth the name, age as of June 30, 2021 and position of each of our executive officers and directors.

---

<u>NAME</u>	<u>AGE</u>	<u>POSITION(S)</u>
<i>Executive Officers</i>		
K. Charles Janac	63	President and Chief Executive Officer, Chairman of the Board of Directors
Nicholas B. Hawkins.	60	Vice President and Chief Financial Officer
Laurent R. Moll	50	Chief Operating Officer
David Mertens.	51	Worldwide Vice President of Sales
Isabelle F. Geday	63	Vice President and General Manager, IP Employment Division and Director
Paul L. Alpern	56	Vice President and General Counsel
Evin Arici Kebebew.	37	Corporate Controller
<i>Non-Employee Directors</i>		
Wayne C. Cantwell	56	Lead Independent Director
Raman K. Chitkara	62	Director
Christian Claussen	57	Director
S. Atiq Raza	72	Director
Antonio J. Viana	49	Director

---

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Corporate Governance Committee.

### Executive Officers

**K. Charles Janac** has served as our President and Chief Executive Officer since July 2005, has served on our board of directors since July 2005, and has served as Chairman of our board of directors since August 2007. Previously, Mr. Janac served as President and Chief Executive Officer of Nanomix Inc., an early developer of carbon nanotube based nano electronic sensors, from September 2001 to January 2003. From 1999 to 2001, Mr. Janac served as an Entrepreneur in Residence at Infinity Capital, an early-stage Venture Capital Firm. Prior to that, Mr. Janac served as President and Chief Executive Officer of Smart Machines, a semiconductor wafer handling robotics firm from 1993 to 1999. Mr. Janac started his high technology career as a co-founder of SDA, Inc., a predecessor company of Cadence Design Systems, Inc., a public electronic design automation company. From 1983 to 1992 Mr. Janac held a variety of Finance, Marketing and Sales Positions finally becoming the Vice President of Marketing, Analog Division of Cadence Design Systems, Inc. Mr. Janac holds a BS and MS in Chemistry and Organic Chemistry from Tufts University. Mr. Janac also holds an MBA from Stanford School of Business. We believe that Mr. Janac is qualified to serve on our board of directors due to his deep knowledge of the business and his experience in the semiconductor IP industry. We believe Mr. Janac's experience and insight, acquired through his numerous years of service, including as our Chief Executive Officer and President, make him well qualified to serve as a member of our board of directors.

**Nicholas B. Hawkins** has served as our Chief Financial Officer since November 2019. Previously, from January 2008 to November 2019, Mr. Hawkins served as Chief Financial Officer of Corsair Gaming, Inc., a publicly traded provider of hardware devices for the computer gaming industry. Prior to that, from 2006 to 2008 Mr. Hawkins served as Chief Financial Officer of Zetex Semiconductors plc, a semiconductor company listed on the London Stock Exchange. Mr. Hawkins worked for PricewaterhouseCoopers ("PwC"), a provider of audit and associated professional services, in London, England as an auditor. Mr. Hawkins holds a BSc (Hons) in Environmental Chemical Engineering from Exeter University in England. Mr. Hawkins is a Fellow of the Institute of Chartered Accountants in England & Wales.

## [Table of Contents](#)

**Laurent R. Moll** has served as our Chief Operating Officer since March 2021. Previously, from October 2013 to March 2021, Dr. Moll worked for Qualcomm, Inc., a publicly traded provider of intellectual property, semiconductors, software, and services related to wireless technology, including as Vice President Engineering from November 2017 to March 2021. Prior to that, Dr. Moll served as Chief Technical Officer of Arteris from July 2011 to October 2013. Before that, from 2008 to 2011, Dr. Moll served as Senior Architecture Manager at NVIDIA Corporation, a publicly traded computer systems design services company. Dr. Moll holds PhD, MS and Engineering degrees in Computer Science from Ecole Polytechnique in France and an Engineering degree in Computer Science from Telecom ParisTech in France. Dr. Moll is a named inventor on more than 60 US patents.

**David Mertens** has served as our Worldwide Vice President of Sales since April 2010. Previously, from February 2007 to April 2010, Mr. Mertens served as Director of Sales & Business Development for AUDIENCE Inc., a chip and software company for mobile device noise suppression. Prior to that, from 2004 to 2007, Mr. Mertens served as Regional Sales Manager of Tensilica, a leader in semiconductor intellectual property with configurable RISC processor cores and audio DSP's serving imaging, vision, audio and other data-plane applications. Mr. Mertens holds a BS in Electrical Engineering from University of California San Diego.

**Isabelle F. Geday** has served as our Vice President and General Manager, IP Deployment Division since December 2020. Previously, Ms. Geday founded Magillem in 2006 and served as its Chief Executive Officer from November 2009 until its acquisition by Arteris in November 2020. Prior to that Ms. Geday held various positions as a general manager and CEO in hi tech companies from 1985 to 2006. Ms. Geday holds a degree from Ecole Nationale Supérieure d'Ingénieurs en Informatique d'Entreprise and is a Certified Board Member from IFA. We believe Ms. Geday's experience and insight, acquired through her founding and building Magillem, make her well qualified to serve as a member of our board of directors.

**Paul L. Alpern** has served as our Vice President and General Counsel since August 2019. Previously, from July 2017 to August 2019, Mr. Alpern served as Vice President and General Counsel of Wave Computing, Inc., an artificial intelligence processor technology company. Prior to that, from February 2016 to July 2017, Mr. Alpern served as Associate General Counsel of Applied Micro Circuits Corporation (acquired by MACOM Technology Solutions Holdings, Inc.), a producer of semiconductor devices. Prior to that, from May 2006 to February 2016 Mr. Alpern served as Senior Director, Legal of SanDisk Corporation, a flash memory storage company. Mr. Alpern holds a JD from Harvard Law School and a BA in Economics from University of California, Berkeley.

**Evin Arici Kebebew** has served as our Corporate Controller since March 2021. Previously, from January 2016 to February 2021, Ms. Arici served as SEC Financial Reporting Manager of Granite Construction, Inc., an infrastructure company. Prior to that, from April 2014 to January 2016, Ms. Arici served as Controller and Member of Finance Committee for Lycee Francais de San Francisco, a non-profit private school. Prior to that, from December 2011 to April 2014, Ms. Arici served as Assistant Controller for 1st Capital Bank. Prior to that, from June 2009 to January 2011, Ms. Arici served as Project Controller at Shell Turkey, an oil and gas company. Ms. Arici was an auditor for PwC in Istanbul, Turkey. Ms. Arici holds a BA in Business Management from Marmara University, Istanbul. Ms. Arici also holds CPA certifications in California and Turkey.

### **Non-Employee Directors**

**Wayne C. Cantwell** serves as our Lead Independent Director and has served as a member of our board of directors since January 2014. Since November 2009, Mr. Cantwell has served as a Co-Founder and Managing Director of Decathlon Capital Partners, a provider of growth-stage capital. Mr. Cantwell has also served as General Partner of Crescendo Ventures, a venture capital firm, since February 2003. Prior to that, from 2003 to 2004, Mr. Cantwell served as Chief Executive Officer of SOISIC SA, a French Semiconductor Licensing Company. Prior to that, from 1999 to 2001, Mr. Cantwell served as Chief Executive Officer of inSilicon Corporation, a semiconductor licensing company. Mr. Cantwell holds a BSEET in Engineering from DeVry Institute of Technology. We believe Mr. Cantwell's extensive experience in leadership positions at venture capital firms and his knowledge and insight in the technology sector make him well qualified to serve as a member of our board of directors.

**Raman K. Chitkara** has served as a member of our board of directors since January 2021. Mr. Chitkara also serves as a director of Xilinx, a publicly traded supplier of programmable logic devices, since August 2018 and as a director of

## [Table of Contents](#)

SiTime, a publicly traded supplier of silicon timing solutions, since November 2019. Previously, from September 1984 to June 2018, Mr. Chitkara served as a partner and Global Technology Industry Leader at PwC in the United States. Mr. Chitkara holds a Bachelor of Commerce in accounting and business management from Shri Ram College of Commerce, University of Delhi, in India. We believe Mr. Chitkara's extensive accounting expertise and his insights gained as a public company director make him well qualified to serve as a member of our board of directors.

**Christian Claussen** has served as a member of our board of directors since April 2016. Mr. Claussen has served as a General Partner of Ventech, a French venture capital firm, since June 2013. Previously, from January 2009 to June 2013, Mr. Claussen served as Senior Partner of Omnes Capital, a French venture capital firm. Before that, from March 1998 to December 2008, Mr. Claussen was a General Partner with TVM Techno Venture Management, a venture capital firm. Mr. Claussen holds a joint European diploma (MSc.) in Electrical Engineering from Karlsruhe University of Applied Sciences in Germany, University of Essex in the UK and the Ecole supérieure d'Ingénieurs en Electrotechnique et Electronique in Paris, France. We believe Mr. Claussen's extensive experience in leadership positions at venture capital firms and his knowledge and insight in the technology sector make him well qualified to serve as a member of our board of directors.

**S. Atiq Raza** has served as a member of our board of directors since January 2014. Since June 2014, Mr. Raza has served as the Executive Chairman of Virsec Systems, Inc., a cybersecurity software company. Mr. Raza also serves as an independent director of Weebit Nano, a non-volatile memory company, and as Chairman of the board of directors of both PeerNova, a company applying Blockchain technology to financial data transport, and CloudDefense, a software company that provides security scanning tools. Formerly, Mr. Raza served as President and Chief Operating Officer of Advanced Micro Devices, Inc., a publicly traded semiconductor company, from January 1996 to October 1999. In January 2008, the SEC filed insider trading charges against Mr. Raza alleging he unlawfully traded on confidential information he received in his capacity as a director of OrthoClear Holdings, Inc. Also in January 2008, without admitting or denying the SEC's allegations, In January 2008 Mr. Raza agreed to pay a total of approximately \$3.0 million, which was comprised of the disgorgement of his trading profits, a civil penalty and interest. In addition, Mr. Raza agreed to a five-year ban from serving as a director or officer of any publicly traded company. The ban expired on January 24, 2013. Mr. Raza holds a BS (Hon) in Physics from the University of the Punjab in Lahore, a BS (Hon) in Electronic Engineering from the University of London, United Kingdom and a MS in Materials Science and Engineering from Stanford University. We believe Mr. Raza's knowledge and insight, gained through his experience in leading companies in the semiconductor field and technology sector generally, make him well qualified to serve as a member of our board of directors.

**Antonio J. Viana** has served as a member of our board of directors since October 2016. Since August 2016, Mr. Viana has served as the Executive Chairman of QuantalRF AG, a next generation, front-end RF solutions company. Prior to that, Mr. Viana served as Executive Vice President at ARM Holdings from 1998 to 2005 and from 2008 to 2015. Mr. Viana also served as Senior Vice President of Worldwide Sales at Tensilica from 2005 to 2008. Mr. Viana holds a BS in Industrial and Systems Engineering from California Polytechnic State University, San Luis Obispo. We believe Mr. Viana's extensive experience in the technology sector makes him well qualified to serve as a member of our board of directors.

### **Family Relationships**

There are no family relationships among any of our directors or executive officers.

### **Composition of our Board of Directors and Election of Directors**

After this offering, our board of directors will consist of \_\_\_\_\_ directors. Each director's term will continue until the annual meeting of the stockholders next held after his or her election and the election and qualification of his or her successor, or his or her earlier death, disqualification, resignation or removal.

When considering whether directors have the experience, qualifications, attributes or skills, taken as a whole, to enable our board of directors to satisfy its oversight responsibilities effectively in light of our business and structure, the board of directors focuses primarily on each person's background and experience as reflected in the information discussed in each of the directors' individual biographies set forth above. We believe that our directors provide an appropriate mix of experience and skills relevant to the size and nature of our business.

## **Classified Board of Directors**

In accordance with our Post-IPO Certificate of Incorporation, our board of directors will be divided into three classes of directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the class whose terms are then expiring, to serve from the time of election and qualification until the third annual meeting following their election or until their earlier death, resignation or removal. Immediately prior to the closing of this offering, our directors will be divided among the three classes as follows:

The Class I directors will be K Charles Janac, S. Atiq Raza and Christian Claussen, and their terms will expire at our first annual meeting of stockholders following this offering.

The Class II directors will be Antonio J. Viana and Wayne C. Cantwell, and their terms will expire at our second annual meeting of stockholders following this offering.

The Class III directors will be Raman K. Chitkara and Isabelle F. Geday, and their terms will expire at our third annual meeting of stockholders following this offering.

Our Post-IPO Certificate of Incorporation will provide that the authorized number of directors may be changed only by resolution of our board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control. See the section of this prospectus captioned "Description of Capital Stock—Anti-Takeover Provisions" for a discussion of these and other anti-takeover provisions found in our Post-IPO Certificate of Incorporation and Post-IPO Bylaws.

## **Director Independence**

We intend to apply to have our common stock listed on the Nasdaq Stock Market ("Nasdaq"). Under the rules of Nasdaq, independent directors must comprise a majority of a listed company's board of directors within one year following the listing date of the company's securities. Under the rules of Nasdaq, a director will only qualify as an "independent director" if that company's board of directors affirmatively determines that such person does not have a relationship with our company that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Prior to the closing of this offering, our board of directors undertook a review of the independence of our directors and considered whether any director has a material relationship with us that could compromise that director's ability to exercise independent judgment in carrying out that director's responsibilities. Based upon information requested from and provided by each director concerning his or her background, employment and affiliations, including family relationships, our board of directors has determined that none of Wayne C. Cantwell, S. Atiq Raza, Antonio J. Viana and Raman K. Chitkara, representing four of our seven directors, has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under Nasdaq's rules. In making these determinations, our board of directors considered the current and prior relationships that each director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including their beneficial ownership of our capital stock and relationships with certain of our significant stockholders, and the transactions involving them described in the section titled "Certain Relationships and Related Party Transactions."

## **Committees of Our Board of Directors**

Our board of directors directs the management of our business and affairs, as provided by the Delaware General Corporation Law ("DGCL"), and conducts its business through meetings of the board of directors and its standing committees. Our board of directors has a standing audit committee, compensation committee and nominating and corporate governance committee. In addition, from time to time, special committees may be established under the direction of the board of directors when necessary to address specific issues.

Each of the audit committee, the compensation committee and the nominating and corporate governance committee will operate under a written charter that will be approved by our board of directors in connection with this offering. A

## [Table of Contents](#)

copy of each of the audit committee, compensation committee and nominating and corporate governance committee charters will be available on our corporate website at [www.arteris.com](http://www.arteris.com) substantially concurrently with the closing of this offering. The information on, or that can be accessed through, our website is not incorporated by reference into this prospectus and does not form a part of this prospectus.

### **Audit Committee**

Our audit committee will be responsible for, among other things:

- appointing, compensating, retaining, evaluating, terminating and overseeing our independent registered public accounting firm;
- discussing with our independent registered public accounting firm their independence from management;
- reviewing with our independent registered public accounting firm the scope and results of their audit;
- approving all audit and permissible non-audit services to be performed by our independent registered public accounting firm;
- overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the quarterly and annual consolidated financial statements that we file with the SEC;
- overseeing our financial and accounting controls and compliance with legal and regulatory requirements;
- reviewing our policies on risk assessment and risk management;
- reviewing related person transactions; and
- establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters.

Upon the effectiveness of the registration statement of which this prospectus forms a part, our audit committee will consist of Raman K. Chitkara, Wayne C. Cantwell and Antonio J. Viana, with Raman K. Chitkara serving as chair. Rule 10A-3 of the Exchange Act and the Nasdaq rules require that our audit committee have at least one independent member upon the listing of our common stock, have a majority of independent members within 90 days of the date of this prospectus and be composed entirely of independent members within one year of the date of this prospectus. Our board of directors has affirmatively determined that Raman K. Chitkara, Wayne C. Cantwell and Antonio J. Viana each meet the definition of “independent director” for purposes of serving on the audit committee under Rule 10A-3 under the Exchange Act and the Nasdaq rules. Each member of our audit committee also meets the financial literacy requirements of the SEC and Nasdaq rules. In addition, our board of directors has determined that each member of our audit committee will qualify as an “audit committee financial expert,” as such term is defined in Item 407(d)(5) of Regulation S-K.

### **Compensation Committee**

Our compensation committee will be responsible for, among other things:

- reviewing and approving the compensation of our directors, Chief Executive Officer and other executive officers; and
- appointing and overseeing any compensation consultants.

Upon the effectiveness of the registration statement of which this prospectus forms a part, our compensation committee will consist of Wayne C. Cantwell, Antonio J. Viana and S. Atiq Raza, with Wayne C. Cantwell serving as chair. Our board of directors has determined that Wayne C. Cantwell, Antonio J. Viana and S. Atiq Raza meet the definition of “independent director” for purposes of serving on the compensation committee under the SEC and Nasdaq rules, including the heightened independence standards for members of a compensation committee, and are “non-employee directors” as defined in Rule 16b-3 of the Exchange Act.

### **Nominating and Corporate Governance Committee**

Our nominating and corporate governance committee will be responsible for, among other things:

- identifying individuals qualified to become members of our board of directors, consistent with criteria approved by our board of directors;
- evaluating the overall effectiveness of our board of directors and its committees; and
- reviewing developments in corporate governance compliance and developing and recommending to our board of directors a set of corporate governance guidelines.

## [Table of Contents](#)

Upon the effectiveness of the registration statement of which this prospectus forms a part, our nominating and corporate governance committee will consist of Antonio J. Viana and S. Atiq Raza, with Antonio J. Viana serving as chair. Our board of directors has determined that Antonio J. Viana and S. Atiq Raza meet the definition of "independent director" for purposes of serving on the nominating and corporate governance committee under the SEC and Nasdaq rules.

### **Risk Oversight**

Our board of directors has an active role, as a whole and also at the committee level, in overseeing the management of our risks. Our board of directors is responsible for overseeing our risk management process. Our board of directors focuses on our general risk management strategy, the most significant risks facing us, and oversees the implementation of risk mitigation strategies by management. Our audit committee is also responsible for discussing our policies with respect to risk assessment and risk management, and is responsible for overseeing the management of risks relating to accounting matters and financial reporting. Our compensation committee is responsible for overseeing the management of risks relating to our executive compensation plans and arrangements. Our nominating and corporate governance committee is responsible for overseeing the management of risks associated with the independence of our board of directors and potential conflicts of interest. Although each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire board of directors is regularly informed through discussions with committee members and regular reports from management about such risks, as well as the actions taken by management to adequately address those risks. Our board of directors believes its administration of its risk oversight function has not negatively affected our board of directors' leadership structure.

### **Compensation Committee Interlocks and Insider Participation**

None of the members of our compensation committee is or has been an officer or employee of our company. None of our executive officers serves as a member of the board of directors or compensation committee (or other committee performing equivalent functions) of any entity that has one or more of its executive officers serving on our board of directors or compensation committee.

### **Board Diversity**

Our nominating and corporate governance committee will be responsible for reviewing with the board of directors, on an annual basis, the appropriate characteristics, skills and experience required for the board of directors as a whole and its individual members. In evaluating the suitability of individual candidates (both new candidates and current members), the nominating and corporate governance committee, in recommending candidates for election, and the board of directors, in approving (and, in the case of vacancies, appointing) such candidates, may take into account many factors, including but not limited to the following:

- personal and professional integrity;
- ethics and values;
- experience in corporate management, such as serving as an officer or former officer of a publicly held company;
- experience in the industries in which we compete;
- experience as a board member or executive officer of another publicly held company;
- diversity of expertise and experience in substantive matters pertaining to our business relative to other board members;
- conflicts of interest; and
- practical and mature business judgment.

Our board of directors evaluates each individual in the context of the board of directors as a whole, with the objective of assembling a group that can best maximize the success of our business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas.



## Code of Business Conduct and Ethics

Our board of directors has adopted a written code of business conduct and ethics that applies to our directors, officers and employees (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), which will become effective upon the effectiveness of the registration statement of which this prospectus forms a part. A copy of the code will be posted on our website. In addition, we intend to post on our website all disclosures that are required by law or SEC rules concerning any amendments to, or waivers from, any provision of the Code. The information on our website is not incorporated by reference in this prospectus and does not form a part of this prospectus.

## Director Compensation

Historically, our non-employee directors have not been compensated by for service on our board of directors. However, we reimburse our non-employee directors for travel and other necessary business expenses incurred in the performance of their services for us. Mr. Raza was compensated in 2020 for certain consulting services he provided to us outside of his role as a director in relation to business management. In addition, in April 2020, we granted each of Messrs. Cantwell, Raza and Viana an option to purchase 75,000 shares of our common stock. Each option vests as to 1/36th of the shares monthly, subject to the applicable director's continued service through the applicable vesting date.

We intend to approve and implement a compensation policy for our non-employee directors to be effective on the consummation of this offering.

The following table summarizes the total compensation earned during the year ended December 31, 2020 by our non-employee directors.

<u>NAME</u>	<u>FEES EARNED OR PAID IN CASH (\$)</u>	<u>OPTION AWARDS (\$)<sup>(1)</sup></u>	<u>OTHER (\$)</u>	<u>TOTAL (\$)</u>
Wayne C. Cantwell	—	16,021	—	16,021
Raman K. Chitkara	—	—	—	—
Christian Claussen	—	—	—	—
S. Atiq Raza	—	16,021	29,167 <sup>(2)</sup>	45,188
Antonio J. Viana	—	16,021	—	16,021

(1) For the option awards column, amounts shown represent the grant date fair value of options granted during fiscal year 2020 as calculated in accordance with ASC Topic 718. See Note 13 of the audited consolidated financial statements included in this registration statement for the assumptions used in calculating this amount. Effective as of December 31, 2020, Mr. Cantwell held options to purchase an aggregate of 75,000 shares, Mr. Raza held options to purchase an aggregate of 75,000 shares and Mr. Viana held options to purchase an aggregate of 275,000 shares, no other non-employee director held any options or other equity awards as of December 31, 2020.

(2) Amount shown represents cash compensation paid to Mr. Raza for certain consulting services he provided to us in relation to business management and unrelated to his service as a director.

**EXECUTIVE COMPENSATION**

The following is a discussion and analysis of compensation arrangements of our named executive officers, or NEOs. This discussion contains forward looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion. As an “emerging growth company” as defined in the JOBS Act, we are not required to include a Compensation Discussion and Analysis section and have elected to comply with the scaled disclosure requirements applicable to emerging growth companies.

We seek to ensure that the total compensation paid to our executive officers is reasonable and competitive. Compensation of our executives is structured around the achievement of individual performance and near-term corporate targets as well as long-term business objectives.

Our NEOs for fiscal year 2020 were as follows:

- K. Charles Janac, our President and Chief Executive Officer;
- David Mertens, our Worldwide Vice President of Sales; and
- Isabelle F. Geday, our Vice President and General Manager, IP Deployment Division.

Ms. Geday commenced services with us in our French office in December 2020.

**2020 Summary Compensation Table**

The following table sets forth total compensation paid to our named executive officers for the fiscal year ended on December 31, 2020.

<u>NAME AND PRINCIPAL POSITION</u>	<u>YEAR</u>	<u>SALARY</u> <u>(\$)</u>	<u>OPTION</u> <u>AWARDS (1)</u> <u>(\$)</u>	<u>NON-EQUITY</u> <u>INCENTIVE</u> <u>PLAN</u> <u>COMPENSATION</u> <u>(\$) (2)</u>	<u>ALL OTHER</u> <u>COMPENSATION (3)</u> <u>(\$)</u>	<u>TOTAL</u> <u>(\$)</u>
K. Charles Janac President and Chief Executive Officer	2020	302,636	—	80,640	—	383,276
David Mertens Worldwide Vice President of Sales	2020	197,902	—	354,126	6,242	558,270
Isabelle F. Geday Vice President and General Manager, IP Deployment Division (4)	2020	7,645 (5)	466,564	—	—	474,209

- (1) For the option awards column, amounts shown represent the grant date fair value of options granted during fiscal year 2020 as calculated in accordance with ASC Topic 718. See Note 13 of the audited consolidated financial statements included elsewhere in this prospectus for the assumptions used in calculating this amount.
- (2) For the non-equity incentive plan compensation column, amounts shown represent the annual performance-based cash bonuses and commissions earned by our NEOs based on the achievement of certain corporate performance objectives during 2020. These amounts were paid to the NEOs following certification of the performance objectives in early 2021. Please see the descriptions of the annual performance bonuses paid to our NEOs under “2020 Bonuses” below, including target amounts. The amount for Mr. Mertens includes \$333,965 earned by him under our commission plan.
- (3) Amount shown represents a stipend for use of an automobile.
- (4) Ms. Geday commenced her service with us as or General Manager, IP Deployment Division in December 2020.
- (5) Ms. Geday’s salary calculated using an exchange rate as of December 31, 2020 of €1 to \$1.1987.

## **Narrative to Summary Compensation Table**

### **2020 Salaries**

Our NEOs each receive a base salary to compensate them for services rendered to our company. The base salary payable to each named executive officer is intended to provide a fixed component of compensation reflecting the executive's skill set, experience, role and responsibilities.

For fiscal year 2020, Messrs. Janac and Mertens had an annual base salary of \$302,636 and \$197,902 respectively. Ms. Geday base salary during fiscal year 2020 was €76,533, and was pro-rated for her partial employment in 2020.

Our board of directors and compensation committee may adjust base salaries from time to time in their discretion.

### **2020 Bonuses**

We maintain an annual performance-based cash bonus program in which Messrs. Janac and Mertens participated in 2020. Messrs. Janac's and Merten's target bonus is expressed as a percentage of the NEO's annual base salary which can be achieved by meeting company and individual goals at target level. The 2020 annual bonuses for Messrs. Janac and Mertens were targeted at 30% and 10% of their respective base salaries. Our board of directors has historically reviewed these target percentages to ensure they provide appropriate incentives to achieve the performance objectives established for the year. Our board of directors set these rates based on each NEO's experience in the NEO's role with us and the level of responsibility held by the NEO, which we believe directly correlates to the NEO's ability to influence corporate results.

For determining performance bonus amounts, our board of directors sets certain corporate performance goals after receiving input from our Chief Executive Officer. Following its review and determinations of corporate and individual performance for 2020, our board of directors determined an achievement level of 90.8% of their target bonuses for each of Messrs. Janac and Mertens. The actual amount of the 2020 annual bonus paid to each NEO for 2020 performance is set forth above in the Summary Compensation Table in the column titled "Non-Equity Incentive Plan Compensation."

### **2020 Mertens Commission Plan**

Mr. Mertens participated in a commission plan under which he earned quarterly commissions based on achievement in recognized bookings in relation to certain targets. Based on achievements under the commission plan, Mr. Mertens earned commissions of \$333,965 for 2020 performance is represented above under the column "Non-Equity Incentive Plan Compensation."

### **Equity-Based Compensation**

In December 2020, we granted Ms. Geday an option to purchase 455,000 shares of our common stock. Fifty percent of the option vests as to 25% of the shares on the first anniversary of the vesting commencement date and as to 1/48th of the shares on each monthly anniversary thereafter. In the event Ms. Geday's employment is terminated prior to June 30, 2021 or due to an involuntary termination (not including death or disability) without cause, the vesting of this element of the option will be fully accelerated. The remaining 50% of the option vests upon the achievement of performance milestones achieved on or before December 31, 2021, subject to Ms. Geday's continuous service through the date of the achievement of the performance milestone. The performance-milestone element of the option vests as to 25% of the shares upon launch of a product (MDVE1); as to 50% of the shares upon achievement of \$9,000,000 in licensing revenue in 12 months by December 1, 2021; and as to 25% of the shares upon lightweight integration of the Magillem business. No other named executive officer received an equity award grant in 2020.

In connection with this offering, we intend to adopt a 2021 Incentive Award Plan, referred to below as the 2021 Plan, in order to facilitate the grant of cash and equity incentives to directors, employees (including our named executive officers) and consultants of our company and certain of its affiliates and to enable us to obtain and retain services of these individuals, which is essential to our long-term success. We expect that the 2021 Plan will be effective on the day prior to the first public trading date of our common stock, subject to approval of such plan by our stockholders. For additional information about the 2021 Plan, please see the section titled "Equity Incentive Plans" below.

## Other Elements of Compensation

### Retirement Savings and Health and Welfare Benefits

We currently maintain a 401(k) retirement savings plan for our U.S. employees, including our named executive officers who are located in the United States, who satisfy certain eligibility requirements. Our named executive officers are eligible to participate in the 401(k) plan on the same terms as other full-time employees. We did not provide for any matching contributions under our 401(k) plan. However, as of December 31, 2020, we have implemented matching contributions as of May 1, 2021.

All of our full-time U.S. employees, including our named executive officers, are eligible to participate in our health and welfare plans, including medical, dental and vision benefits; medical and dependent care flexible spending accounts; short-term and long-term disability insurance; and life and AD&D insurance. Our full-time employees outside the U.S., including our named executive officers, are eligible to participate in local statutory health and welfare benefits.

### Perquisites and Other Personal Benefits

We provide Mr. Mertens with an allowance for use of an automobile. In 2020, Mr. Mertens allowance was \$6,250. Other than Mr. Mertens' automobile allowance, we did not provide any perquisites to our named executive officers in fiscal year 2020, but our compensation committee may from time to time approve them in the future when our compensation committee determines that such perquisites are necessary or advisable to fairly compensate or incentivize our employees.

### Outstanding Equity Awards at 2020 Fiscal Year End

The following table lists all outstanding equity awards held by our NEOs as of December 31, 2020. Mr. Janac did not hold any equity awards as of December 31, 2020.

NAME	VESTING COMMENCEMENT DATE	OPTION AWARDS		OPTION EXERCISE PRICE (\$)	OPTION EXPIRATION DATE
		NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#) EXERCISABLE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#) UNEXERCISABLE		
David Mertens	12/01/2017 (1)	67,500	22,500	0.50	12/13/2027
Isabelle F. Geday	12/31/2020 (2)	0	455,000	2.74	11/29/2030

(1) The option vests as to 25% of the shares on the one-year anniversary of the vesting commencement date and as to 1/48<sup>th</sup> of the shares monthly thereafter, such that all awards will be vested on the four year anniversary of the vesting commencement date, subject to the holder continuing to provide services to us through such vesting date. In the event of a change in control, and the holder's employment has not terminated in connection with a change in control, the vesting of 50% of the options will be accelerated. In the event the holder's employment is terminated without cause or resigns for good reason in connection with a change in control, the vesting of the options will be fully accelerated.

(2) Fifty percent of the option vests as to 25% of the shares on the one-year anniversary of the vesting commencement date and 1/48<sup>th</sup> of the shares monthly thereafter. The remaining 50% of the option vests upon the achievement of performance milestones on or before December 31, 2021, subject to the holder's continuous service through the date of the achievement of the performance milestone. The performance-milestone element of the option vests as to 25% of the shares upon launch of a product (MDVE1); as to 50% of the shares for achievement of \$9,000,000 in licensing revenue in 12 months by December 1, 2021; and as to 25% of the shares upon lightweight integration of the Magillem business.

### Narrative to 2020 Summary Compensation Table and Outstanding Equity Awards at 2020 Fiscal Year End

#### Executive Compensation Arrangements

We have not entered into formal employment agreements with Mr. Janac. We entered into an offer letter with Mr. Mertens on March 23, 2010 which sets forth the terms of his employment with us. Pursuant to his offer letter, in the event that Mr. Mertens employment with us is terminated, except for cause, he is entitled to 6 months' severance, and payment of health and welfare premiums for 6 months.

## [Table of Contents](#)

We entered into an employment agreement with Ms. Geday effective as of December 1, 2020 which sets forth the terms of her employment with us. Under the employment agreement, Ms. Geday's original term of employment is for a fixed term of 12 months, beginning on December 1, 2020 and ending on November 30, 2021. At the end of the term, Ms. Geday is entitled to a termination indemnity equal to 10% of her total gross remuneration, subject to exceptions under applicable law. Under the employment agreement, Ms. Geday is entitled to a base salary of €76,533. Following termination of her employment for any reason, Ms. Geday is subject to a 6-month non-competition covenant and an 18-month non-solicitation of employees covenant.

We entered into an option award agreement with Mr. Mertens under which Mr. Mertens is entitled to accelerated vesting in connection with a Change in Control (as defined in the 2016 Plan). In the event of a Change in Control, and Mr. Mertens' employment has not terminated in connection with a Change in Control, the vesting of 50% of his option will be accelerated. In the event Mr. Mertens' employment is terminated without Cause (as defined in the 2016 Plan) or Mr. Mertens resigns for Good Reason (as defined below) in connection with a Change in Control, the vesting of the option will be fully accelerated.

For the purposes of Mertens' option award agreement, "Good Reason" generally means that one or more of the following are undertaken by us without Mr. Mertens' express written consent: (i) the assignment to Mr. Mertens of any duties or responsibilities that results in a diminution in his function as in effect immediately prior to the effective date of the Change in Control; provided, however, that a change in Mr. Mertens' title or reporting relationships will not provide the basis for a voluntary termination with Good Reason; (ii) a reduction by us in Mr. Mertens' annual base salary, as in effect on the effective date of the Change in Control or as increased thereafter; provided, however, that Good Reason will not be deemed to have occurred in the event of a reduction in his annual base salary that is pursuant to a salary reduction program affecting substantially all of our employees and that does not adversely affect him to a greater extent than other similarly situated employees; (iii) any failure by us to continue in effect any benefit plan or program, including incentive plans or plans with respect to the receipt of our securities, in which Mr. Mertens was participating immediately prior to the effective date of the Change in Control, or the taking of any action by us that would adversely affect his participation in or reduce his benefits under our's benefit plans or deprive him of any fringe benefit that he enjoyed immediately prior to the effective date of the Change in Control; provided, however, that Good Reason will not be deemed to have occurred if we provide for his participation in benefit plans and programs that, taken as a whole, are comparable to our benefit plans; (iv) a relocation of Mr. Mertens' business office to a location more than 25 miles from the location at which he performed his duties as of the effective date of the Change in Control, except for required travel by Mr. Mertens on our business to an extent substantially consistent with his business travel obligations prior to the effective date of the Change in Control; or (v) a material breach by us of any provision of the 2016 Plan or the option award agreement or any other material agreement between Mr. Mertens and us concerning the terms and conditions of his employment.

### **Equity Compensation Plans**

The following summarizes the material terms of the long-term incentive compensation plan in which our named executive officers will be eligible to participate following the consummation of this offering and our 2016 Equity Incentive Plan (the "2016 Plan"), under which we have previously made periodic grants of equity and equity-based awards to our named executive officers and other key employees.

#### **2021 Incentive Award Plan**

We intend to adopt the 2021 Plan, which will be effective on the day prior to the first public trading date of our common stock. The principal purpose of the 2021 Plan is to attract, retain and motivate selected employees, consultants and directors through the granting of stock-based compensation awards and cash-based performance bonus awards. The material terms of the 2021 Plan, as it is currently contemplated, are summarized below.

*Share Reserve.* Under the 2021 Plan, \_\_\_\_\_ shares of our common stock will be initially reserved for issuance pursuant to a variety of stock-based compensation awards, including stock options, stock appreciation rights, or SARs, restricted stock awards, restricted stock unit awards and other stock-based awards. The number of shares initially reserved for issuance or transfer pursuant to awards under the 2021 Plan will be increased by (i) the number of shares represented by awards outstanding under our 2016 Plan, or Prior Plan Awards, that become available for issuance under the counting provisions described below following the effective date and (ii) an annual increase on

## [Table of Contents](#)

the first day of each fiscal year beginning in 2022 and ending in 2031, equal to the lesser of (A) 5% of the shares of our common stock outstanding (on an as converted basis) on the last day of the immediately preceding fiscal year and (B) such smaller number of shares of stock as determined by our board of directors; provided, however, that no more than \_\_\_\_\_ shares of stock may be issued upon the exercise of incentive stock options.

The following counting provisions will be in effect for the share reserve under the 2021 Plan:

- to the extent that an award (including a Prior Plan Award) terminates, expires or lapses for any reason or an award is settled in cash without the delivery of shares, any shares subject to the award at such time will be available for future grants under the 2021 Plan;
- to the extent shares are tendered or withheld to satisfy the grant, exercise price or tax withholding obligation with respect to any award under the 2021 Plan or Prior Plan Award, such tendered or withheld shares will be available for future grants under the 2021 Plan;
- to the extent shares subject to stock appreciation rights are not issued in connection with the stock settlement of stock appreciation rights on exercise thereof, such shares will be available for future grants under the 2021 Plan;
- to the extent that shares of our common stock are repurchased by us prior to vesting so that shares are returned to us, such shares will be available for future grants under the 2021 Plan;
- the payment of dividend equivalents in cash in conjunction with any outstanding awards or Prior Plan Awards will not be counted against the shares available for issuance under the 2021 Plan; and
- to the extent permitted by applicable law or any exchange rule, shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by us or any of our subsidiaries will not be counted against the shares available for issuance under the 2021 Plan.

In addition, the sum of the grant date fair value of all equity-based awards and the maximum that may become payable pursuant to all cash-based awards to any individual for services as a non-employee director during any calendar year may not exceed \$500,000, or \$1,000,000 in the applicable director's initial year of election to the board of directors.

*Administration.* The compensation committee of our board of directors is expected to administer the 2021 Plan unless our board of directors assumes authority for administration. The compensation committee must consist of at least three members of our board of directors, each of whom is intended to qualify as a "non-employee director" for purposes of Rule 16b-3 under the Exchange Act and an "independent director" within the meaning of the rules of the applicable stock exchange, or other principal securities market on which shares of our common stock are traded. The 2021 Plan provides that the board or compensation committee may delegate its authority to grant awards to employees other than executive officers and certain senior executives of our company to a committee consisting of one or more members of our board of directors or one or more of our officers, other than awards made to our non-employee directors, which must be approved by our full board of directors.

Subject to the terms and conditions of the 2021 Plan, the administrator has the authority to select the persons to whom awards are to be made, to determine the number of shares to be subject to awards and the terms and conditions of awards, and to make all other determinations and to take all other actions necessary or advisable for the administration of the 2021 Plan. The administrator is also authorized to adopt, amend or rescind rules relating to administration of the 2021 Plan. Our board of directors may at any time remove the compensation committee as the administrator and re-vest in itself the authority to administer the 2021 Plan. The full board of directors will administer the 2021 Plan with respect to awards to non-employee directors.

*Eligibility.* Options, SARs, restricted stock and all other stock-based and cash-based awards under the 2021 Plan may be granted to individuals who are then our officers, employees or consultants or are the officers, employees or consultants of certain of our subsidiaries. Such awards also may be granted to our directors. Only employees of our company or certain of our subsidiaries may be granted incentive stock options, or ISOs.

*Awards.* The 2021 Plan provides that the administrator may grant or issue stock options, SARs, restricted stock, restricted stock units, other stock- or cash-based awards and dividend equivalents, or any combination thereof. Each award will be set forth in a separate agreement with the person receiving the award and will indicate the type, terms and conditions of the award.

## [Table of Contents](#)

- *Nonstatutory Stock Options*, or NSOs, will provide for the right to purchase shares of our common stock at a specified price which may not be less than fair market value on the date of grant, and usually will become exercisable (at the discretion of the administrator) in one or more installments after the grant date, subject to the participant's continued employment or service with us and/or subject to the satisfaction of corporate performance targets and individual performance targets established by the administrator. NSOs may be granted for any term specified by the administrator that does not exceed ten years.
- *Incentive Stock Options*, or ISOs, will be designed in a manner intended to comply with the provisions of Section 422 of the Internal Revenue Code of 1986, as amended, or the Code, and will be subject to specified restrictions contained in the Code. Among such restrictions, ISOs must have an exercise price of not less than the fair market value of a share of common stock on the date of grant, may only be granted to employees, and must not be exercisable after a period of ten years measured from the date of grant. In the case of an ISO granted to an individual who owns (or is deemed to own) at least 10% of the total combined voting power of all classes of our capital stock, the 2021 Plan provides that the exercise price must be at least 110% of the fair market value of a share of common stock on the date of grant and the ISO must not be exercisable after a period of five years measured from the date of grant.
- *Restricted Stock* may be granted to any eligible individual and made subject to such restrictions as may be determined by the administrator. Restricted stock, typically, may be forfeited for no consideration or repurchased by us at no greater than the original purchase price if the conditions or restrictions on vesting are not met. In general, restricted stock may not be sold or otherwise transferred until restrictions are removed or expire. Purchasers of restricted stock, unlike recipients of options, will have voting rights and will have the right to receive dividends, if any, prior to the time when the restrictions lapse, however, extraordinary dividends will generally be placed in escrow, and will not be released until restrictions are removed or expire.
- *Restricted Stock Units* may be awarded to any eligible individual, typically without payment of consideration, but subject to vesting conditions based on continued employment or service or on performance criteria established by the administrator. Like restricted stock, restricted stock units may not be sold, or otherwise transferred or hypothecated, until vesting conditions are removed or expire. Unlike restricted stock, stock underlying restricted stock units will not be issued until the restricted stock units have vested, and recipients of restricted stock units generally will have no voting or dividend rights prior to the time when vesting conditions are satisfied.
- *Stock Appreciation Rights*, or SARs, may be granted in connection with stock options or other awards, or separately. SARs granted in connection with stock options or other awards typically will provide for payments to the holder based upon increases in the price of our common stock over a set exercise price. The exercise price of any SAR granted under the 2021 Plan must be at least 100% of the fair market value of a share of our common stock on the date of grant. SARs under the 2021 Plan will be settled in cash or shares of our common stock, or in a combination of both, at the election of the administrator.
- *Other Stock or Cash Based Awards* are awards of cash, fully vested shares of our common stock and other awards valued wholly or partially by referring to, or otherwise based on, shares of our common stock. Other stock or cash-based awards may be granted to participants and may also be available as a payment form in the settlement of other awards, as standalone payments and as payment in lieu of base salary, bonus, fees or other cash compensation otherwise payable to any individual who is eligible to receive awards. The administrator will determine the terms and conditions of other stock or cash-based awards, which may include vesting conditions based on continued service, performance and/or other conditions.
- *Dividend Equivalents* represent the right to receive the equivalent value of dividends paid on shares of our common stock and may be granted alone or in tandem with awards other than stock options or SARs. Dividend equivalents are credited as of dividend payments dates during the period between a specified date and the date such award terminates or expires, as determined by the plan administrator. In addition, dividend equivalents with respect to shares covered by a performance award will only be paid to the participant at the same time or times and to the same extent that the vesting conditions, if any, are subsequently satisfied and the performance award vests with respect to such shares.



## [Table of Contents](#)

Any award may be granted as a performance award, meaning that the award will be subject to vesting and/or payment based on the attainment of specified performance goals.

*Change in Control.* In the event of a change in control, unless the administrator elects to terminate an award in exchange for cash, rights or other property, or cause an award to accelerate in full prior to the change in control, such award will continue in effect or be assumed or substituted by the acquirer, provided that any performance-based portion of the award will be subject to the terms and conditions of the applicable award agreement. In the event the acquirer refuses to assume or replace awards granted, prior to the consummation of such transaction, awards issued under the 2021 Plan will be subject to accelerated vesting such that 100% of such awards will become vested and exercisable or payable, as applicable. The administrator may also make appropriate adjustments to awards under the 2021 Plan and is authorized to provide for the acceleration, cash-out, termination, assumption, substitution or conversion of such awards in the event of a change in control or certain other unusual or nonrecurring events or transactions.

*Adjustments of Awards.* In the event of any stock dividend or other distribution, stock split, reverse stock split, reorganization, combination or exchange of shares, merger, consolidation, split-up, spin-off, recapitalization, repurchase or any other corporate event affecting the number of outstanding shares of our common stock or the share price of our common stock that would require adjustments to the 2021 Plan or any awards under the 2021 Plan in order to prevent the dilution or enlargement of the potential benefits intended to be made available thereunder, the administrator will make appropriate, proportionate adjustments to: (i) the aggregate number and type of shares subject to the 2021 Plan; (ii) the number and kind of shares subject to outstanding awards and terms and conditions of outstanding awards (including, without limitation, any applicable performance targets or criteria with respect to such awards); and (iii) the grant or exercise price per share of any outstanding awards under the 2021 Plan.

*Amendment and Termination.* The administrator may terminate, amend or modify the 2021 Plan at any time and from time to time. However, we must generally obtain stockholder approval to the extent required by applicable law, rule or regulation (including any applicable stock exchange rule). Notwithstanding the foregoing, an option may be amended to reduce the per share exercise price below the per share exercise price of such option on the grant date and options may be granted in exchange for, or in connection with, the cancellation or surrender of options having a higher per share exercise price without receiving additional stockholder approval.

No incentive stock options may be granted pursuant to the 2021 Plan after the tenth anniversary of the effective date of the 2021 Plan, and no additional annual share increases to the 2021 Plan's aggregate share limit will occur from and after such anniversary. Any award that is outstanding on the termination date of the 2021 Plan will remain in force according to the terms of the 2021 Plan and the applicable award agreement.

### **2016 Equity Incentive Plan**

We currently maintain the 2016 Plan, which amended and restated our 2013 Equity Incentive Plan, and which became effective on February 5, 2016, and was last amended by our board of directors and approved by our stockholders on March 9, 2021. We have previously granted stock options to our NEOs and some members of our board directors under the 2016 Plan, as described in more detail above. The principal purpose of the 2016 Plan is to help us secure and retain the services of eligible award recipients, provide incentives for such persons to exert maximum efforts for the success of our company and provide a means by which the eligible recipients may benefit from increases in value of our common stock.

Following the completion of this offering, we will not make any further grants under the 2016 Plan. As discussed above, upon the completion of this offering, any shares of our common stock that are available for issuance immediately prior to the completion of this offering under the 2016 Plan will become available for issuance under the 2021 Plan. However, the 2016 Plan will continue to govern the terms and conditions of the outstanding awards granted under the 2016 Plan which, as of the date of this prospectus, constitute all of our outstanding stock options and restricted stock awards.

*Types of Awards.* The 2016 Plan provides for the grant of non-qualified options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to employees, non-employee members of the board of directors and consultants. The 2016 Plan provides for the grant of ISOs to employees.



## [Table of Contents](#)

*Share Reserve.* We have reserved an aggregate of 20,053,838 shares of our common stock for issuance under the 2016 Plan. As of December 31, 2020, we had reserved an aggregate of 17,053,838 shares of our common stock for issuance under the 2016 Plan and options to purchase a total of 6,155,434 shares of our common stock were issued and outstanding, a total of 8,780,319 shares of common stock had been issued upon the exercise of options or pursuant to other awards granted under the 2016 Plan and were outstanding, and 2,490,170 shares remained available for future grants.

*Administration.* Our board of directors or a committee appointed by our board of directors administers the 2016 Plan. The administrator has the authority to select the employees to whom awards will be granted under the 2016 Plan, the number of shares to be subject to those awards under the 2016 Plan, and the terms and conditions of the awards granted. In addition, the administrator has the authority to construe and interpret the 2016 Plan and to establish, amend and revoke rules for the administration of the 2016 Plan.

*Payment.* The exercise price of options or purchase price of restricted stock under the 2016 Plan may be paid in such form as determined by the administrator, including, without limitation, cash, check, other shares of ours that have a fair market value on the date of surrender equal to the aggregate exercise price or purchase price of the shares as to which such award relates, surrender of shares then issuable upon exercise of the award that have a fair market value equal to the aggregate exercise price or purchase price of the shares as to which such award relates, consideration received by us under a program under Regulation T as promulgated by the Federal Reserve Board implemented by us, or any combination of the foregoing methods of payment.

*Transfer.* The 2016 Plan does not allow for the transfer of awards other than by will or the laws of descent and distribution, except as otherwise approved by our board of directors.

*Certain Events.* In the event of a dividend, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, or other change in our corporate structure affecting shares occurs, the administrator may make appropriate adjustments to the number of shares available reserved for issuance under the 2016 Plan, the number of shares covered by each outstanding award agreement, and/or the exercise price of each outstanding option. An award may be subject to additional acceleration of vesting and exercisability upon or after a change in control or as may be provided in any other written agreement between us and a participant, but in the absence of such provision, no acceleration of vesting will occur in connection with a change in control.

*Amendment; Termination.* Our board of directors may amend or terminate the 2016 Plan or any portion thereof at any time; an amendment of the 2016 Plan shall be subject to the approval of our stockholders only to the extent required by applicable laws. No awards may be granted under our 2016 Plan after it is terminated.

### **2021 Employee Stock Purchase Plan**

We intend to adopt and ask our stockholders to approve the 2021 Employee Stock Purchase Plan, which we refer to as our ESPP, which will be effective upon the day prior to the effectiveness of the registration statement to which this prospectus relates. The ESPP is designed to allow our eligible employees to purchase shares of our common stock, at semi-annual intervals, with their accumulated payroll deductions. The ESPP is intended to qualify under Section 423 of the Code. The material terms of the ESPP, as it is currently contemplated, are summarized below.

*Administration.* Subject to the terms and conditions of the ESPP, our compensation committee will administer the ESPP. Our compensation committee can delegate administrative tasks under the ESPP to the services of an agent and/or employees to assist in the administration of the ESPP. The administrator will have the discretionary authority to administer and interpret the ESPP. Interpretations and constructions of the administrator of any provision of the ESPP or of any rights thereunder will be conclusive and binding on all persons. We will bear all expenses and liabilities incurred by the ESPP administrator.

*Share Reserve.* The maximum number of shares of our common stock which will be authorized for sale under the ESPP is equal to the sum of (a) shares of common stock and (b) an annual increase on the first day of each fiscal year beginning in 2022 and ending in 2031, equal to the lesser of (i) % of the shares of our common stock outstanding (on an as converted basis) on the last day of the immediately preceding fiscal year and (ii) such number of shares of common stock as determined by our board of directors; provided, however, no more than

## [Table of Contents](#)

shares of our common stock may be issued under the ESPP. The shares reserved for issuance under the ESPP may be authorized but unissued shares or reacquired shares.

*Eligibility.* Employees eligible to participate in the ESPP for a given offering period generally include employees who are employed by us or one of our subsidiaries on the first day of the offering period, or the enrollment date. Our employees (and, if applicable, any employees of our subsidiaries) who customarily work less than five months in a calendar year or are customarily scheduled to work less than 20 hours per week will not be eligible to participate in the ESPP. Finally, an employee who owns (or is deemed to own through attribution) 5% or more of the combined voting power or value of all our classes of stock or of one of our subsidiaries will not be allowed to participate in the ESPP.

*Participation.* Employees will enroll under the ESPP by completing a payroll deduction form permitting the deduction from their compensation of at least 1% of their compensation but not more than the lesser of 15% of their compensation or \$50,000. Such payroll deductions may be expressed as either a whole number percentage or a fixed dollar amount, and the accumulated deductions will be applied to the purchase of shares on each purchase date. However, a participant may not purchase more than 15,000 shares in each offering period and may not subscribe for more than \$25,000 in fair market value of shares of our common stock (determined at the time the option is granted) during any calendar year. The ESPP administrator has the authority to change these limitations for any subsequent offering period.

*Offering.* Under the ESPP, participants are offered the option to purchase shares of our common stock at a discount during a series of successive offering periods, the duration and timing of which will be determined by the ESPP administrator. However, in no event may an offering period be longer than 27 months in length.

The option purchase price will be the lower of 85% of the closing trading price per share of our common stock on the first trading date of an offering period in which a participant is enrolled or 85% of the closing trading price per share on the purchase date, which will occur on the last trading day of each offering period.

Unless a participant has previously canceled his or her participation in the ESPP before the purchase date, the participant will be deemed to have exercised his or her option in full as of each purchase date. Upon exercise, the participant will purchase the number of whole shares that his or her accumulated payroll deductions will buy at the option purchase price, subject to the participation limitations listed above.

A participant may cancel his or her payroll deduction authorization at any time prior to the end of the offering period. Upon cancellation, the participant will have the option to either (i) receive a refund of the participant's account balance in cash without interest or (ii) exercise the participant's option for the current offering period for the maximum number of shares of common stock on the applicable purchase date, with the remaining account balance refunded in cash without interest. Following at least one payroll deduction, a participant may also decrease (but not increase) his or her payroll deduction authorization once during any offering period. If a participant wants to increase or decrease the rate of payroll withholding, he or she may do so effective for the next offering period by submitting a new form before the offering period for which such change is to be effective.

A participant may not assign, transfer, pledge or otherwise dispose of (other than by will or the laws of descent and distribution) payroll deductions credited to a participant's account or any rights to exercise an option or to receive shares of our common stock under the ESPP, and during a participant's lifetime, options in the ESPP shall be exercisable only by such participant. Any such attempt at assignment, transfer, pledge or other disposition will not be given effect.

*Adjustments upon Changes in Recapitalization, Dissolution, Liquidation, Merger or Asset Sale.* In the event of any increase or decrease in the number of issued shares of our common stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the common stock, or any other increase or decrease in the number of shares of common stock effected without receipt of consideration by us, we will proportionately adjust the aggregate number of shares of our common stock offered under the ESPP, the number and price of shares which any participant has elected to purchase under the ESPP and the maximum number of shares which a participant may elect to purchase in any single offering period. If there is a proposal to dissolve or liquidate us, then the ESPP will

---

## [Table of Contents](#)

terminate immediately prior to the consummation of such proposed dissolution or liquidation, and any offering period then in progress will be shortened by setting a new purchase date to take place before the date of our dissolution or liquidation. We will notify each participant of such change in writing at least ten business days prior to the new exercise date. If we undergo a merger with or into another corporation or sell all or substantially all of our assets, each outstanding option will be assumed or an equivalent option substituted by the successor corporation or the parent or subsidiary of the successor corporation. If the successor corporation refuses to assume the outstanding options or substitute equivalent options, then any offering period then in progress will be shortened by setting a new purchase date to take place before the date of our proposed sale or merger. We will notify each participant of such change in writing at least ten business days prior to the new exercise date.

*Amendment and Termination.* Our board of directors may amend, suspend or terminate the ESPP at any time. However, the board of directors may not amend the ESPP without obtaining stockholder approval within 12 months before or after such amendment to the extent required by applicable laws.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the compensation arrangements, including employment, termination of employment and change in control arrangements, discussed in the section titled “Executive and Director Compensation,” the following is a description of each transaction or agreement since January 1, 2017 and each currently proposed transaction in which:

- we have been or are to be a participant;
- the amount involved exceeded or exceeds \$120,000; and
- any of our directors, executive officers or, to our knowledge, beneficial owners of more than 5% of our outstanding capital stock, or any immediate family member of, or person sharing a household with, any of these individuals or entities, had or will have a direct or indirect material interest.

The following descriptions include summaries of certain provisions of our related party agreements. Because these descriptions are only summaries, they may not contain all of the information you may find useful in deciding whether to invest in our common stock, and are qualified in their entirety by reference to the full text of any such agreement filed as an exhibit to the registration statement of which this prospectus forms a part.

### ***Employment Agreements***

We have entered into employment agreements with certain of our named executive officers, as more fully described under “Executive and Director Compensation—Executive Compensation Arrangements.”

### ***Equity Awards to Executive Officers and Directors***

We have granted equity awards to certain of our executive officers and directors. See the section titled “Executive and Director Compensation—Outstanding Equity Awards at Fiscal Year End” and “—Director Compensation” for a description of these awards.

### ***Director and Officer Indemnification and Insurance***

Prior to the closing of this offering, we intend to enter into separate indemnification agreements with each of our directors and executive officers. These agreements, among other things, will require us to indemnify each director (and in certain cases their related funds) and executive officer to the fullest extent permitted by the DGCL, including indemnification of expenses such as attorneys’ fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person’s services as a director or executive officer. In addition, our Post-IPO Certificate of Incorporation and Post-IPO Bylaws will provide indemnification and advancement of expenses for our directors and executive officers to the fullest extent permitted by the DGCL, subject to certain limited exceptions. We have also purchased directors’ and officers’ liability insurance for each of our directors and executive officers. See “Description of Capital Stock—Limitations on Liability and Indemnification of Officers and Directors.”

### ***Our Policy Regarding Related Person Transactions***

Our board of directors recognizes the fact that transactions with related persons present a heightened risk of conflicts of interests (or the perception thereof). Our board of directors has adopted a written policy on transactions with related persons that is in conformity with the requirements for issuers having publicly held common stock that is listed on the Nasdaq Global Market. This policy will be effective immediately prior to the effectiveness of the registration statement of which this prospectus forms a part, and will cover any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships that meets the disclosure requirements set forth in Item 404 of Regulation S-K under the Securities Act (“Item 404”), in which we were or are to be a participant, and in which a “related person,” as defined in Item 404, had, has or will have a direct or indirect material interest, including without limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness and employment by us of a related person.

## PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock (1) reflecting the Automatic Conversion and the filing and effectiveness of our amended and restated certificate of incorporation immediately prior to the closing of this offering, in each case as if such event had occurred on August 31, 2021, and (2) as adjusted to give effect to this offering, by:

- each person or group of affiliated persons known by us to beneficially own more than 5% of our common stock;
- each of our named executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

The number of shares beneficially owned by each stockholder as described in this prospectus is determined under rules issued by the SEC. Under these rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting power or investment power.

In computing the number of shares beneficially owned by an individual or entity and the percentage ownership of that person, shares of common stock subject to options, RSUs or other rights held by such person that are currently exercisable or will become exercisable within 60 days of August 31, 2021 are considered outstanding, although these shares are not considered outstanding for purposes of computing the percentage ownership of any other person. The applicable percentage ownership of our common stock after this offering is based on \_\_\_\_\_ shares of our common stock outstanding as of August 31, 2021, after giving effect to the events described above and our issuance of \_\_\_\_\_ shares of common stock in this offering. Unless otherwise indicated, the address of all listed stockholders is c/o Arteris, Inc., 595 Millich Dr. Suite 200, Campbell, CA 95008.

We believe, based on the information furnished to us, that each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned by such stockholder, unless noted otherwise, and subject to community property laws where applicable.

<u>NAME OF BENEFICIAL OWNER</u>	<u>NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED</u>	<u>PERCENTAGE OF COMMON STOCK BENEFICIALLY OWNED</u>	
		<u>BEFORE THIS OFFERING (%)</u>	<u>AFTER THIS OFFERING (%)</u>
<b>5% Stockholders:</b>			
Arteris IP, LLC (1)			
Ventech Capital F (2)			
<b>Named Executive Officers and Directors:</b>			
K. Charles Janac			
David Mertens			
Wayne C. Cantwell			
Christian Claussen			
Raman K. Chitkara			
S. Atiq Raza			
Antonio J. Viana			
Isabelle F. Geday			
All executive officers and directors as a group (12 individuals)			

\* Represents beneficial ownership of less than 1%.

- (1) K. Charles Janac, our President, Chief Executive Officer and a member of our board of directors, is the manager of Arteris IP, LLC and has dispositive power over the shares of our common stock owned by Arteris IP LLC.
- (2) Christian Claussen, a member of our board of directors, is a General Partner of Ventech Capital F ("Ventech"). Investment and voting decisions for Ventech are made by Ventech's investment committee, which is governed by a non-executive board comprised of three or more individuals, and therefore no individual is the beneficial owner of the shares held by Ventech.

## DESCRIPTION OF CAPITAL STOCK

### General

Prior to the closing of this offering, we will file our Post-IPO Certificate of Incorporation and we will adopt our Post-IPO Bylaws. Our Post-IPO Certificate of Incorporation will authorize capital stock consisting of:

- shares of common stock, par value \$                      per share; and
- shares of preferred stock, par value \$                      per share.

As of June 30, 2021, assuming (i) the conversion of all of our preferred stock into shares of common stock; and (ii) the filing and effectiveness of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws, in each case, immediately prior to the closing this offering, there were 24,996,570 shares of our common stock outstanding, held by 116 stockholders of record, and no shares of our preferred stock outstanding.

The following summary describes the material provisions of our capital stock. We urge you to read our Post-IPO Certificate of Incorporation and our Post-IPO Bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part.

Certain provisions of our Post-IPO Certificate of Incorporation and our Post-IPO Bylaws summarized below may be deemed to have an anti-takeover effect and may delay or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares of common stock.

### Common Stock

#### ***Voting Rights***

Holders of shares of our common stock will be entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. The holders of our common stock will not have cumulative voting rights in the election of directors. An election of directors by our stockholders will be determined by a plurality of the votes cast by the stockholders entitled to vote on the election.

#### ***Dividends***

Holders of shares of our common stock will be entitled to receive ratably those dividends, if any, as may be declared by our board of directors out of funds legally available therefor, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock that we may designate and issue in the future.

#### ***Liquidation***

In the event of our dissolution or liquidation, after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any, the holders of shares of our common stock will be entitled to share ratably in the remaining assets legally available for distribution.

#### ***Rights and Preferences***

Holders of our common stock will not have preemptive, subscription, redemption or conversion rights. There will be no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock will be subject to and may be adversely affected by the rights of the holders of shares of any series of our preferred stock that we may designate in the future.

#### ***Fully Paid and Nonassessable***

All shares of our common stock outstanding immediately prior to the closing of this offering will be fully paid and non-assessable.

## **Preferred Stock**

Under the terms of our Post-IPO Certificate of Incorporation, our board of directors is authorized to direct us to issue shares of preferred stock in one or more series without stockholder approval. Our board of directors has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions, future financings and other corporate purposes, could have the effect of making it more difficult for a third-party to acquire, or could discourage a third-party from seeking to acquire, a majority of our outstanding voting stock. Additionally, the issuance of preferred stock may adversely affect the holders of our common stock by restricting dividends on our common stock, diluting the voting power of our common stock or subordinating the liquidation rights of our common stock. As a result of these or other factors, the issuance of preferred stock could have an adverse impact on the market price of our common stock.

## **Registration Rights**

The Investors' Rights Agreement, dated February 5, 2016, by and among Arteris, Inc. and the investors listed therein (the "IRA") provides that certain holders of our common stock and preferred stock, including, but not limited to, certain holders of at least 5% of our capital stock and entities affiliated with certain of our directors, have certain registration rights, as set forth below. The registration rights set forth in the IRA will expire five years following the completion of this offering, or, with respect to any particular stockholder, when such stockholder is able to sell all of its shares pursuant to Rule 144 of the Securities Act during any 90-day period without regard to volume and manner of sale limitation. We will pay the registration expenses (other than underwriting discounts and commissions and certain other expenses) of the holders of the shares registered pursuant to the registration rights described below.

In an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of shares such holders may include. In connection with this offering, we expect that each stockholder will agree not to sell or otherwise dispose of any securities without the prior written consent of Jefferies LLC for a period of 180 days after the date of this prospectus, subject to certain terms and conditions and early release of certain holders in specified circumstances. See the section titled "Shares Eligible for Future Sale—Lock-Up Agreements" for additional information regarding such restrictions.

### ***Demand Registration Rights***

After the completion of this offering, the holders of an aggregate of \_\_\_\_\_ shares of our common stock will be entitled to certain demand registration rights. At any time beginning six months after the effective date of this registration statement, the holders of at least 20% of the registrable securities then outstanding may request that we register all or a portion of their shares. Such request for registration must cover securities the aggregate offering price of which, after payment of underwriting discounts and commissions, would exceed \$5,000,000. We will not be required to effect more than two registrations on Form S-1 that have been declared effective. We have the right to defer such registration under certain circumstances.

### ***Piggyback Registration Rights***

In the event that we propose to register shares of our common stock or other equity interests under the Securities Act, either for our own account or for the account of other security holders (including in connection with this offering), we will be required to give notice to all holders of registrable securities and to include in the registration such number of registrable securities as any such holder may request, subject to certain limitations. These "piggyback" registration rights do not apply to certain excluded registrations, including any registration statement (i) on Form S-4, Form S-8 or any successor forms thereto, or (ii) filed solely in connection with an exchange offer or any employee benefit or dividend reinvestment (or similar) plan. In addition, if the proposed registration contemplates an underwritten offering, the managing underwriter of such offering will have the right to limit the number of registrable securities to be included in such registration for reasons related to the marketing of the securities.



### **Shelf Registration Rights**

After the completion of this offering, the holders of an aggregate of \_\_\_\_\_ shares of our common stock will be entitled to certain Form S-3 registration rights. The holders of at least 10% of the registrable securities then outstanding can make a request that we register their shares on Form S-3 if we are qualified to file a registration statement on Form S-3 and if the reasonably anticipated aggregate offering price, after payment of underwriting discounts and commissions, would equal or exceed \$1,000,000. We will not be required to effect more than two registrations on Form S-3 within any 12-month period. We have the right to defer such registration under certain circumstances.

### **Forum Selection**

Our Post-IPO Certificate of Incorporation and Post-IPO Bylaws will provide that, unless we consent in writing to the selection of an alternative forum, the Delaware Court of Chancery will be the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us, any director or our officers and employees arising pursuant to the DGCL, our Post-IPO Certificate of Incorporation or our Post-IPO Bylaws; or as to which the DGCL confers exclusive jurisdiction on the Delaware Court of Chancery; or any action asserting a claim against us, any director or our officers and employees that is governed by the internal affairs doctrine. As a result, any action brought by any of our stockholders with regard to any of these matters will need to be filed in the Delaware Court of Chancery and cannot be filed in any other jurisdiction; provided that, the exclusive forum provision will not apply to suits brought to enforce any liability or duty created by the Securities Act, the Exchange Act, the rules and regulations thereunder or any other claim for which the federal courts have exclusive jurisdiction; provided that, if and only if the Delaware Court of Chancery dismisses any such action for lack of subject matter jurisdiction, such action may be brought in another state or federal court sitting in the State of Delaware. Our Post-IPO Certificate of Incorporation and Post-IPO Bylaws will also provide that the federal district courts of the United States will be the exclusive forum for the resolution of any complaint asserting a cause of action against any defendant arising under the Securities Act. Such provision is intended to benefit and may be enforced by us, our officers and directors, employees and agents, including the underwriters and any other professional or entity who has prepared or certified any part of this prospectus. Although our Post-IPO Certificate of Incorporation and Post-IPO Bylaws contain the choice of forum provisions described above, it is possible that a court could find one or more of these provisions inapplicable for a particular claim or action or that such provision is unenforceable. Further, notwithstanding anything in our Post-IPO Certificate of Incorporation and Post-IPO Bylaws, investors cannot waive compliance with the federal securities laws and regulations thereunder. The choice of forum provisions will not apply to suits brought to enforce any liability or duty created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction.

If any action the subject matter of which is within the scope described above is filed in a court other than a court located within the State of Delaware (a Foreign Action), in the name of any stockholder, such stockholder shall be deemed to have consented to the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce the applicable provisions of our Post-IPO Certificate of Incorporation and Post-IPO Bylaws and having service of process made upon such stockholder in any such action by service upon such stockholder's counsel in the Foreign Action as agent for such stockholder.

These choice of 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 any of our directors, officers, other employees or stockholders, which may discourage lawsuits with respect to such claims or make such lawsuits more costly for stockholders, although our stockholders will not be deemed to have waived our compliance with federal securities laws and the rules and regulations thereunder.

### **Dividends**

Declaration and payment of any dividend will be subject to the discretion of our board of directors. The time and amount of dividends will be dependent upon, among other things, our business prospects, results of operations, financial condition, cash requirements and availability, debt repayment obligations, capital expenditure needs, the terms of any preferred equity securities we may issue in the future, covenants in the agreements governing our current and future indebtedness, other contractual restrictions, industry trends, the provisions of the DGCL affecting the payment of dividends and distributions to stockholders and any other factors or considerations our board of

directors may regard as relevant. Furthermore, because we are a holding company, our ability to pay dividends on our common stock will depend on our receipt of cash distributions and dividends from our direct and indirect wholly owned subsidiaries, which may be similarly impacted by, among other things, the terms of any preferred equity securities these subsidiaries may issue in the future, debt agreements, other contractual restrictions and provisions of applicable law. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business and the repayment of outstanding debt, and therefore do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. See “Dividend Policy” and “Risk Factors—Risks Related to this Offering and Ownership of Our Common Stock—We do not expect to pay any dividends on our common stock for the foreseeable future.”

### **Anti-Takeover Provisions**

The provisions of the DGCL, our Post-IPO Certificate of Incorporation and Post-IPO Bylaws, as they will be in effect immediately prior to the closing of this offering, will contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will discourage coercive takeover practices or inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors, which we believe may result in an improvement of the terms of any such acquisition in favor of our stockholders. However, they also give our board of directors the power to discourage acquisitions that some stockholders may favor.

#### ***Classified Board of Directors***

Our Post-IPO Certificate of Incorporation will provide that our board of directors will be divided into three classes, with the number of directors in each class being as nearly equal in number as possible. The directors in each class will serve for staggered three-year terms, one class being elected each year by our stockholders. Our Post-IPO Certificate of Incorporation will provide that directors may only be removed from our board of directors for cause by the affirmative vote of a majority of the shares entitled to vote. See “Management—Composition of our Board of Directors.” These provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control of us or our management.

#### ***Stockholder Action; Special Meetings of Stockholders***

Our Post-IPO Certificate of Incorporation will provide that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. As a result, a holder controlling a majority of our capital stock would not be able to amend our Post-IPO Bylaws or remove directors without holding a meeting of our stockholders called in accordance with our Post-IPO Bylaws. Further, our Post-IPO Bylaws provide that only the chairperson of our board of directors or a majority of our board of directors may call special meetings of our stockholders, thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.

#### ***Advance Notice Requirements for Stockholder Proposals and Director Nominations***

In addition, our Post-IPO Bylaws will establish an advance notice procedure for stockholder proposals to be brought before an annual meeting or special meeting of stockholders, including proposed nominations of candidates for election to our board of directors. Generally, in order for any matter to be “properly brought” before a meeting, the matter must be (a) specified in a notice of meeting given by or at the direction of our board of directors, (b) if not specified in a notice of meeting, otherwise brought before the meeting by our board of directors or the chairperson of the meeting, or (c) otherwise properly brought before the meeting by a stockholder present in person who (1) was a stockholder both at the time of giving the notice and at the time of the meeting, (2) is entitled to vote at the meeting, and (3) has complied with the advance notice procedures specified in the Post-IPO Bylaws or properly made such proposal in accordance with Rule 14a-8 under the Exchange Act and the rules and regulations thereunder, which proposal has been included in the proxy statement for the annual meeting. Further, for business to be properly brought before an annual meeting by a stockholder, the stockholder must (a) provide Timely Notice (as defined below) thereof in writing and in proper form to the secretary and (b) provide any updates or supplements to such notice at the times and in the forms required by our Post-IPO Bylaws. To be timely, a stockholder’s notice must be delivered to, or mailed and received at, our principal executive offices not less than 90 days nor more than 120 days prior to the one-year anniversary of the preceding year’s annual meeting; provided, however, that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, to be timely,

## [Table of Contents](#)

notice by the stockholder must be so delivered, or mailed and received, not later than the 90th day prior to such annual meeting or, if later, the 10th day following the day on which public disclosure of the date of such annual meeting was first made (such notice within such time periods, "Timely Notice").

Stockholders at an annual meeting or special meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board of directors or by a qualified stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has delivered timely written notice in proper form to our secretary of the stockholder's intention to bring such business before the meeting. These provisions could have the effect of delaying stockholder actions that are favored by the holders of a majority of our outstanding voting securities until the next stockholder meeting.

### **Amendment of Certificate of Incorporation or Bylaws**

The DGCL provides that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our Post-IPO Bylaws may be amended or repealed by a majority vote of our board of directors or by the affirmative vote of two-thirds of the votes which all of our stockholders would be eligible to cast in an election of directors. The affirmative vote of a majority of our board of directors and two-thirds in voting power of the outstanding shares entitled to vote thereon will be required to amend our Post-IPO Certificate of Incorporation.

### **Section 203 of the DGCL**

We will be governed by the provisions of Section 203 of the DGCL. In general, Section 203 prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the time of the transaction in which the person became an interested stockholder, unless:

- the business combination or transaction which resulted in the stockholder becoming an interested stockholder was approved by the board of directors prior to the time that the stockholder became an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding shares owned by directors who are also officers of the corporation and shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to the time the stockholder became an interested stockholder, the business combination was approved by the board of directors and authorized at an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least 66 $\frac{2}{3}$ % of the outstanding voting stock which is not owned by the interested stockholder.

In general, Section 203 defines a "business combination" to include mergers, asset sales and other transactions resulting in financial benefit to a stockholder and an "interested stockholder" as a person who, together with affiliates and associates, owns, or, if such person is an affiliate or associate of the corporation, within three years did own, 15% or more of the corporation's outstanding voting stock. These provisions may have the effect of delaying, deferring or preventing changes in control of our company.

### **Limitations on Liability and Indemnification of Officers and Directors**

Our Post-IPO Certificate of Incorporation and Post-IPO Bylaws will provide indemnification and advancement of expenses for our directors and officers to the fullest extent permitted by the DGCL, subject to certain limited exceptions. Prior to the closing of this offering, we intend to enter into separate indemnification agreements with each of our directors and executive officers. In some cases, the provisions of our indemnification agreements with our directors and executive officers may be broader than the specific indemnification provisions contained under the DGCL. In addition, as permitted by the DGCL, our Post-IPO Certificate of Incorporation will include provisions that eliminate the personal liability of our directors for monetary damages resulting from breaches of certain fiduciary duties as a director. The effect of this provision is to restrict our rights and the rights of our stockholders in derivative suits to recover monetary damages against a director for breach of fiduciary duties as a director. This provision does

## [Table of Contents](#)

not, however, eliminate the personal liability of our directors for monetary damages resulting from: (1) breach of the director's duty of loyalty, (2) acts or omissions not in good faith that involve intentional misconduct or knowing violation of law, (3) an unlawful payment of dividends or an unlawful stock purchase or redemption, or (4) any transaction from which the director derived an improper personal benefit.

These provisions may be held not to be enforceable for violations of the federal securities laws of the United States.

### **Corporate Opportunity Doctrine**

The DGCL permits corporations to adopt provisions renouncing any interest or expectancy in certain opportunities that are presented to the corporation or its officers, directors or stockholders. Our Post-IPO Certificate of Incorporation will, to the extent permitted by the DGCL, renounce any interest or expectancy that we have in, or right to be offered an opportunity to participate in, specified business opportunities that are from time to time presented to our officers, directors or stockholders or their respective affiliates, other than those officers, directors, stockholders or affiliates who are our employees or employees of our subsidiaries. Notwithstanding the foregoing, our Post-IPO Certificate of Incorporation will not renounce our interest in any business opportunity that is expressly offered to an officer, director, stockholder or affiliate solely in their capacity as an officer, director or stockholder (or affiliate thereof).

### **Dissenters' Rights of Appraisal and Payment**

Under the DGCL, with certain exceptions, our stockholders will have appraisal rights in connection with a merger or consolidation of Arteris, Inc. Pursuant to the Section 262 of the DGCL, stockholders who properly demand and perfect appraisal rights in connection with such merger or consolidation will have the right to receive payment of the fair value of their shares as determined by the Delaware Court of Chancery.

### **Stockholders' Derivative Actions**

Under the DGCL, any of our stockholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action, provided that the stockholder bringing the action is a holder of our shares at the time of the transaction to which the action relates.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock will be .

### **Trading Symbol and Market**

We intend to apply to list our common stock on the Nasdaq Global Market under the symbol "AIP."

## SHARES ELIGIBLE FOR FUTURE SALE

Immediately prior to this offering, there was no public market for our common stock. Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock. Although we intend to apply to have our common stock listed on the \_\_\_\_\_, we cannot assure you that there will be an active public market for our common stock.

Immediately prior to the closing of this offering, we will have outstanding an aggregate of \_\_\_\_\_ shares of common stock, assuming the issuance of \_\_\_\_\_ shares of common stock offered by us in this offering. Of these shares, all shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by our “affiliates,” as that term is defined in Rule 144 under the Securities Act, whose sales would be subject to the Rule 144 resale restrictions described below, other than the holding period requirement.

The remaining \_\_\_\_\_ shares of common stock will be “restricted securities,” as that term is defined in Rule 144 under the Securities Act. These restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which are summarized below.

### Registration Rights

Pursuant to the Registration Rights Agreement, after the closing of this offering, the holders of up to \_\_\_\_\_ shares of our common stock, or certain transferees, will be entitled to certain rights with respect to the registration of the offer and sale of those shares under the Securities Act. See the section titled “Description of Capital Stock—Registration Rights” for a description of these registration rights. If the offer and sale of these shares of our common stock are registered, the shares will be freely tradable without restriction under the Securities Act, subject to the Rule 144 limitations applicable to affiliates, and a large number of shares may be sold into the public market.

### Lock-Up Agreements

We, our executive officers, directors and the holders of substantially all of our outstanding stock, options and RSUs have entered into or will enter into lock-up agreements with the underwriters agreeing not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days thereafter, subject to certain exceptions. Jefferies LLC may, in its sole discretion, permit early release of shares subject to the lock-up agreements.

Upon the expiration of the lock-up period, substantially all of the shares subject to such lock-up restrictions will become eligible for sale, subject to the limitations discussed above. For a further description of these lock-up agreements, please see “Underwriting.”

### Rule 144

#### *Affiliate Resales of Restricted Securities*

In general, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, a person who is an affiliate of ours, or who was an affiliate at any time during the 90 days before a sale, who has beneficially owned shares of our common stock for at least 180 days would be entitled to sell in “broker’s transactions” or certain “riskless principal transactions” or to market makers, a number of shares within any three-month period that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding; and
- the average weekly trading volume in our common stock on the \_\_\_\_\_ during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Affiliate resales under Rule 144 are also subject to the availability of current public information about us. In addition, if the number of shares being sold under Rule 144 by an affiliate during any three-month period exceeds

## [Table of Contents](#)

5,000 shares or has an aggregate sale price in excess of \$50,000, the seller must file a notice on Form 144 with the SEC and the concurrently with either the placing of a sale order with the broker or the execution directly with a market maker.

### ***Non-Affiliate Resales of Restricted Securities***

Under Rule 144, a person who is not an affiliate of ours at the time of sale, and has not been an affiliate at any time during the 90 days preceding a sale, and who has beneficially owned shares of our common stock for at least six months but less than a year, is entitled to sell such shares subject only to the availability of current public information about us. If such person has held our shares for at least one year, such person can resell without regard to any Rule 144 restrictions, including the 90-day public company requirement and the current public information requirement.

Non-affiliate resales are not subject to the manner of sale, volume limitation or notice filing provisions of Rule 144.

### **Rule 701**

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who purchases shares from us in connection with a compensatory stock or option plan or other written agreement before the effective date of the registration statement of which this prospectus forms a part is entitled to sell such shares 90 days after such effective date in reliance on Rule 144. Our affiliates can resell shares in reliance on Rule 144 without having to comply with the holding period requirement, and non-affiliates of the issuer can resell shares in reliance on Rule 144 without having to comply with the current public information and holding period requirements.

The SEC has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Exchange Act, along with the shares acquired upon exercise of such options, including exercises after an issuer becomes subject to the reporting requirements of the Exchange Act.

### **Equity Plans**

We intend to file one or more registration statements on Form S-8 under the Securities Act to register the offer and sale of all shares of our common stock issued or issuable under our 2021 Plan. We expect to file the registration statement covering shares offered pursuant to our 2021 Plan shortly after the date of this prospectus, permitting the resale of such shares by non-affiliates in the public market without restriction under the Securities Act and the sale by affiliates in the public market subject to compliance with the resale provisions of Rule 144.

## MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following discussion is a summary of the material U.S. federal income tax consequences to Non-U.S. Holders (as defined below) of the purchase, ownership and disposition of our common stock issued pursuant to this offering, but does not purport to be a complete analysis of all potential tax effects. The effects of other U.S. federal tax laws, such as estate and gift tax laws, and any applicable state, local or non-U.S. tax laws are not discussed. This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service ("IRS"), in each case in effect as of the date hereof. These authorities may change or be subject to differing interpretations. Any such change or differing interpretation may be applied retroactively in a manner that could adversely affect a Non-U.S. Holder. We have not sought and will not seek any rulings from the IRS regarding the matters discussed below. There can be no assurance the IRS or a court will not take a contrary position to that discussed below regarding the tax consequences of the purchase, ownership and disposition of our common stock.

This discussion is limited to Non-U.S. Holders that hold our common stock as a "capital asset" within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all U.S. federal income tax consequences relevant to a Non-U.S. Holder's particular circumstances, including the impact of the Medicare contribution tax on net investment income and the alternative minimum tax. In addition, it does not address consequences relevant to Non-U.S. Holders subject to special rules, including, without limitation:

- U.S. expatriates and former citizens or long-term residents of the United States;
- persons holding our common stock as part of a hedge, straddle or other risk reduction strategy or as part of a conversion transaction or other integrated investment;
- banks, insurance companies, and other financial institutions;
- brokers, dealers or traders in securities;
- "controlled foreign corporations," "passive foreign investment companies" and corporations that accumulate earnings to avoid U.S. federal income tax;
- partnerships or other entities or arrangements treated as partnerships for U.S. federal income tax purposes (and investors therein);
- tax-exempt organizations or governmental organizations;
- persons deemed to sell our common stock under the constructive sale provisions of the Internal Revenue Code;
- persons who hold or receive our common stock pursuant to the exercise of any employee stock option or otherwise as compensation;
- tax-qualified retirement plans; and
- "qualified foreign pension funds" as defined in Section 897(l)(2) of the Internal Revenue Code and entities all of the interests of which are held by qualified foreign pension funds.

If an entity treated as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner in the partnership will depend on the status of the partner, the activities of the partnership and certain determinations made at the partner level. Accordingly, partnerships holding our common stock and the partners in such partnerships should consult their tax advisors regarding the U.S. federal income tax consequences to them.

**THIS DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. INVESTORS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK ARISING UNDER THE U.S. FEDERAL ESTATE OR GIFT TAX LAWS OR UNDER THE LAWS OF ANY STATE, LOCAL OR NON-U.S. TAXING JURISDICTION OR UNDER ANY APPLICABLE INCOME TAX TREATY.**



## Definition of a Non-U.S. Holder

For purposes of this discussion, a “Non-U.S. Holder” is any beneficial owner of our common stock that is neither a “U.S. person” nor an entity treated as a partnership for U.S. federal income tax purposes. A U.S. person is any person that, for U.S. federal income tax purposes, is or is treated as any of the following:

- an individual who is a citizen or resident of the United States;
- a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust that (i) is subject to the primary supervision of a U.S. court and all substantial decisions of which are subject to the control of one or more “United States persons” (within the meaning of Section 7701(a)(30) of the Code), or (ii) has a valid election in effect to be treated as a United States person for U.S. federal income tax purposes.

## Distributions

As described in the section titled “Dividend Policy,” we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. However, if we do make distributions of cash or property on our common stock, such distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Amounts not treated as dividends for U.S. federal income tax purposes will constitute a return of capital and first be applied against and reduce a Non-U.S. Holder’s adjusted tax basis in its common stock, but not below zero. Any excess will be treated as capital gain and will be treated as described under the subsection titled “—Sale or Other Taxable Disposition” below.

Subject to the discussion below regarding effectively connected income, dividends paid to a Non-U.S. Holder will be subject to U.S. federal withholding tax at a rate of 30% of the gross amount of the dividends (or such lower rate specified by an applicable income tax treaty, provided the Non-U.S. Holder furnishes a valid IRS Form W-8BEN or W-8BEN-E (or other applicable documentation) certifying qualification for the lower treaty rate). A Non-U.S. Holder that does not timely furnish the required documentation, but that qualifies for a reduced treaty rate, may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non-U.S. Holders should consult their tax advisors regarding their entitlement to benefits under any applicable tax treaties.

If dividends paid to a Non-U.S. Holder are effectively connected with the Non-U.S. Holder’s conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, the Non-U.S. Holder maintains a permanent establishment in the United States to which such dividends are attributable), the Non-U.S. Holder will be exempt from the U.S. federal withholding tax described above. To claim the exemption, the Non-U.S. Holder must furnish to the applicable withholding agent a valid IRS Form W-8ECI, certifying that the dividends are effectively connected with the Non-U.S. Holder’s conduct of a trade or business within the United States.

Any such effectively connected dividends will be subject to U.S. federal income tax on a net income basis at the regular rates. A Non-U.S. Holder that is a corporation also may be subject to a branch profits tax at a rate of 30% (or such lower rate specified by an applicable income tax treaty) on such effectively connected dividends, as adjusted for certain items. Non-U.S. Holders should consult their tax advisors regarding any applicable tax treaties that may provide for different rules.

## Sale or Other Taxable Disposition

A Non-U.S. Holder will not be subject to U.S. federal income tax on any gain realized upon the sale or other taxable disposition of our common stock unless:

- the gain is effectively connected with the Non-U.S. Holder’s conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, the Non-U.S. Holder maintains a permanent establishment in the United States to which such gain is attributable);
- the Non-U.S. Holder is a nonresident alien individual present in the United States for 183 days or more during the taxable year of the disposition and certain other requirements are met; or

## [Table of Contents](#)

- our common stock constitutes a U.S. real property interest (“USRPI”) by reason of our status as a U.S. real property holding corporation (“USRPHC”) for U.S. federal income tax purposes.

Gain described in the first bullet point above generally will be subject to U.S. federal income tax on a net income basis at the regular rates applicable to U.S. persons. A Non-U.S. Holder that is a corporation also may be subject to a branch profits tax at a rate of 30% (or such lower rate specified by an applicable income tax treaty) on such effectively connected gain, as adjusted for certain items.

A Non-U.S. Holder described in the second bullet point above will be subject to U.S. federal income tax at a rate of 30% (or such lower rate specified by an applicable income tax treaty) on gain realized upon the sale or other taxable disposition of our common stock, which may be offset by certain U.S. source capital losses of the Non-U.S. Holder (even though the individual is not considered a resident of the United States), provided the Non-U.S. Holder has timely filed U.S. federal income tax returns with respect to such losses.

With respect to the third bullet point above, we believe we currently are not, and do not anticipate becoming, a USRPHC. Because the determination of whether we are a USRPHC depends, however, on the fair market value of our USRPIs relative to the fair market value of our non-U.S. real property interests and our other business assets, there can be no assurance we currently are not a USRPHC or will not become one in the future. Even if we are or were to become a USRPHC, gain arising from the sale or other taxable disposition of our common stock by a Non-U.S. Holder will not be subject to U.S. federal income tax if our common stock is “regularly traded,” as defined by applicable Treasury Regulations, on an established securities market, and such Non-U.S. Holder owned, actually and constructively, 5% or less of our common stock throughout the shorter of the five-year period ending on the date of the sale or other taxable disposition or the Non-U.S. Holder’s holding period.

Non-U.S. Holders should consult their tax advisors regarding any applicable tax treaties that may provide for different rules.

### **Information Reporting and Backup Withholding**

Payments of dividends on our common stock will not be subject to backup withholding, provided the Non-U.S. Holder certifies its non-U.S. status, such as by furnishing a valid IRS Form W-8BEN, W-8BEN-E or W-8ECI, or otherwise establishes an exemption. However, information returns are required to be filed with the IRS in connection with any distributions on our common stock paid to the Non-U.S. Holder, regardless of whether such distributions constitute dividends or whether any tax was actually withheld. In addition, proceeds of the sale or other taxable disposition of our common stock within the United States or conducted through certain U.S.-related brokers generally will not be subject to backup withholding or information reporting if the applicable withholding agent receives the certification described above or the Non-U.S. Holder otherwise establishes an exemption. Proceeds of a disposition of our common stock conducted through a non-U.S. office of a non-U.S. broker that does not have certain enumerated relationships with the United States generally will not be subject to backup withholding or information reporting.

Copies of information returns that are filed with the IRS may also be made available under the provisions of an applicable treaty or agreement to the tax authorities of the country in which the Non-U.S. Holder resides or is established.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a Non-U.S. Holder’s U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

### **Additional Withholding Tax on Payments Made to Foreign Accounts**

Withholding taxes may be imposed under Sections 1471 to 1474 of the Code (such Sections commonly referred to as the Foreign Account Tax Compliance Act (“FATCA”)) on certain types of payments made to non-U.S. financial institutions and certain other non-U.S. entities. Specifically, a 30% withholding tax may be imposed on dividends on, or (subject to the proposed Treasury Regulations discussed below) gross proceeds from the sale or other disposition of, our common stock paid to a “foreign financial institution” or a “non-financial foreign entity” (each as

## [Table of Contents](#)

defined in the Code), unless (i) the foreign financial institution undertakes certain diligence and reporting obligations, (ii) the non-financial foreign entity either certifies it does not have any “substantial United States owners” (as defined in the Code) or furnishes identifying information regarding each substantial United States owner, or (iii) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. If the payee is a foreign financial institution and is subject to the diligence and reporting requirements in (i) above, it must enter into an agreement with the U.S. Department of the Treasury requiring, among other things, that it undertake to identify accounts held by certain “specified United States persons” or “United States owned foreign entities” (each as defined in the Code), annually report certain information about such accounts, and withhold 30% on certain payments to non-compliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules.

Under applicable Treasury Regulations and administrative guidance, withholding under FATCA generally applies to payments of dividends on our common stock. While withholding under FATCA would have applied also to payments of gross proceeds from the sale or other disposition of our common stock beginning on January 1, 2019, proposed Treasury Regulations eliminate FATCA withholding on payments of gross proceeds entirely. Taxpayers generally may rely on these proposed Treasury Regulations until final Treasury Regulations are issued.

Prospective investors should consult their tax advisors regarding the potential application of withholding under FATCA to their investment in our common stock.

## UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement, dated \_\_\_\_\_, 2021, among us and Jefferies LLC and Cowen and Company, LLC, as the representatives of the underwriters in this offering named below, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the respective number of shares of common stock shown opposite its name below:

<u>UNDERWRITER</u>	<u>NUMBER OF SHARES</u>
Jefferies LLC	
Cowen and Company, LLC	
BMO Capital Markets Corp.	
Northland Securities, Inc.	
Rosenblatt Securities Inc.	
Total	

The underwriting agreement provides that the obligations of the several underwriters are subject to certain conditions precedent such as the receipt by the underwriters of officers' certificates and legal opinions and approval of certain legal matters by their counsel. The underwriting agreement provides that the underwriters will purchase all of the shares of common stock if any of them are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated. We have agreed to indemnify the underwriters and certain of their controlling persons against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of those liabilities.

The underwriters have advised us that, following the completion of this offering, they currently intend to make a market in the common stock as permitted by applicable laws and regulations. However, the underwriters are not obligated to do so, and the underwriters may discontinue any market-making activities at any time without notice in their sole discretion. Accordingly, no assurance can be given as to the liquidity of the trading market for the common stock, that you will be able to sell any of the common stock held by you at a particular time or that the prices that you receive when you sell will be favorable.

The underwriters are offering the shares of common stock subject to their acceptance of the shares of common stock from us and subject to prior sale. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part. In addition, the underwriters have advised us that they do not intend to confirm sales to any account over which they exercise discretionary authority except sales to accounts over which they have discretionary authority to exceed 5% of the common stock being offered.

### Commission and Expenses

The underwriters have advised us that they propose to offer the shares of common stock to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers, which may include the underwriters, at that price less a concession not in excess of \$ \_\_\_\_\_ per share of common stock. After the offering, the initial public offering price, concession and reallowance to dealers may be reduced by the representatives. No such reduction will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus.

## [Table of Contents](#)

The following table shows the public offering price, the underwriting discounts and commissions that we are to pay the underwriters and the proceeds, before expenses, to us in connection with this offering. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	PER SHARE		TOTAL	
	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES
Public offering price	\$	\$	\$	\$
Underwriting discounts and commissions paid by us	\$	\$	\$	\$
Proceeds to us, before expenses	\$	\$	\$	\$

We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately \$ . We have also agreed to reimburse the underwriters for up to \$ for their expenses related to clearance of this offering with the Financial Industry Regulatory Authority, Inc., or FINRA, including the related fees and expenses of counsel for the underwriters. In accordance with FINRA Rule 5110, this reimbursed fee is deemed underwriting compensation for this offering.

### **Determination of Offering Price**

Prior to this offering, there has not been a public market for our common stock. Consequently, the initial public offering price for our common stock will be determined by negotiations between us and the representatives. Among the factors to be considered in these negotiations will be prevailing market conditions, our financial information, market valuations of other companies that we and the underwriters believe to be comparable to us, estimates of our business potential, the present state of our development and other factors deemed relevant.

We offer no assurances that the initial public offering price will correspond to the price at which the common stock will trade in the public market subsequent to the offering or that an active trading market for the common stock will develop and continue after the offering.

### **Listing**

We intend to apply to list our common stock on the Nasdaq Global Market under the trading symbol "AIP".

### **Option to Purchase Additional Shares**

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase, from time to time, in whole or in part, up to an aggregate of shares from us at the public offering price set forth on the cover page of this prospectus, less underwriting discounts and commissions. If the underwriters exercise this option, each underwriter will be obligated, subject to specified conditions, to purchase a number of additional shares proportionate to that underwriter's initial purchase commitment as indicated in the table above. This option may be exercised only if the underwriters sell more shares than the total number set forth on the cover page of this prospectus.

### **No Sales of Similar Securities**

We, our officers, directors and holders of substantially all our outstanding capital stock and other securities have agreed, subject to specified exceptions, not to directly or indirectly:

- sell or offer to sell any shares of common stock, options, warrants or other rights to acquire shares of common stock or any securities exchangeable or exercisable for or convertible into shares of common stock, or to acquire other securities or rights ultimately exchangeable or exercisable for or convertible into shares of common stock currently or hereafter owned either of record or beneficially (as defined in Rule 13d-3 under the Exchange Act) by such individual or their family member;

## [Table of Contents](#)

- enter into any swap;
- make any demand for, or exercise any right with respect to, the registration under the Securities Act of the offer and sale of any shares of common stock, options, warrants or other rights to acquire shares of common stock or any securities exchangeable or exercisable for or convertible into shares of common stock, or to acquire other securities or rights ultimately exchangeable or exercisable for or convertible into shares of common stock, or cause to be filed a registration statement, prospectus or prospectus supplement (or an amendment or supplement thereto) with respect to any such registration; or
- publicly announce any intention to do any of the foregoing for a period of 180 days after the date of this prospectus without the prior written consent of Jefferies LLC.

This restriction terminates after the close of trading of the common stock on and including the 180th day after the date of this prospectus.

Jefferies LLC may, in its sole discretion and at any time or from time to time before the termination of the 180-day period, release all or any portion of the securities subject to lock-up agreements. There are no existing agreements between the underwriters and any of our shareholders who will execute a lock-up agreement, providing consent to the sale of shares prior to the expiration of the lock-up period.

### **Stabilization**

The underwriters have advised us that they, pursuant to Regulation M under the Exchange Act, certain persons participating in the offering may engage in short sale transactions, stabilizing transactions, syndicate covering transactions or the imposition of penalty bids in connection with this offering. These activities may have the effect of stabilizing or maintaining the market price of the common stock at a level above that which might otherwise prevail in the open market. Establishing short sales positions may involve either "covered" short sales or "naked" short sales.

"Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares of our common stock in this offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares of our common stock or purchasing shares of our common stock in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option to purchase additional shares.

"Naked" short sales are sales in excess of the option to purchase additional shares of our common stock. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares of our common stock in the open market after pricing that could adversely affect investors who purchase in this offering.

A stabilizing bid is a bid for the purchase of shares of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A syndicate covering transaction is the bid for or the purchase of shares of common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. Similar to other purchase transactions, the underwriter's purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. A penalty bid is an arrangement permitting the underwriters to reclaim the selling concession otherwise accruing to a syndicate member in connection with the offering if the common stock originally sold by such syndicate member are purchased in a syndicate covering transaction and therefore have not been effectively placed by such syndicate member.

Neither we, nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. The underwriters are not obligated to engage in these activities and, if commenced, any of the activities may be discontinued at any time.

## [Table of Contents](#)

The underwriters may also engage in passive market making transactions in our common stock on the Nasdaq Global Market in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of shares of our common stock in this offering and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded.

### **Electronic Distribution**

A prospectus in electronic format may be made available by e-mail or on the websites or through online services maintained by one or more of the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares of common stock for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus in electronic format, the information on the underwriters' websites and any information contained in any other web site maintained by any of the underwriters is not part of this prospectus, has not been approved and/or endorsed by us or the underwriters and should not be relied upon by investors.

### **Other Activities and Relationships**

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for us and our affiliates, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments issued by us and our affiliates. If the underwriters or their respective affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. The underwriters and their respective affiliates may hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the securities of our affiliates, including potentially the common stock offered hereby. Any such short positions could adversely affect future trading prices of the common stock offered hereby. The underwriters and certain of their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Disclaimers About Non-U.S. Jurisdictions**

#### **Canada**

##### *(A) Resale Restrictions*

The distribution of shares of common stock in Canada is being made only in the provinces of Ontario, Quebec, Alberta, British Columbia, Manitoba, New Brunswick and Nova Scotia on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of these securities are made. Any resale of the shares of common stock in Canada must be made under applicable securities laws which may vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the securities.



## Table of Contents

### *(B) Representations of Canadian Purchasers*

By purchasing shares of common stock in Canada and accepting delivery of a purchase confirmation, a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the shares of common stock without the benefit of a prospectus qualified under those securities laws as it is an “accredited investor” as defined under National Instrument 45-106 – Prospectus Exemptions or Section 73.3(1) of the Securities Act (Ontario), as applicable,
- the purchaser is a “permitted client” as defined in National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations,
- where required by law, the purchaser is purchasing as principal and not as agent, and
- the purchaser has reviewed the text above under Resale Restrictions.

### *(C) Conflicts of Interest*

Canadian purchasers are hereby notified that certain of the underwriters are relying on the exemption set out in section 3A.3 or 3A.4, if applicable, of National Instrument 33-105 – Underwriting Conflicts from having to provide certain conflict of interest disclosure in this document.

### *(D) Statutory Rights of Action*

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if the prospectus (including any amendment thereto) such as this document contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser of these shares of common stock in Canada should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

### *(E) Enforcement of Legal Rights*

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

### *(F) Taxation and Eligibility for Investment*

Canadian purchasers of shares of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the shares of common stock in their particular circumstances and about the eligibility of the shares of common stock for investment by the purchaser under relevant Canadian legislation.

### **Australia**

This prospectus is not a disclosure document for the purposes of Australia’s Corporations Act 2001 (Cth) of Australia, or Corporations Act, has not been lodged with the Australian Securities & Investments Commission and is only directed to the categories of exempt persons set out below. Accordingly, if you receive this prospectus in Australia:

A. You confirm and warrant that you are either:

- a “sophisticated investor” under section 708(8)(a) or (b) of the Corporations Act;
- a “sophisticated investor” under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant’s certificate to the Company which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;
- a person associated with the Company under Section 708(12) of the Corporations Act; or
- a “professional investor” within the meaning of section 708(11)(a) or (b) of the Corporations Act.

To the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this prospectus is void and incapable of acceptance.

## [Table of Contents](#)

- B. You warrant and agree that you will not offer any of the shares of common stock issued to you pursuant to this prospectus for resale in Australia within 12 months of those securities being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

### **European Economic Area**

In relation to each Member State of the European Economic Area, each, a Relevant State, no shares of common stock have been offered or will be offered pursuant to the offering to the public in that Relevant State prior to the publication of a prospectus in relation to the shares of common stock which have been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, all in accordance with the Prospectus Regulation, except that the shares of common stock may be offered to the public in that Relevant State at any time:

- (a) to any legal entity which is a “qualified investor” as defined under Article 2 of the Prospectus Regulation;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined under Article 2 of the Prospectus Regulation), subject to obtaining the prior consent of representatives for any such offer; or
- (c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of the shares of common stock shall require us or any of the representatives to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression “offer to the public” in relation to the shares of common stock in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of common stock to be offered so as to enable an investor to decide to purchase or subscribe for any shares of common stock, and the expression “Prospectus Regulation” means Regulation (EU) 2017/1129.

### **Hong Kong**

No shares of common stock have been offered or sold, and no shares of common stock may be offered or sold, in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent; or to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong, or the SFO, and any rules made under that Ordinance; or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong, or the CO, or which do not constitute an offer or invitation to the public for the purpose of the CO or the SFO. No document, invitation or advertisement relating to the shares of common stock has been issued or may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted under the securities laws of Hong Kong) other than with respect to shares of common stock which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under that Ordinance.

This prospectus has not been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may not be issued, circulated or distributed in Hong Kong, and the shares of common stock may not be offered for subscription to members of the public in Hong Kong. Each person acquiring the shares of common stock will be required, and is deemed by the acquisition of the shares of common stock, to confirm that he is aware of the restriction on offers of the shares of common stock described in this prospectus and the relevant offering documents and that he is not acquiring, and has not been offered any shares of common stock in circumstances that contravene any such restrictions.

### **Israel**

This document does not constitute a prospectus under the Israeli Securities Law, 5728-1968, or the Securities Law, and has not been filed with or approved by the Israel Securities Authority. In Israel, this prospectus is being distributed only to, and is directed only at, and any offer of the shares of common stock is directed only at, (i) a limited number of persons in accordance with the Israeli Securities Law and (ii) investors listed in the first addendum, or the Addendum, to the Israeli Securities Law, consisting primarily of joint investment in trust funds, provident funds, insurance companies, banks, portfolio managers, investment advisors, members of the Tel Aviv

## Table of Contents

Stock Exchange, underwriters, venture capital funds, entities with equity in excess of NIS 50 million and “qualified individuals,” each as defined in the Addendum (as it may be amended from time to time), collectively referred to as qualified investors (in each case, purchasing for their own account or, where permitted under the Addendum, for the accounts of their clients who are investors listed in the Addendum). Qualified investors are required to submit written confirmation that they fall within the scope of the Addendum, are aware of the meaning of same and agree to it.

### **Japan**

The offering has not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948 of Japan, as amended), or FIEL, and the underwriters will not offer or sell any shares of common stock, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

### **Singapore**

This prospectus has not been and will not be lodged or registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the common stock may not be circulated or distributed, nor may the common stock be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares of common stock are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares of common stock pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### **Switzerland**

The shares of common stock may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or the SIX, or on any other stock exchange or regulated trading facility in Switzerland. This prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this prospectus nor any other offering or marketing material relating to the securities or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

## [Table of Contents](#)

Neither this prospectus nor any other offering or marketing material relating to the offering, the Company or the securities have been or will be filed with or approved by any Swiss regulatory authority. In particular, this prospectus will not be filed with, and the offer of securities will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, and the offer of securities has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes, or the CISA. The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of securities.

### **United Kingdom**

No shares of common stock have been offered or will be offered pursuant to the offering to the public in the United Kingdom prior to the publication of a prospectus in relation to the shares of common stock which has been approved by the Financial Conduct Authority, except that the shares of common stock may be offered to the public in the United Kingdom at any time:

- (a) to any legal entity which is a qualified investor as defined under Article 2 of the UK Prospectus Regulation;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined under Article 2 of the UK Prospectus Regulation), subject to obtaining the prior consent of the representatives for any such offer; or
- (c) in any other circumstances falling within Section 86 of the FSMA,

provided that no such offer of the shares of common stock shall require the Issuer or any Manager to publish a prospectus pursuant to Section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation. For the purposes of this provision, the expression an "offer to the public" in relation to the shares of common stock in the United Kingdom means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of common stock to be offered so as to enable an investor to decide to purchase or subscribe for any shares of common stock and the expression "UK Prospectus Regulation" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018.

**LEGAL MATTERS**

The validity of the shares of our common stock offered hereby will be passed upon for us by Latham & Watkins LLP, San Francisco, California. Cooley LLP, Palo Alto, California, has acted as counsel for the underwriters in connection with certain legal matters related to this offering.

## EXPERTS

The consolidated financial statements of Arteris, Inc. as of December 31, 2019 and 2020, and for the years then ended, included in this prospectus have been audited by Moss Adams, LLP, an independent registered public accounting firm, as set forth in their report included herein. Such consolidated financial statements have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements of Magillem Design Services SA as of and for the fiscal year ended June 30, 2020 included in this prospectus have been so included in reliance on the report of Mazars, an independent registered public accounting firm given, on the authority of said firm as experts in auditing and accounting.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed with the registration statement. For further information about us and the common stock offered hereby, we refer you to the registration statement and the exhibits filed with the registration statement. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. The SEC also maintains an internet website that contains reports, proxy statements and other information about registrants, like us, that file electronically with the SEC. The address of that website is [www.sec.gov](http://www.sec.gov).

Upon the effectiveness of the registration statement, we will be required to file periodic reports, proxy statements, and other information with the SEC pursuant to the Exchange Act. These reports, proxy statements, and other information will be available on the website of the SEC referred to above.

We also maintain a website at [www.arteris.com](http://www.arteris.com), through which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on, or that can be accessed through, our website is not incorporated by reference in this prospectus and does not form a part of this prospectus. The inclusion of our website address in this prospectus is an inactive textual reference only.



## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

---

	<u>PAGE</u>
<b>Arteris, Inc. and Subsidiaries</b>	
<a href="#">REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</a>	F-2
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2020:	
<a href="#">Consolidated Balance Sheets</a>	F-3
<a href="#">Consolidated Statements of Income (Loss)</a>	F-4
<a href="#">Consolidated Statements of Comprehensive Income (Loss)</a>	F-5
<a href="#">Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit</a>	F-6
<a href="#">Consolidated Statements of Cash Flows</a>	F-7
<a href="#">NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</a>	F-8
<b>Arteris, Inc. and Subsidiaries</b>	
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020 AND SIX MONTHS ENDED JUNE 30, 2021:	
<a href="#">Condensed Consolidated Balance Sheets</a>	F-37
<a href="#">Condensed Consolidated Statement of Loss and Comprehensive Loss</a>	F-38
<a href="#">Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit</a>	F-39
<a href="#">Condensed Consolidated Statements of Cash Flows</a>	F-40
<a href="#">NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</a>	F-41-F-56
<b>Magillem Design Services SA</b>	
<a href="#">REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</a>	F-57
FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2020:	
<a href="#">Balance Sheet</a>	F-59
<a href="#">Statement of Operations and Comprehensive Income</a>	F-60
<a href="#">Statement of Changes in Stockholders' Equity</a>	F-61
<a href="#">Statement of Cash Flows</a>	F-62
<a href="#">NOTES TO FINANCIAL STATEMENTS</a>	F-63

---

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors  
Arteris, Inc.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Arteris, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income (loss), comprehensive income (loss), redeemable convertible preferred stock and stockholders' deficit, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

San Francisco, California  
June 11, 2021

We have served as the Company's auditor since 2020.

**ARTERIS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
As of December 31, 2019 and 2020  
(In thousands, except share and per share data)

	2019	2020
<b>ASSETS</b>		
Current assets:		
Cash	\$ 13,938	\$ 11,744
Accounts receivable-net	7,058	14,350
Prepaid expenses and other current assets	1,807	2,858
Total current assets	22,803	28,952
Property and equipment-net	1,026	2,365
Operating lease right-of-use assets	1,898	2,753
Intangibles-net	—	3,409
Goodwill	—	2,677
Other assets	1,096	2,580
<b>TOTAL ASSETS</b>	<b>\$ 26,823</b>	<b>\$ 42,736</b>
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 702	\$ 1,116
Accrued expenses and other current liabilities	2,683	7,249
Operating lease liabilities, current	474	767
Deferred revenue, current	14,343	17,894
Vendor financing arrangements, current	415	643
Term loan, current	600	557
Total current liabilities	19,217	28,226
Deferred revenue, noncurrent	8,773	15,014
Operating lease liabilities, noncurrent	1,512	2,079
Vendor financing arrangements, noncurrent	299	727
Term loan, noncurrent	539	—
Other liabilities	201	2,986
<b>Total liabilities</b>	<b>30,541</b>	<b>49,032</b>
Commitments and contingencies (Note 11)		
Redeemable convertible preferred stock:		
Redeemable convertible preferred stock, par value of \$0.001—4,471,316 shares authorized; 4,471,316 shares issued and outstanding in 2019 and 2020 (aggregate liquidation preference of \$5,768 in 2019 and 2020)	5,712	5,712
Stockholders' deficit:		
Common stock, par value of \$0.001—31,525,154 shares authorized; 17,349,695 and 18,486,989 shares issued and outstanding in 2019 and 2020, respectively	17	18
Additional paid-in capital	2,918	3,612
Accumulated other comprehensive loss	(18)	(31)
Accumulated deficit	(12,347)	(15,607)
Total stockholders' deficit	(9,430)	(12,008)
<b>TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT</b>	<b>26,823</b>	<b>42,736</b>

See notes to consolidated financial statements

**ARTERIS, INC. AND SUBSIDIARIES****Consolidated Statements of Income (Loss)**  
For the years ended December 31, 2019 and 2020  
(In thousands, except share and per share data)

	<u>2019</u>	<u>2020</u>
Licensing, support and maintenance	\$ 26,733	\$ 27,408
Variable royalties and other	4,768	4,404
Total revenue	<u>31,501</u>	<u>31,812</u>
Cost of revenue	<u>1,862</u>	<u>1,491</u>
Gross profit	29,639	30,321
Operating expenses:		
Research and development	10,051	17,020
Sales and marketing	9,782	9,749
General and administrative	<u>2,533</u>	<u>7,329</u>
Total operating expenses	<u>22,366</u>	<u>34,098</u>
Income (loss) from operations	7,273	(3,777)
Gain on extinguishment of debt	—	1,593
Interest and other expense, net	<u>(290)</u>	<u>(50)</u>
Income (loss) before provision for income taxes	6,983	(2,234)
Provision for income taxes	<u>1,144</u>	<u>1,026</u>
Net income (loss)	\$ 5,839	\$ (3,260)
Less: Net income attributable to participating securities	<u>(1,221)</u>	<u>—</u>
Net income (loss) attributable to common stockholders	<u>\$ 4,618</u>	<u>\$ (3,260)</u>
Net income (loss) per share attributable to common stockholders:		
Basic	\$ 0.27	\$ (0.19)
Diluted	\$ 0.27	\$ (0.19)
Weighted average shares used in computing per share amounts		
Basic	16,915,855	17,577,846
Diluted	17,413,305	17,577,846

See notes to consolidated financial statements.

**ARTERIS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income (Loss)**  
For the years ended December 31, 2019 and 2020  
(In thousands)

---

	<u>2019</u>	<u>2020</u>
Net income (loss)	\$5,839	\$(3,260)
Other comprehensive loss		
Unrealized pension actuarial loss	(1)	(13)
Comprehensive income (loss)	<u>\$5,838</u>	<u>\$(3,273)</u>

---

See notes to consolidated financial statements.

**ARTERIS, INC. AND SUBSIDIARIES**

**Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit**

For the years ended December 31, 2019 and 2020

(In thousands, except share data)

	REDEEMABLE CONVERTIBLE PREFERRED STOCK		STOCKHOLDERS' DEFICIT					
	SHARES	AMOUNT	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE LOSS	ACCUMULATED DEFICIT	TOTAL
			SHARES	AMOUNT				
BALANCE—January 1, 2019	4,471,316	\$ 5,712	16,726,228	\$ 17	\$ 2,456	\$ (17)	\$ (18,186)	\$(15,730)
Issuance of common stock for settlement of restricted stock awards	—	—	18,000	—	—	—	—	—
Issuance of common stock for cash upon exercise of stock options	—	—	531,352	—	185	—	—	185
Issuance of common stock for settlement of restricted stock units	—	—	74,115	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	277	—	—	277
Unrealized pension actuarial loss	—	—	—	—	—	(1)	—	(1)
Net income	—	—	—	—	—	—	5,839	5,839
BALANCE— December 31, 2019	4,471,316	5,712	17,349,695	17	2,918	(18)	(12,347)	(9,430)
Issuance of common stock for cash upon exercise of stock options	—	—	1,002,039	1	236	—	—	237
Issuance of common stock for settlement of restricted stock units	—	—	135,255	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	458	—	—	458
Unrealized pension actuarial loss	—	—	—	—	—	(13)	—	(13)
Net loss	—	—	—	—	—	—	(3,260)	(3,260)
BALANCE— December 31, 2020	<u>4,471,316</u>	<u>\$ 5,712</u>	<u>18,486,989</u>	<u>\$ 18</u>	<u>\$ 3,612</u>	<u>\$ (31)</u>	<u>\$ (15,607)</u>	<u>\$(12,008)</u>

See notes to consolidated financial statements

**ARTERIS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
For the years ended December 31, 2019 and 2020  
(In thousands)

	2019	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 5,839	\$ (3,260)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	756	935
Stock-based compensation	277	458
Pension plan expenses	19	33
Amortization of debt issuance cost	13	8
Operating non-cash lease expense	9	532
Provision for doubtful accounts and allowances	18	—
Gain on extinguishment of debt	—	(1,593)
Gain on disposal of assets	—	(7)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,670	(6,324)
Prepaid expenses and other assets	(497)	(2,608)
Accounts payable	135	414
Accrued expenses and other current liabilities	901	3,016
Operating lease liabilities	—	(527)
Deferred revenue	2,059	11,086
Net cash provided by operating activities	<u>12,199</u>	<u>2,163</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(242)	(654)
Payments for business acquisition	—	(4,500)
Proceeds from sale of property and equipment	—	7
Net cash used in investing activities	<u>(242)</u>	<u>(5,147)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from PPP Loan	—	1,603
Payments of principal portion of Term loan	(350)	(600)
Principal payments under vendor financing arrangements	(741)	(441)
Proceeds from exercise of stock options	185	236
Financing lease payments	(8)	(8)
Net cash (used in) provided by financing activities	<u>(914)</u>	<u>790</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>11,043</b>	<b>(2,194)</b>
CASH, beginning of period	2,895	13,938
CASH, end of period	<u>\$ 13,938</u>	<u>\$ 11,744</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 73	\$ 65
Cash paid for taxes	\$ 1,935	\$ 1,529
<b>Noncash investing and financing activities:</b>		
PPP Loan forgiven	\$ —	\$ 1,593
Net change in other comprehensive income (loss)—pension plan accrual	\$ (1)	\$ (13)
Property and equipment addition included in other liabilities and accounts payable	\$ 167	\$ 1,370
Recognition of new right-of-use assets and lease liabilities for the lease modification	\$ —	\$ 165
Contingent and deferred consideration for business acquisition	\$ —	\$ 3,342

See notes to consolidated financial statements.

## ARTERIS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(As of and for the years ended December 31, 2019 and 2020)

#### 1. DESCRIPTION OF BUSINESS

Arteris, Inc. and its subsidiaries (collectively, the “Company” or “Arteris”) was incorporated in Delaware on April 12, 2004. The Company develops, licenses, and supports the on-chip interconnect fabric technology used in System-on-Chip (“SoC”) designs for a variety of devices and in the development and distribution of Network-on-Chip (“NoC”) interconnect intellectual property (“IP”). The Company also provides software and services to enable efficient deployment of NoC IP, IP support & maintenance services, professional services and training and on-site support services. The Company is headquartered in Campbell, California and has offices in the United States, France, Japan, Korea and China.

##### **COVID-19 Pandemic**

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic which has resulted in substantial global economic disruption and uncertainty. In response to the COVID-19 pandemic, the measures implemented by various authorities have caused us to change the Company’s business practices, including those related to where employees work, the distance between employees in the Company’s facilities, limitations on in-person meetings between employees and with customers, suppliers, service providers and stakeholders, as well as restrictions on business travel to domestic and international locations and to attend trade shows, technical conferences and other events.

The Company is unable to accurately predict the full impact that COVID-19 will have on its future results of operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures. The Company will continue to monitor health orders issued by applicable governments to ensure compliance with evolving domestic and global COVID-19 guidelines.

#### 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). References to “ASC” and “ASU” included hereinafter refers to the Accounting Standards Codification and Accounting Standards Update established by the Financial Accounting Standards Board (“FASB”) as the source of authoritative U.S. GAAP.

**Principles of Consolidation**—The consolidated financial statements include the accounts of Arteris, Inc. and its wholly-owned subsidiaries. All inter-company transactions and accounts have been eliminated.

**Segment Information**—The Company operates as a single operating segment. The chief operating decision maker is the Company’s Chief Executive Officer, who makes resource allocation decisions and assesses performance based on financial information presented on a consolidated basis, accompanied by disaggregated revenue information. Accordingly, the Company has determined that it has a single reportable segment and operating segment.

**Use of Estimates**—The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates relate to, among others, revenue recognition, the useful lives of assets, assessment of recoverability of property, plant and equipment, fair values of goodwill and other intangible assets, including impairments, leases, allowances for doubtful accounts, deferred tax assets and related valuation allowance, stock-based compensation, potential reserves relating to litigation and tax matters, as well as other accruals or reserves. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements.

**Foreign Currency**—The Company and its foreign subsidiaries’ functional currency is the US dollar. Accordingly, monetary assets and liabilities of foreign subsidiaries are remeasured into US dollars at the exchange rates in effect at the balance sheet date, non-monetary assets and liabilities are recorded at historical rates, and revenue and



## [Table of Contents](#)

expenses are remeasured at average rates during the period. Remeasurement adjustments are recognized as a component of Interest and other income (expense), net within the Consolidated Statements of Income (Loss).

**Comprehensive Income (Loss)**—Comprehensive income (loss) generally represents all changes in stockholders' deficit during the period except those resulting from investments by, or distributions to, stockholders. For the years ended December 31, 2019 and 2020, the components of comprehensive income (loss) consist of net income (loss) and unrealized pension actuarial loss.

**Net Income (Loss) per Share**—Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock during the period, plus the dilutive effects of stock options, restricted stock units ("RSU") and restricted stock awards ("RSA"). Dilutive shares of common stock are determined by applying the treasury stock method.

**Cash and Cash Equivalents**—The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents are recorded at cost, which approximates their fair value. As of December 31, 2019 and 2020, cash and cash equivalents consist primarily of checking and savings deposits. There were no cash equivalents as of December 31, 2019 and 2020.

**Accounts Receivable and Allowance for Doubtful Accounts**—Accounts receivable, net consist of primarily billed and unbilled trade accounts receivable. Unbilled accounts receivable represents amounts recorded as royalty revenue which will be invoiced within a short period upon receipt of the royalty reports from the licensees. The Company records accounts receivable when it has an unconditional right to consideration. Trade accounts receivable are recorded at the invoiced amount. The Company maintains allowances for doubtful accounts to reduce its receivables to their estimated net realizable value. In general, the Company does not offer extended credit terms and also do not require any security or collateral to support its receivables. The Company performs ongoing credit evaluations of its customers and establishes allowances for potential credit losses by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. The Company's allowance for doubtful accounts activity has historically not been significant. Probable losses are recorded in general and administrative expense in the Consolidated Statements of Income (Loss).

Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

**Concentrations of Credit Risk**—Financial instruments that potentially subject us to concentration of credit risk consist of cash and accounts receivable. The Company maintains cash in checking and savings deposits. Management believes no significant concentration risk exists with respect to cash as in management's judgment the banks that hold the Company's cash are financially stable. The Company deposits cash with high-credit-quality financial institutions which, at times, may exceed federally insured amounts.

The Company's accounts receivable are derived principally from revenue earned from customers located in Asia Pacific and the Americas regions.

Accounts receivable from the Company's major customers representing 10% or more of total accounts receivable was as follows:

---

	<u>2019</u>	<u>2020</u>
Customer A	33%	20%
Customer B	14%	*
Customer C	12%	*
Customer D	*	31%

---

\* Customer accounted for less than 10% of total accounts receivable at period end.

## [Table of Contents](#)

Revenue from the Company's major customers representing 10% or more of total revenue was as follows:

	2019	2020
Customer C	44%	*
Customer D	16%	15%
Customer E	*	25%

\* Customer accounted for less than 10% of total revenue in the period.

**Property and Equipment**—Property and equipment are stated at cost, less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives, generally ranging from one to seven years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining lease term.

Depreciation expenses are recorded in cost of revenue and operating expenses on the Consolidated Statements of Income (Loss). Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded as a component of operating expenses. Repairs and maintenance costs are expensed as incurred.

The Company evaluates the recoverability of property and equipment for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these assets is measured by comparing their carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount is not recoverable, the carrying amount of such assets is reduced to fair value. No impairment was recognized during the years ended December 31, 2019 and 2020.

**Business Combinations**—The Company allocates the purchase price to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the purchase price over the fair value of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. These estimates are based on information obtained from management of the acquired companies, the Company's assessment of this information, and historical experience. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customers, acquired technology, and trade names from a market participant perspective, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. In addition, unanticipated events and circumstances may occur that may affect the accuracy or validity of such estimates, and if such events occur, the Company may be required to adjust the value allocated to acquired assets or assumed liabilities. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's Consolidated Statements of Income (Loss). Acquisition costs, such as legal and consulting fees, are expensed as incurred.

**Goodwill and Intangible Assets**—The Company performs its goodwill and other indefinite-lived intangible assets impairment tests annually or more frequently if events or changes in circumstances occur that would more likely than not reduce the fair value below its carrying value. For the year ended December 31, 2020, the Company did not have any goodwill or other indefinite-lived intangible assets impairment.

Acquired finite-lived intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets, which range from five to eight years, unless the lives are determined to be indefinite. The Company routinely reviews the remaining estimated useful lives of finite-lived intangible assets. Amortization expenses are recorded in operating expenses on the Consolidated Statements of Income (Loss).

## [Table of Contents](#)

**Debt Issuance Costs**—Costs incurred in connection with the issuance of long-term debt have been recorded as a direct reduction against the debt and are amortized over the life of the associated debt as a component of interest and other income (expense), net using the effective interest method.

**Right-of-use Assets (“ROU”) and Lease Liabilities**—The Company recognizes leases in accordance with ASC Topic 842, Leases, and subsequently issued additional related ASUs (“Topic 842”), which the Company adopted at January 1, 2019 using a modified retrospective transition approach.

The Company leases its offices at various locations under noncancelable operating lease agreements expiring at various dates through 2024. Under the terms of these agreements, the Company also bears the costs for certain insurance, property tax, and maintenance. The terms of certain lease agreements provide for increasing rental payments at fixed intervals.

At lease commencement, the Company measures and records a lease liability equal to the present value of the remaining lease payments, generally discounted using incremental borrowing rate as the implicit rate is not readily determinable on many of its leases. When determining the incremental borrowing rates, the Company considers information including, but not limited to, the lease term, the interest rates on its collateralized debt and incremental borrowing rates for its peer group.

On the lease commencement date, the amount of the ROU assets consists of the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, minus any lease incentives received; and
- Any initial direct costs incurred.

The Company assesses the option for lease extensions, renewals, or terminations on individual leases, and generally considers the base term to be the term of lease contracts, unless it is reasonably certain that the Company will exercise such options. Lease agreements may contain other variable costs such as common area maintenance, insurance, real estate taxes or other costs. Variable lease costs are expensed as incurred in the Consolidated Statements of Income (Loss). The Company does not include non-lease components with lease payments for the purpose of calculating lease right-of-use assets and lease liabilities. The lease agreements generally do not contain any residual guarantees or restrictive covenants.

Operating leases are included in operating lease ROU assets, operating lease liabilities, current and operating lease liabilities, noncurrent in the Consolidated Balance Sheets. Finance leases are included in property and equipment, accrued expenses and other current liabilities and other liabilities in the Consolidated Balance Sheets.

### **Revenue Recognition—**

The Company recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, and subsequently issued additional related ASUs (“Topic 606”). The Company recognizes revenues as it transfers control of deliverables (software and services) to its customers in an amount reflecting the consideration to which it expects to be entitled. To recognize revenues, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenues when a performance obligation is satisfied. The Company accounts for a contract when it has approval and commitment from all parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. The Company applies judgment in determining the customer’s ability and intention to pay based on a variety of factors including the customer’s historical payment experience.

### **Nature of Products and Services —**

The Company’s revenue is primarily derived from licensing intellectual property, licensing software, support and maintenance services, professional services, training services, and royalties.

## Table of Contents

### *Design Solutions*

Interconnect Solutions product arrangements provide customers the right to software licenses, services, software updates and technical support. The Company enters into licensing arrangements with customers that typically range from two to three years and generally consist of delivery of a design license that grants the customer the right to use the IP to design a contractually defined number of products and stand-ready support services that provide the customer a significant benefit from its proprietary software tool ("RTL") as well as ongoing access to Corporate Application Engineers ("CAE") and Field Application Engineers ("FAE") (collectively, "application engineer support services") to perform certain verifications including benchmark performance, simulations and ultimately, through the RTL, instantiate designs into silicon over the design term.

The support services, including access to application engineering support services and the benefits of the RTL, are integral and fundamental to the customer's ability to derive its intended benefit from the IP. CAEs are part of the product development team providing detailed requirements for engineering projects, working very closely with a customer's chief technology officer and the marketing department, and performing quality assurance testing of customer products prior to shipment to their customers. FAEs provide assistance to the customer's engineering team in translating their desired SoC architecture into inputs for NoC IP configuration, assistance in optimizing the NoC configuration, answer to customer questions by the online support system or phone, constructive reviews of the progress achieved by the customer's development team and provision of advice on how to best use the licensed IP, performance of design reviews before customer project RTL freeze and tape-out to ensure the customer used the licensed IP configuration tooling as intended so that the RTL output meets customer requirements and expectations. FAE reviews of the customer's design are mandatory and consist of an understanding of the customer requirements and analysis of the adequacy of the contemplated IP considering the customer's desired architecture and design goals and objectives, taking into consideration bandwidth, coherence/non-coherence, latency, clock and timing, areas, and any and all constraints, as identified and specific to the design under review.

Besides application engineer support services, support and maintenance services also consist of a stand-ready obligation to provide technical support and software updates over the support term. Generally, the first-year of technical support and software updates are bundled with and into the license fee with a customer option to renew additional years of support throughout the license term. However, the Company continues to provide technical support and software updates throughout the license term even if the customer does not renew these services in subsequent years, making the license term and support and maintenance term co-terminus.

Considering the nature of the combined design tool and assisting the Company's customers in applying its IP technology in its customers' development environment and the relative significance thereof, the Company has concluded that its Interconnect Solutions IP licensing arrangements are not distinct from its obligation to provide the application engineering support services and benefits of the RTL. The Interconnect Solutions IP, RTL, and the application engineering support services serve to fulfill its commitment to the customer, as they represent inputs to a single, combined performance obligation that commences upon the later of the arrangement effective date or transfer of the software license. The design license and the regular two-way interaction between the design tool, RTL, and the application engineering support services give the customer the intended benefit from the arrangement, which is the ability to commercialize their design. Customers cannot benefit from the design license on its own or together with other readily available resources as no other RTL or application engineer support service provides exists in the marketplace that a customer could use with the design license. Consequently, the RTL and application engineer support service cannot be used on its own or together with any other design license as the Company does not allow the use of the RTL or provide application engineer support services separately from the design license. Further, although technical support and software updates is a distinct performance obligation, it is accounted for as if it were part of a single performance obligation that includes the licenses, RTL and application engineer support services because the technical support and updates are provided in practice for the same period of time and have the same time-based pattern of transfer to the customer as the combined design license, RTL, and application support services.

Revenues that are derived from the sale of a licensee's products that incorporate the Company's IP are classified as royalty revenues. Royalty revenues are recognized during the quarter in which the sale of the product incorporating the Company's IP occurs. Royalties are calculated either as a percentage of the revenues received by a licensee's sale of products incorporating the Company's IP or on a per unit basis, as specified in the agreements with the

## [Table of Contents](#)

licensees. For a majority of the Company's royalty revenues, it receives the actual sales data from its customers after the quarter ends and accounts for it as unbilled receivables. When the Company does not receive actual sales data from the customer prior to the finalization of its financial statements, royalty revenues are recognized based on its estimation of the customer's sales during the quarter.

### *Deployment Solutions*

Deployment Solutions product arrangements provide customers the right to software licenses, software updates and technical support. The software licenses are time-based licenses with terms generally ranging from one to three years. These arrangements generally have two distinct performance obligations that consist of transferring the licensed software and the support and maintenance service. Support and maintenance services consist of a stand-ready obligation to provide technical support and software updates over the support term. Revenue allocated to the software license is recognized at a point in time upon the later of the delivery date or the beginning of the license period, and revenue allocated to support services is recognized ratably over the support term.

A limited number of Deployment Solutions contracts include tokens, a mechanism used to both enable "peak" users to choose a combination of the software products on a monthly basis and restrict the number of users. The Company recognizes revenue related to these tokens at a point in time, upon delivery of monthly token license keys to the customer.

### *Professional Services*

The Company's agreements often include service elements (other than maintenance and support services). These services include training, design assistance, and consulting. Services performed on a time and materials basis are recognized over the period the services are provided either using an output method such as labor hours, or a method that is otherwise consistent with the way in which value is delivered to the customer. Services performed on a fixed price basis are recognized over time, generally using costs incurred or hours expended to measure progress.

### *Multiple Performance Obligations*

Most of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately, if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis, which are estimated considering multiple factors including observable industry pricing practices and internal pricing strategies and objectives. Standalone selling prices of software license are typically estimated using the residual approach. Standalone selling prices of professional services are typically estimated based on observable transactions when these services are sold on a standalone basis.

### *Transaction price*

Revenue is recognized when, or as, control of a promised product or service transfers to a client, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services. If the consideration promised in a contract includes a variable amount, the Company estimates the amount to which it expects to be entitled using either the expected value or most likely amount method, to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. Generally, the transaction price of the Company's contracts is fixed at the inception of the contract, except for variable royalties. The Company's contracts generally do not include terms that could cause variability in the transaction price.

The Company assesses the timing of the transfer of goods or services to the customer as compared to the timing of payments to determine whether a significant financing component exists. As a practical expedient, the Company does not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of finance to either the customer or the Company, no financing component is deemed to exist. When contracts involve a significant financing component, the Company adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provide the customer with a significant benefit of financing.

The Company reports revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions.

## [Table of Contents](#)

In instances where foreign licensees withhold and remit taxes to local authorities in accordance with local laws and regulations, the Company recognizes and presents revenue on a gross basis, and includes the withholding tax in income tax expense.

### *Flexible Spending Accounts*

Some customers enter into a non-cancelable flexible spending account agreements ("FSA Agreements") whereby the customer commits to a fixed dollar amount over a specified period of time that can be used to purchase from a list of the Company's products or services. These agreements do not meet the definition of a revenue contract until the customer executes a separate order to identify the required products and services that they are purchasing. The combination of the FSA agreement and the subsequent order creates enforceable rights and obligations, thus meeting the definition of a revenue contract. Each separate order under the agreement is treated as an individual contract and accounted for based on the respective performance obligations included within the FSA agreements.

### *Contract modifications*

The Company's contracts may be modified to add, remove or change existing performance obligations. The accounting for modifications to the Company's contracts involves assessing whether the products and services added to an existing contract are distinct and whether the pricing is at the standalone selling price. Products and services added that are not distinct are accounted for on a cumulative catch-up basis, while those that are distinct are accounted for prospectively, either as a separate contract if the additional services are priced at the standalone selling price, or as a termination of the existing contract and creation of a new contract if not priced at the standalone selling price. The Company's more significant contract modifications include extensions of the design license term and the purchase of additional years of support and maintenance.

### *Judgments*

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together requires significant judgment. Judgment is also required to determine the standalone selling price for each distinct performance obligation.

### *Contract Balances*

The timing of revenue recognition may differ from the timing of invoicing to customers, and these timing differences result in receivables (billed or unbilled), contract assets, or contract liabilities ("deferred revenue") on the Company's Consolidated Balance Sheets. The Company records a contract asset when revenue is recognized prior to the right to invoice. The Company records deferred revenue when it invoices customers and revenue is not yet recognized. For time-based software agreements, customers are generally invoiced in single or annual amounts, although some customers are invoiced more frequently over time. The Company records an unbilled receivable when revenue is recognized and it has an unconditional right to invoice and receive payment.

The Company capitalizes sales commission as costs of obtaining a contract when they are incremental and, if they are expected to be recovered, amortized in a manner consistent with the pattern of transfer of the good or service to which the asset relates. If the expected amortization period is one year or less, the commission fee is expensed when incurred.

**Cost of Revenue**—Cost of Revenues relates to costs associated with the Company's IP licensing arrangements, deployment solution software and support activities, including applicable personnel related costs, travel, and overhead.

**Research and Development**—Research and development costs that do not meet the criteria for capitalization are expensed as incurred. Research and development costs consist primarily of compensation, stock-based compensation, and employee benefits of engineering and product development personnel, consulting services, and other direct expenses.

**Software Development Costs**—Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. Arteris has not capitalized any software development costs as of and for the years ended December 31, 2019 and 2020 as the period between establishing technological feasibility and general customer release has historically been short and therefore capitalizable costs have been insignificant.

## [Table of Contents](#)

The Company has not capitalized any internal-use software development costs as these costs have historically been insignificant.

**Sales and Marketing**—Sales and marketing expenses consist of compensation and employee benefits of marketing and sales personnel and related support teams, and stock-based compensation, as well as travel, trade show sponsorships and events, conferences, and internet advertising costs. Advertising costs, included in sales and marketing expenses, are expensed as incurred. The Company incurred advertising costs of \$90 thousand and \$142 thousand for the years ended December 31, 2019 and 2020, respectively.

**General and Administrative**—General and administrative expenses include executive and administrative compensation and employee benefits, depreciation, professional services fees, insurance costs, bad debt, other allocated costs, such as facility-related expenses, supplies, and other fixed costs and stock-based compensation.

**Stock-based Compensation**—The Company measures equity classified stock-based awards, including stock options, RSUs, and RSAs granted to employees, directors, and non-employees based on the estimated fair values of the awards on the date of the grant. Stock-based compensation expense for awards with service-based vesting only is recognized on a straight-line basis over the requisite service period which is generally the vesting period of such awards, as a component of operating expenses within the Consolidated Statements of Income (Loss). For awards that include performance conditions stock-based compensation expense is recognized on a graded vesting basis over the requisite service period. Compensation expense is not recognized until the performance condition becomes probable. The Company accounts for forfeitures related to these awards as they occur.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation including the expected term, the volatility of the Company's common stock, and an assumed risk-free interest rate. As a result, if the Company revises its assumptions and estimates, the Company's stock-based compensation expense could change.

The fair value of RSUs and RSAs granted is measured as the fair value per share of the Company's common stock on the date of grant.

**Income Taxes**—The Company accounts for income taxes under the asset and liability method. Under this method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The Company provides for a valuation allowance when it is more likely than not that some portion, or all of its deferred tax assets will not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. As of December 31, 2019 and December 31, 2020, the Company recorded a full valuation allowance against its U.S. deferred tax assets.

ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. There were no unrecognized tax benefits as of December 31, 2019 and 2020. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties as of December 31, 2019 and 2020. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

**Fair value of financial instruments**—The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal market or the most advantageous market in which it would transact.

The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in valuing the



## [Table of Contents](#)

asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's own assumptions about the factors that market participants would use in valuing the asset or liability developed based on the best information available in the circumstances.

The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value by requiring that the most observable inputs be used when available. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets).
- Level 3 applies to assets or liabilities for which fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including the Company's own assumptions.

The Company determined the estimated fair value of financial instruments using available market information and valuation methodologies considered to be appropriate. The carrying amounts of the cash, accounts receivable and accounts payable approximate their fair values due to their short maturities. The Company's investments are recorded at fair value and Term loan, Revolving line of credit, and Vendor financing arrangements are recorded at net carrying value.

### **Recent Accounting Pronouncements**

#### *Recently Adopted Accounting Pronouncements*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which superseded previous guidance related to accounting for leases. Topic 842 requires lessees to recognize most leases on their balance sheets as lease right-of-use assets with corresponding lease liabilities and eliminates certain real estate-specific provisions. In July 2018, the FASB issued *ASU No. 2018-11, Leases (Topic 842)*. This ASU provides an optional transition method that entities can use when adopting the new standard and a practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are met.

The Company elected to early adopt *Topic 842* on January 1, 2019 using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under *Topic 842*, while prior periods amounts have not been adjusted and continue to be reported in accordance with the historical accounting under *Topic 840*.

The Company elected to use the package of practical expedients permitted under the transition guidance, which allowed the Company to carryforward the historical lease classification, assessment conclusions of whether a contract was or contains a lease, and the initial direct costs for any leases that existed prior to January 1, 2019. The Company also elected to keep leases with an initial term of twelve months or less off the balance sheet and recognize the associated lease payments in the Consolidated Statements of Comprehensive Income (Loss) on a straight-line basis over the lease term.

Upon adoption of *Topic 842*, the Company recognized total ROU assets of \$2.3 million, with corresponding lease liabilities of \$2.3 million, on the consolidated balance sheets. This included \$24 thousand, net of depreciation, of preexisting finance lease ROU assets previously reported as capital lease assets within property and equipment, net. The ROU assets include adjustments for prepayments and accrued lease payments. The adoption did not impact the Company's beginning retained earnings, or prior year Consolidated Statements of Income (Loss) and Statements of Cash Flows.



## [Table of Contents](#)

### *Recently Issued Accounting Pronouncements Not Yet Adopted*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and in May 2019 issued ASU No. 2019-05, *Credit Losses (Topic 326): Targeted Transition Relief* (collectively referred to as "Topic 326"), which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. Topic 326 replaces the existing incurred loss impairment model with a forward-looking expected credit loss model which will result in earlier recognition of credit losses. Topic 326 is effective for the Company for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14, *Retirement Benefits: Changes to the Disclosure Requirements for Defined Benefit and other Postretirement Plan* (Subtopic 715-20), that adds, removes, and clarifies disclosures requirements for defined benefit and other postretirement plans. This ASU will be effective for the Company for fiscal years ending after December 15, 2021, with early adoption permitted. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU will be effective for the Company for fiscal years beginning after December 15, 2020, and all interim periods beginning after December 15, 2021. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes. ASU 2019-12 is effective for the Company for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*. The amendments in this ASU simplify the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity's own equity. Among other changes, the guidance removes the liability and equity separation models for convertible instruments. Instead, entities will account for convertible debt instruments wholly as debt unless convertible instruments contain features that require bifurcation as a derivative or that result in substantial premiums accounted for as paid-in capital. The guidance also requires the application of the if-converted method to calculate the impact of convertible instruments on diluted earnings per share. The guidance is effective for the Company for fiscal years beginning after December 15, 2023, with early adoption permitted for fiscal years beginning after December 15, 2020, and can be adopted on either a retrospective or modified retrospective basis. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

### **3. REVENUE**

#### ***Disaggregated Revenue***

The following table shows revenue by product and services groups for the years ended December 31, 2019 and 2020 (in thousands):

	<u>2019</u>	<u>2020</u>
Licensing, support and maintenance	\$26,733	\$27,408
Variable royalties	4,595	3,470
Other	173	934
Total	<u>\$31,501</u>	<u>\$31,812</u>

## [Table of Contents](#)

Revenue in 2019 included an intellectual property (“IP”) license arrangement agreement the Company entered into with HiSilicon Technologies Co, Ltd. (“HiSilicon”), a subsidiary of Huawei Technologies Co, Ltd., with a total contract value of \$10.0 million. This agreement granted the customer the right to take possession of the validation/instantiation code as the Company was precluded from providing any form of support and maintenance to HiSilicon by applicable U.S. government trade restrictions. The total transaction price for this arrangement was recognized as revenue in 2019 upon delivery of the IP as the Company had no further obligations to the customer after time of the delivery. Additionally, \$703 thousand included in deferred revenue and related to other prior transactions with the same customer was recognized in revenue in 2019.

Revenue in 2020 included an IP license agreement the Company entered into with Shenzhen DJI Sciences and Technologies Ltd. (“DJI”) with a total contract value of \$7.4 million. This agreement granted the customer the right to take possession of the validation/instantiation code as the Company was precluded from providing any form of support and maintenance to this customer by applicable U.S. government trade restrictions. The total transaction price for this arrangement was recognized as revenue in 2020 upon delivery of the IP as the Company had no further obligations to the customer after time of the delivery. Additionally, \$159 thousand included in deferred revenue and related to other prior transactions with the same customer was recognized in revenue in 2020.

### **Contract Balances**

The timing of revenue recognition differs from the timing of invoicing to customers and this timing difference results in contract liabilities (“deferred revenue”) on the Consolidated Balance Sheets. The following table provides information about accounts receivable, contract assets and deferred revenue as follows as of December 31, 2019 and 2020 (in thousands):

	<b>2019</b>	<b>2020</b>
Accounts receivable—net	\$ 7,058	\$ 14,350
Contract assets	\$ —	\$ 1,359
Deferred revenue	\$(23,116)	\$(32,908)

During the years ended December 31, 2019 and 2020, the Company recognized revenue of \$14.9 million and \$15.7 million, respectively, that was included in the deferred revenue balance at the beginning of the fiscal year.

Contracted but unsatisfied performance obligations were \$28.0 million and \$37.6 million at the end of fiscal years 2019 and 2020, respectively, and include unearned revenue and non-cancelable Flexible Spending Account (“FSA”) commitments from customers where actual product selection and quantities of specific products are to be determined by customers at a future period. FSA commitments amounted to \$4.9 million and \$4.7 million at the end of fiscal years 2019 and 2020, respectively. The Company has elected to exclude the potential future royalty receipts from the remaining performance obligations. The contracted but unsatisfied or partially unsatisfied performance obligations, excluding non-cancelable FSA, expected to be recognized in revenue over the next 12 months at the end of fiscal year 2020 are \$17.5 million, with the remainder recognized thereafter.

The following table is a rollforward of contract balances as of December 31, 2019 and 2020 (in thousands):

	<b>2019</b>	<b>2020</b>
Deferred revenue licensing, support and maintenance—beginning balance	\$ 21,057	\$ 23,116
Additions	28,792	37,200
Revenue recognized	(26,733)	(27,408)
Deferred revenue licensing, support and maintenance—ending balance	<u>\$ 23,116</u>	<u>\$ 32,908</u>

During fiscal years 2019 and 2020, the Company recognized \$4.6 million and \$3.5 million, respectively, from performance obligations satisfied from sales-based royalties earned during the periods.

[Table of Contents](#)**Costs of Obtaining a Contract with a Customer**

Incremental costs of obtaining a contract with a customer consist primarily of direct sales commissions incurred upon execution of the contract. These costs are required to be capitalized under ASC 340-40, *Other Assets and Deferred Costs—Contracts With Customers*, and amortized over the license term. As direct sales commissions paid for term extensions are commensurate with the amounts paid for initial contracts, the deferred incremental costs for initial contracts and for term extensions are recognized over the respective contract terms. Total capitalized direct commission costs as of December 31, 2019 and December 31, 2020 are as follows (in thousands):

	2019	2020
Short-term commission capitalized in prepaid expenses and other current assets	\$1,066	\$1,079
Long-term commission capitalized in other assets	906	1,479
<b>Total</b>	<b><u>\$1,972</u></b>	<b><u>\$2,558</u></b>

Amortization of capitalized sales commissions were \$1.6 million and \$2.2 million during fiscal 2019 and 2020, respectively, and are included in sales and marketing expense in the Consolidated Statements of Income (Loss).

**4. NET INCOME (LOSS) PER SHARE**

The following table presents the calculation of basic and diluted net income (loss) per share attributable to common stockholders for the years ended December 31, 2019 and 2020 (in thousands, except per share data):

	2019	2020
<b>Numerator:</b>		
Net income (loss)	\$ 5,839	\$ (3,260)
Less: Net income attributable to participating securities	(1,221)	—
Net income (loss) attributable to common stockholders	\$ 4,618	\$ (3,260)
<b>Denominator:</b>		
Weighted-average shares outstanding—Basic	16,915,855	17,577,846
<b>Weighted-average effect of dilutive securities:</b>		
Common stock options	425,979	—
Restricted stock units	66,592	—
Restricted stock awards	4,878	—
Weighted-average shares outstanding—Dilutive	<u>17,413,305</u>	<u>17,577,846</u>
Basic EPS	<u>\$ 0.27</u>	<u>\$ (0.19)</u>
Diluted EPS	<u>\$ 0.27</u>	<u>\$ (0.19)</u>

Since the Company was in a loss position for the year ended December 31, 2020, the diluted earnings per share is equal to the basic earnings per share as the effect of potentially dilutive securities would have been antidilutive.

The following table summarizes the potentially dilutive securities that were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive for the years ended December 31, 2019 and 2020:

	2019	2020
Stock options	—	7,073,584
Restricted stock units	—	843,095
Preferred Stock	4,471,316	4,471,316
<b>Total</b>	<b><u>4,471,316</u></b>	<b><u>12,387,995</u></b>

## 5. FAIR VALUE MEASUREMENTS

### **Assets Measured and Recorded at Fair Value on a Non-Recurring Basis**

Certain non-financial assets, such as intangible assets and property, plant and equipment, are remeasured at fair value only if an impairment or observable price adjustment is recognized in the current period.

### **Financial Instruments Not Recorded at Fair Value on a Recurring Basis**

Financial instruments not recorded at fair value on a recurring basis include the Term loan and Vendor financing arrangements. The aggregate carrying value of the Term loan and Vendor financing agreements were \$1.9 million and \$1.9 million as of December 31, 2019 and 2020, respectively. The estimated fair values of these financial instruments approximate their carrying values and are categorized as Level 2 within the fair value hierarchy based on the nature of the fair value inputs.

The Company's borrowings under its Term Loan facility and Vendor financing arrangements are classified within Level 2 because these borrowings are not actively traded and have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities.

## 6. INTANGIBLE ASSETS

Intangible assets as of December 31, 2020 consist of the following (in thousands):

---

	<u>2020</u>
Developed Technology	\$ 1,700
Customer Relationships	1,100
IPR&D	500
Trade Name	150
Total intangibles	3,450
Less accumulated amortization	(41)
Total intangibles—net	<u>\$ 3,409</u>

---

Amortization expense related to intangible assets for the year ended December 31, 2020 was \$41 thousand. The Company had no intangible assets as of December 31, 2019.

Amortization expense based on the amortized intangible assets balance at December 31, 2020 is expected to be recorded in the future as follows: \$478 thousand in 2021; \$478 thousand in 2022; \$478 thousand in 2023; \$478 thousand in 2024; \$449 thousand in 2025 and \$398 thousand thereafter.

## 7. BALANCE SHEET COMPONENTS

### **Accounts Receivable, net**

The following table represents the components of accounts receivable, net, as of December 31, 2019 and 2020 (in thousands):

---

	<u>2019</u>	<u>2020</u>
Accounts receivable	\$ 6,340	\$ 13,927
Unbilled accounts receivable	1,258	812
Total Accounts receivable	7,598	14,739
Less: allowance for doubtful accounts and allowance for foreign withholding tax	(540)	(389)
Total accounts receivable, net	<u>\$ 7,058</u>	<u>\$ 14,350</u>

---

## [Table of Contents](#)

The allowance for doubtful accounts was \$280 thousand as of both December 31, 2019 and 2020. The allowance for foreign withholding tax was \$260 thousand and \$109 thousand as of December 31, 2019 and 2020, respectively.

### **Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets as of December 31, 2019 and 2020, consisted of the following (in thousands):

---

	<u>2019</u>	<u>2020</u>
Capitalized commissions asset, net	\$1,066	\$1,079
Contract assets	—	551
State and local tax credit	272	523
Subscriptions	83	158
Other	386	547
	<u>\$1,807</u>	<u>\$2,858</u>

---

### **Property and Equipment, net**

Property and equipment as of December 31, 2019 and 2020, consisted of the following (in thousands):

---

	<u>2019</u>	<u>2020</u>
Software and technology equipment	\$ 3,052	\$ 3,209
Office furniture and hardware equipment	92	271
Leasehold improvements	52	100
Vehicles	24	7
Finance lease right-of-use assets	18	7
Total property and equipment	3,238	3,594
Less accumulated depreciation and amortization	(2,212)	(1,229)
Total property and equipment—net	<u>\$ 1,026</u>	<u>\$ 2,365</u>

---

Depreciation and amortization expenses related to property and equipment for the years ended December 31, 2019 and 2020, was \$809 thousand and \$895 thousand, respectively.

### **Other Assets**

Other assets as of December 31, 2019 and 2020, consisted of the following (in thousands):

---

	<u>2019</u>	<u>2020</u>
Capitalized commissions asset, net	\$ 907	\$1,479
Contract assets	—	808
Other assets	189	293
	<u>\$1,096</u>	<u>\$2,580</u>

---

## [Table of Contents](#)

### **Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities as of December 31, 2019 and 2020, consisted of the following (in thousands):

	2019	2020
Payroll and related benefits	\$2,416	\$5,303
Deferred consideration	—	500
Contingent consideration	—	574
Other accrued liabilities	267	872
	<u>\$2,683</u>	<u>\$7,249</u>

### **Other Liabilities**

Other liabilities, noncurrent, as of December 31, 2019 and 2020, consist of the following (in thousands):

	2019	2020
Contingent consideration	\$ —	\$2,268
Pension accrual	193	718
Finance lease obligation, noncurrent	8	—
	<u>\$ 201</u>	<u>\$2,986</u>

## **8. ACQUISITION**

On November 30, 2020, the Company, through Arteris IP SAS, its wholly owned subsidiary, completed the acquisition of Magillem Design Services SA ("Magillem"), by acquiring certain assets and assumed liabilities of Magillem in an all-cash transaction to expand the Company's IP deployment technology. Magillem is a leading provider of complex design flow and content management software solutions. In accordance with the terms of the asset purchase agreement, the consideration transferred for the acquisition is as follows (in thousands):

	NOVEMBER 30, 2020
Cash consideration paid at closing	\$ 4,500
Deferred consideration	500
Estimated contingent consideration	2,842
	<u>\$ 7,842</u>

The deferred consideration represents a consideration holdback, in connection with a separate arrangement between Magillem and a third party, which was settled after the acquisition. The estimated contingent consideration represents the fair value of additional consideration payable to the seller upon (a) the achievement of specified milestones, estimated using the income approach and (b) in relation to potential indemnity claims. The contingent consideration payments are tied to a number of metrics, including claims received by the Company and certain product development, customer and revenue metrics in the next one to three years.

The Company incurred acquisition-related expenses associated with the Magillem transaction in a total amount of \$1.4 million, which were included in general and administrative expenses in the Consolidated Statements of Income (Loss). These acquisition-related costs included legal, accounting, and other professional and consulting fees.

Additionally, in connection with the acquisition of Magillem, the Company issued 645 thousand RSUs and 560 thousand stock options to Magillem employees that transferred to us, all of which vest over four years from the date of acquisition of Magillem. These awards have been accounted for separately from the business combination and are

## [Table of Contents](#)

recognized by the Company as compensation cost. Refer to Note 13 where these grants are presented in the RSU and stock option activity and stock-based compensation details for the year ended December 31, 2020.

The acquisition of Magillem has been accounted for in accordance with the acquisition method of accounting for business combinations with the Company, as the accounting acquirer. Under the acquisition method of accounting, the purchase price is allocated to identifiable assets acquired and liabilities assumed based on their fair values on the acquisition date.

The following table provides the preliminary estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date (in thousands):

	<b>FAIR VALUE</b>
Accounts receivable	\$ 968
Unbilled revenue	1,424
Intangible assets	3,450
Operating lease right-of-use	1,222
Other assets	567
Operating lease liability	(1,222)
Other liabilities	(1,244)
Total identifiable net assets	5,165
Goodwill	2,677
Total purchase price	<u>\$ 7,842</u>

The following table summarizes the fair value of the identifiable intangible assets acquired (in thousands) and weighted-average useful life:

	<b>2020</b>	<b>WEIGHTED AVERAGE USEFUL LIFE</b>
Developed Technology	\$1,700	5 years
Customer Relationships	1,100	8 years
IPR&D	500	N/A
Trade Name	150	N/A
Estimated fair value of intangible assets	<u>\$3,450</u>	

Goodwill generated from this business combination is attributed to synergies between the Company's and Magillem's respective products and services, and it is not tax deductible for income tax purposes.

The following table provides unaudited pro forma condensed consolidated results of operations information for the year ended December 31, 2020 assuming the Magillem acquisition was completed as of January 1, 2020 (in thousands):

	<b>PRO FORMA COMBINED</b>
Total revenue	\$ 39,726
Net loss	\$ (4,456)
Net loss attributable to common stockholders	\$ (4,456)
Net loss per share attributable to common stockholders—basic and diluted	\$ (0.25)

The unaudited pro forma results above include adjustments related to the purchase price allocation primarily to decrease revenue for amortization of the deferred revenue fair value adjustment, to increase amortization of identifiable intangible assets, to increase the non-recurring transaction costs, and to reflect the related income tax

## [Table of Contents](#)

effect of the adjustments. The unaudited pro forma condensed combined financial information has been prepared by management for illustrative purposes only and are not necessarily indicative of the consolidated financial position or results of operations in future periods or the results that would have been realized had the Company and Magillem been combined during the specified periods. The unaudited pro forma condensed combined financial information does not reflect any operating efficiencies and/or cost savings that the Company may achieve with respect to the combined companies, or any liabilities that may result from integration activities.

Disclosure of the unaudited pro forma results for the year ended December 31, 2019 is impracticable due to the lack of historical financial information sufficient to produce supplemental pro forma information without significant estimation.

### 9. LEASES

The Company leases its offices at various locations under noncancelable operating lease agreements expiring at various dates through 2027. Under the terms of these agreements, the Company also bears the costs for certain insurance, property tax, and maintenance. The terms of certain lease agreements provide for increasing rental payments at fixed intervals.

Components of lease costs, lease term and discount rate for the years ended December 31, 2019 and 2020 are as follows (in thousands):

	<u>2019</u>	<u>2020</u>
Operating lease cost	\$ 620	\$ 684
Short-term lease cost	25	90
Total lease cost	<u>\$ 645</u>	<u>\$ 774</u>
Weighted-average remaining lease term (in years)		
Operating leases	<u>3.6</u>	<u>4.4</u>
Weighted-average discount rate		
Operating leases	<u>7.5%</u>	<u>7.5%</u>

Total operating lease related expenses for the years ended December 31, 2019 and 2020 were \$645 thousand and \$774 thousand, respectively.

The following is a schedule, by years, of payments of operating lease liabilities as of December 31, 2020 (in thousands):

	<u>OPERATING LEASES</u>
<b>Year</b>	
2021	\$ 920
2022	888
2023	675
2024	218
2025	212
Thereafter	<u>426</u>
Total undiscounted cash flows	3,339
Less: Imputed interest	<u>(493)</u>
Present value of lease liabilities	<u>\$ 2,846</u>
Lease liabilities, current	\$ 767
Lease liabilities, noncurrent	<u>2,079</u>
	<u>\$ 2,846</u>

See Note 11, for contractual noncancelable commitments.



## 10. BORROWINGS

**Term loans**—In November 2018, the Company entered into a business financing agreement (“2018 Term Loan”) of \$1.5 million with Western Alliance Bank with a maturity date of November 2021, and payable on a monthly basis of approximately \$50 thousand with the beginning six months being interest only payments. The interest rate on the 2018 Term Loan is prime plus 2%. The debt issuance costs related to the 2018 Term Loan was approximately \$26 thousand during the year ended December 31, 2018. Debt issuance costs were recorded as a direct reduction against the debt and amortized over the life of the associated debt as a component of interest expense using the effective interest method. Borrowings under the term loan are collateralized by substantially all the assets of the Company.

Under the terms of the 2018 Term Loan, the Company is required to comply with certain financial and nonfinancial covenants. Any failure to comply with these covenants and any other obligations under the agreement could result in an event of default, which would allow the Lender to require accelerated repayments of amounts owed. As of December 31, 2019, and 2020, the Company was in compliance with the financial and non-financial covenants.

As of December 31, 2019 and 2020, the Company had \$1.1 million and \$557 thousand outstanding balance, net of debt issuance costs, under the 2018 Term Loan, of which \$539 thousand and nil was classified as long-term liabilities, respectively. The contractual future repayments of the 2018 Term Loan as of December 31, 2020, are as follows (in thousands):

	<u>AMOUNT</u>
<b>Year Ending December 31,</b>	
2021	\$ 579
Less: Interest	(19)
Less: Unamortized debt issue cost	(3)
Term loan, net of interest and debt issue cost	<u>\$ 557</u>

**Revolving line of credit**—The Company has a revolving line of credit, under the business financing agreement dated August 2015, with a lender for \$1.5 million (“2015 Revolver”) that matured in August 2018 and renewed in November 2018 for another three years with a maturity date of November 2021 for \$2.0 million (“2018 Revolver”). The interest rate for the 2018 Revolver is prime plus 1%, and the Company did not use the 2018 Revolver during the years ending December 31, 2019 and 2020.

**Vendor financing arrangements**—The Company has various vendor financing arrangements with extended payment terms on the purchase of software licenses and equipment. In order to determine the present value of the commitments, the Company used an imputed interest rate of 7.5%, which is reflective of its collateralized borrowing rate with similar terms to that of the software licenses and equipment transactions.

Vendor financing arrangements as of December 31, 2020, are as follows (in thousands):

	<u>2020</u>
2021	\$ 643
2022	613
2023	227
Total undiscounted cash flows	1,483
Less: Imputed interest	(113)
Present value of vendor financing arrangements	<u>\$ 1,370</u>
Vendor financing arrangements, current	\$ 643
Vendor financing arrangements, noncurrent	727
	<u>\$ 1,370</u>

## [Table of Contents](#)

Interest expense from Term Loan and Vendor financing arrangements was \$148 thousand and \$136 thousand for the years ended December 31, 2019 and 2020, respectively.

**Borrowing Arrangement**—In April 2020 and under the CARES Act, the Company entered into a loan agreement known as the Paycheck Protection Program (“PPP”) with a lender for \$1.6 million (the “PPP Loan”) with 1% interest due per annum and repayable in two years. The Company applied for forgiveness of amounts due under the Loan, with the amount of potential loan forgiveness to be calculated in accordance with the requirements of the PPP based on payroll costs, any mortgage interest payments, any covered rent payments and any covered utilities payments during the 8-week period after the origination date of the PPP Loan. The Company used proceeds of the PPP Loan to fund payroll and other qualifying expenses. On December 8, 2020, the full amount of the PPP Loan, including principal and accrued interest, was forgiven.

### **11. COMMITMENTS AND CONTINGENCIES**

**Indemnifications**—The Company enters into indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company agrees to indemnify, hold harmless, and reimburse the indemnified parties for losses suffered or incurred by such indemnified parties. The term of these indemnification agreements is generally perpetual beginning on the execution date of the agreement. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable. The Company has never incurred costs to defend lawsuits or settle claims related to these agreements. The Company has also indemnified its directors and officers, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or executive officer, other than liabilities arising from willful misconduct of the individual.

The Company has no obligations from these indemnification agreements and the consolidated financial statements do not include liabilities for any potential obligations as of December 31, 2019 and 2020.

**Legal**—In the normal course of business, the Company may receive inquiries or become involved in legal disputes regarding various litigation matters. Although claims are inherently unpredictable, the Company currently is not aware of any matters that may have a material adverse effect on the Company’s financial position, results of operations, or cash flows.

The Company has no other contractual noncancelable commitments as of December 31, 2019 and 2020.

### **12. REDEEMABLE CONVERTIBLE PREFERRED STOCK AND COMMON STOCK**

**Redeemable Convertible Preferred Stock**—The Company’s redeemable convertible preferred stock is issuable in series individually referred to as Series A Preferred. The holders of redeemable convertible preferred stock have the following rights, preferences, privileges and restrictions:

#### ***Dividends***

The Company shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Company unless the holders of the Series A Preferred Stock then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Series A Preferred Stock in an amount at least equal to (i) in the case of a dividend on Common Stock or any class or series that is convertible into Common Stock, that dividend per share of Series A Preferred Stock would equal the product of (A) the dividend payable on each share of such class or series determined, if applicable, as if all shares of such class or series had been converted into Common Stock and (B) the number of shares of Common Stock issuable upon conversion of a share of Series A Preferred Stock, in each case calculated on the record date for determination of holders entitled to receive such dividend or (ii) in the case of a dividend on any class or series that is not convertible into Common Stock, at a rate per share of Series A Preferred Stock determined by (A) dividing the amount of the dividend payable on each share of such class or series of capital stock by the original issuance price of such class or series of capital stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to such class or series) and (B) multiplying such fraction by an amount equal to the Series A Original Issue Price (as defined below); provided that, if the Company declares, pays or sets aside, on the same date, a dividend on shares of more than one class or series of capital stock of the Company, the dividend

## [Table of Contents](#)

payable to the holders of Series A Preferred Stock shall be calculated based upon the dividend on the class or series of capital stock that would result in the highest Series A Preferred Stock dividend. The Series A Original Issue Price shall mean \$1.29 per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series A Preferred Stock. The Company has not declared dividends for the years ended December 31, 2019 and 2020.

### **Liquidation**

Preferential payments to holders of Series A preferred stock—In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or Deemed Liquidation Event, the holders of shares of Series A Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of Common Stock by reason of their ownership thereof, an amount per share equal the Series A Original Issue Price (\$1.29 per share), plus any dividends declared but unpaid thereon. If upon any such Liquidation Event or Deemed Liquidation Event, the assets of the Company available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series A Preferred Stock the full amount to which they shall be to, the holders of shares of Series A Preferred Stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

In the event of any Liquidation Event or Deemed Liquidation Event, after the payment of all preferential amounts required to be paid to the holders of shares of Series A Preferred Stock, the remaining assets of the Company available for distribution to its stockholders shall be distributed among the holders of the shares of Series A Preferred Stock and Common Stock, pro rata based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to Common Stock pursuant to the terms of this Restated Certificate immediately prior to such Liquidation Event or Deemed Liquidation Event until such holders of Series A Preferred Stock have received an aggregate amount per share of Series A Preferred Stock equal to two and a half (2.5) times the Series A Original Issue Price, plus any dividends declared but unpaid thereon; thereafter, the remaining assets of the Company available for distribution in such Liquidation Event or Deemed Liquidation Event, if any, shall be distributed ratably to the holders of the Common Stock.

Notwithstanding the foregoing, upon any Liquidation Event or Deemed Liquidation Event, each holder of Series A Preferred Stock shall be entitled to receive, for each share of Series A Preferred Stock then held, out of the assets of the Company available for distribution to its stockholders, the greater of (i) the amount of cash, securities or other property to which such holder would be entitled to receive with respect to such shares in a Liquidation Event or Deemed Liquidation Event pursuant to above or (ii) such amount per share as would have been payable had all shares of Series A Preferred Stock been converted into Common Stock immediately prior to such Liquidation Event or Deemed Liquidation Event.

### **Voting**

On any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company, each holder of outstanding shares of Series A Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Series A Preferred Stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by the other provisions of this Restated Certificate, holders of Series A Preferred Stock shall vote together with the holders of Common Stock as a single class.

### **Optional Conversion**

Each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time, and without the payment of additional consideration by the holder thereof, into such number of Common Stock as is determined by dividing the Series A Original Issue Price by the Series A Conversion Price in effect at the time of conversion.

The Series A Conversion Price shall initially be equal to the Series A Original Issue Price. Such initial Series A Conversion Price, and the rate at which shares of Series A Preferred Stock may be converted into shares of Common Stock, shall be subject to adjustment for dilution related to the next qualified financing.

### ***Mandatory Conversion***

Upon either (a) the closing of the sale of shares of Common Stock to the public in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, in which (i) the cash proceeds to the Company (net of underwriting discounts, commissions and fees) are at least \$25.0 million, (ii) the per share price is based on a pre-money valuation of at least \$100.0 million, and (iii) the Company's shares have been listed for trading on a national, international or transnational stock exchange (an IPO), or (b) the date and time, or the occurrence of an event, specified by vote or written consent of the Required Holders, then (1) all outstanding shares of Series A Preferred Stock shall automatically be converted into shares of Common Stock, at the then effective conversion rate and (2) such shares may not be reissued by the Company.

### ***Redeemed or Acquired Shares***

Any shares of Series A Preferred Stock that are redeemed or otherwise acquired by the Company or any of its subsidiaries shall be automatically and immediately cancelled and retired and shall not be reissued, sold or transferred. Neither the Company nor any of its subsidiaries may exercise any voting or other rights granted to the holders of Series A Preferred Stock following redemption.

**Common Stock**—Holders of common stock are entitled to one vote per share and to receive dividends and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to common stockholders. The common stock has no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Common stock is subordinate to the redeemable convertible preferred stock with respect to dividend rights and rights upon liquidation, winding-up, and dissolution of the Company.

**Stock Repurchases**—There were no repurchased shares for the years ended December 31, 2019 and 2020.

## **13. STOCK-BASED COMPENSATION**

**2013 Stock Plan**—The Board adopted and the Company's stockholders approved the 2013 Equity Incentive Plan ("2013 Plan") during the year ended December 31, 2013.

**2016 Stock Plan**—On October 10, 2016, the Company amended and restated the 2013 Equity Incentive Plan and changed the name of the plan to Arteris, Inc. 2016 Incentive Plan (the "2016 Plan"). Adoption of the 2016 Plan provides for participation by foreign nationals or those employed outside of the United States. Each stock award granted before the Amendment and Restatement Dated will be subject to the terms of the plan that was in effect at the time of the grant of such stock award.

The 2016 Plan is administered by the Board or its delegate. Subject to the provisions of the 2016 Plan, the administrator has the power to determine the terms of awards, including: the recipients, the exercise price, if any, the number of shares subject to each award, the fair value of a share of common stock, the vesting schedule applicable to the awards, together with any vesting acceleration, and the form of consideration, if any, payable upon exercise of the award and the terms of the award agreement for use under the 2016 Plan. The administrator has the power: to construe and interpret the 2016 Plan and stock awards granted under it and to establish, amend and revoke rules for administration of the 2016 Plan including correcting defects, omissions and inconsistencies to make the award fully effective; to settle all controversies regarding the 2016 Plan and stock awards granted under it; and to accelerate the time at which a stock award may be exercised or vest.

The administrator has the authority to amend, suspend or terminate the 2016 Plan provided such action does not impair the existing rights of any participant. The 2016 Plan will automatically terminate in 2023, unless the Company terminates it sooner.

The 2016 Plan provides for the granting of the following types of stock awards: incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards and other stock awards. The number of shares authorized for award is 17,053,838.

The Company grants incentive stock options and non-statutory stock options under the 2016 Plan. Incentive stock options may be granted only to employees. The exercise price of all stock options under the 2016 Plan must not be less than 100% of the fair market value of the common stock on the date of grant. After the termination of service of a participant, he or she may exercise his or her option for the period of time stated in his or her award agreement to

## [Table of Contents](#)

the extent that the option is vested on the date of termination. However, in no event may an option be exercised later than the expiration of its term. The maximum contractual term of share options is ten years from the date of grant.

The Company grants restricted stock units and restricted stock awards under the 2016 Plan. Restricted stock units and restricted stock awards under the 2016 Plan cover one share of common stock for each restricted stock unit or award. The administrator determines the terms and conditions of restricted stock units/awards including the number of units/awards granted, the vesting criteria (which may include accomplishing specified performance criteria or continued service) and the form and timing of payment. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed.

Under the 2016 Plan, in the event of the termination of a participant's employment, the Company has the right to repurchase any stock issued pursuant to the 2016 Plan following the date of such termination, for a period of six months, under terms specified in the exercise notice and subject to restrictions in the 2016 Plan. Shares exercised or settled from currently outstanding awards under the 2016 Plan are generally not transferrable unless permitted by the Board so long as the Company is a private company. In the event of a proposed transfer to a third party of shares purchased by an employee that is permitted by the Board or the award agreement, the Company has a right of first refusal over such transfer.

The 2016 Plan provides that in the event of a merger or change in control, as defined under the 2016 Plan, each outstanding award will be treated as the administrator determines, in its sole discretion.

**Shares Available for Future Grant**—Shares available for future grant under the Company's 2016 Plan as of December 31, 2019 and 2020, consist of the following:

	2019	2020
Shares available for future grant	394,256	650,170

The Company issues new shares upon a share option exercise or release.

**Stock Options**—The following table summarizes the stock option activities under the Company's 2013 and 2016 Plans for the years ended December 31, 2019 and 2020:

	OPTIONS OUTSTANDING		WEIGHTED-AVERAGE REMAINING CONTRACTUAL TERM (YEARS)	AGGREGATE INTRINSIC VALUES (\$'000S)
	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE		
Balances—January 1, 2019	5,877,083	0.37	7.83	
Granted	2,315,000	0.56		
Exercised	(531,352)	0.35		
Canceled	(1,242,835)	0.46		
Balances—December 31, 2019	<u>6,417,896</u>	\$ 0.42	7.79	\$ 894
Granted	2,228,500	1.74		
Exercised	(1,002,039)	0.24		
Canceled	(570,773)	0.52		
Balances—December 31, 2020	<u>7,073,584</u>	\$ 0.85	7.90	\$ 13,348
Options vested and exercisable—December 31, 2019	<u>2,963,779</u>	\$ 0.29	6.16	\$ 809
Options vested and exercisable—December 31, 2020	<u>3,157,172</u>	\$ 0.40	6.45	\$ 7,398

## [Table of Contents](#)

The aggregate intrinsic value of the options exercised and total grant-date fair value of awards vested was \$103 thousand and \$279 thousand, respectively, during the year ended December 31, 2019.

The aggregate intrinsic value of the options exercised and total grant-date fair value of awards vested was \$361 thousand and \$328 thousand, respectively, during the year ended December 31, 2020.

The amount of cash received by the Company for the exercise of stock options was \$186 thousand and \$240 thousand for the years ended December 31, 2019 and 2020, respectively.

As of December 31, 2020, there was \$1.7 million of unamortized stock-based compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 3.5 years.

The fair value of each stock option granted is estimated using the Black-Scholes option-pricing model. The Company determines valuation assumptions for Black-Scholes as follows:

**Risk-Free Interest Rate**—The Company bases the risk-free interest rate used in the Black-Scholes option-pricing model on the implied yield available on US Treasury zero coupon issues with an equivalent expected term of the options for each option group.

**Expected Term**—The expected term represents the period that the Company's stock-based awards are expected to be outstanding. The expected term assumption is based on the simplified method. The Company expects to continue using the simplified method until sufficient information about the Company's historical behavior is available.

**Volatility**—The Company determines the price volatility factor based on the historical volatilities of the Company's peer group as the Company does not have trading history for its common stock.

**Dividend Yield**—The Company has never declared or paid any cash dividend and does not currently plan to pay a cash dividend in the foreseeable future. Consequently, the Company used an expected dividend yield of zero.

The following table summarizes the valuation assumptions for the years ended December 31, 2019 and 2020:

---

	<u>2019</u>	<u>2020</u>
Fair value of common stock	\$0.56	\$0.60 - \$2.74
Expected volatility	32.9%	33.9% - 39.9%
Expected term (in years)	5.1 - 6.0	5.4 - 6.1
Risk-free interest rate	1.6% - 1.9%	0.3% - 1.5%
Expected dividend yield	0%	0%

---

The Company recognized employee stock-based compensation (inclusive of options, restricted stock units, and restricted stock awards) of \$277 thousand and \$458 thousand during the years ended December 31, 2019 and 2020, respectively. The Company recognized non-employee stock-based compensation (restricted stock awards) of nil and \$32 thousand during the years ended December 31, 2019 and 2020, respectively.

The stock-based compensation expense is recorded on a departmental basis, based on the classification of the award holder. The following table presents the amount of stock-based compensation related to stock-based awards to employees and non-employees on the Company's consolidated statements of income (loss) during the years ended December 31 (in thousands):

---

	<u>2019</u>	<u>2020</u>
Research and development	\$ 172	\$ 263
Sales and marketing	77	92
General and administrative	28	103
Total stock-based compensation	<u>\$ 277</u>	<u>\$ 458</u>

---

[Table of Contents](#)

**Restricted Stock Units and Awards**—The following table summarizes the restricted stock units activities under the Company's 2013 and 2016 Plan for the years ended December 31, 2019 and 2020:

	RESTRICTED STOCK UNITS	
	NUMBER OF SHARES	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE
Unvested—January 1, 2019	205,682	\$ 0.46
Granted	60,424	0.56
Vested	(74,115)	0.45
Unvested—December 31, 2019	191,991	0.51
Granted	796,359	2.36
Vested	(135,255)	0.56
Canceled	(10,000)	0.60
Unvested—December 31, 2020	843,095	2.25

The following table summarizes the restricted stock awards activities under the Company's 2013 and 2016 Plan for the years ended December 31, 2019 and 2020:

	RESTRICTED STOCK AWARDS	
	NUMBER OF SHARES	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE
Unvested—January 1, 2019	18,000	\$ 0.50
Vested	(18,000)	0.50
Unvested—December 31, 2019	—	0.00
Vested	—	0.00
Canceled	—	—
Unvested—December 31, 2020	—	—

As of December 31, 2020, there was \$1.8 million of unamortized stock-based compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 3.8 years.

There was no unrecognized compensation expense related to restricted stock awards as of December 31, 2019 and 2020.

#### 14. INCOME TAXES

For financial reporting purposes, income (loss) before provision for income taxes, includes the components for the years ended December 31, 2019 and 2020, as follows (in thousands):

	2019	2020
Domestic	\$7,361	\$(1,307)
Foreign	(378)	(927)
Income (loss) before provision for income taxes	\$6,983	\$(2,234)

## [Table of Contents](#)

For the years ended December 31, 2019 and 2020, the provision for income taxes consists of the following (in thousands):

	<u>2019</u>	<u>2020</u>
<b>Current:</b>		
Federal	\$ —	\$ —
State	21	18
Foreign	1,123	1,008
Total current	<u>\$1,144</u>	<u>\$1,026</u>
<b>Deferred:</b>		
Federal	—	—
State	—	—
Foreign	—	—
Total Deferred tax	—	—
Provision for income taxes	<u>\$1,026</u>	<u>\$1,144</u>

For the years ended December 31, 2019 and 2020, income tax provision related to continuing operations differ from the amounts computed by applying the statutory income tax rate of 21% to pretax income or loss as follows (in thousands):

	<u>2019</u>	<u>2020</u>
<b>U.S. Federal provision (benefit)</b>		
At Statutory Rate	21.0%	21.0%
State Taxes	0.4%	10.0%
Valuation Allowance	1.8%	(86.7)%
Foreign Tax Differential	2.5%	6.8%
Tax Credits	(25.6)%	72.7%
Stock Based Compensation	0.7%	1.2%
M&A Transaction Costs	0.0%	(8.2)%
Foreign Earnings and Adjustments	(3.0)%	(11.0)%
Foreign Withholding Tax	18.3%	(67.1)%
CARES Act	0.0%	15.0%
Other	0.3%	0.4%
Total	<u>16.4%</u>	<u>(45.9)%</u>

Deferred income taxes reflect the net tax effects of loss and credit carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has recorded a full valuation allowance on the U.S. net deferred tax assets. The Company has a \$0.1 million net deferred tax assets in its French subsidiary and does not record a valuation allowance in this entity due to its history of profitability. The Company does not record any net deferred tax assets or liabilities in any



## [Table of Contents](#)

of its other foreign subsidiaries. As of December 31, 2019 and 2020, significant components of the Company's deferred tax assets for federal and state income taxes are as follows (in thousands):

	2019	2020
<b>Deferred Tax Assets:</b>		
Federal & State NOL carryforward	\$ 490	\$ 831
Research & Other credits	3,677	5,042
Deferred revenue	2,960	3,140
Reserves and accruals	404	510
Stock-based compensation	15	41
Other intangibles	18	172
Lease liabilities	419	350
Total Gross Deferred tax asset	\$ 7,983	\$ 10,086
Less: Valuation allowance	(7,021)	(9,019)
Total Deferred tax assets	\$ 962	\$ 1,067
<b>Deferred Tax Liabilities:</b>		
Property and equipment	(190)	(134)
Prepaid expenses	(372)	(499)
Right-of-use assets	(400)	(329)
Total Gross Deferred tax liabilities	\$ (962)	\$ (962)
Net Deferred tax assets	\$ —	\$ 105

Realization of the Company's deferred tax assets is dependent upon future earnings. Company management weighed all available evidence, both negative and positive and has concluded that it is more likely than not that the benefit of the Company's net deferred tax assets will not be realized. Accordingly, the Company maintained its full valuation allowance on its U.S. net deferred tax assets. The Company's valuation allowance increased to \$7.0 million and \$9.0 million during the years ended December 31, 2019 and 2020.

The Company provides for U.S. income taxes on the earnings of its foreign subsidiaries to the extent required by the Tax Cuts and Jobs Act ("TCJA"). However, the Company does not provide for withholding taxes on any portion of the undistributed earnings of its foreign subsidiaries because it intends to permanently reinvest those earnings indefinitely outside the U.S. At the present time it is not practicable to estimate the amount of income or withholding taxes that might be payable if these earnings were repatriated.

As of December 31, 2020, the Company had nil and \$5.4 million of federal net operating loss ("NOL") carryforward and state NOL carryforward, respectively. The state NOL will begin to expire after 2029. Utilization of some of the net operating loss and credit carryforwards are subject to annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitations may result in the expiration of net operating losses and credits before utilization.

The Company has federal research credits of \$2.9 million, which will begin to expire after 2035 and state research credits of \$2.1 million which have no expiration date. These tax credits are subject to the same limitations discussed above.

The Company has the following activity relating to unrecognized tax benefits as of December 31, 2019 and 2020 (in thousands):

	2019	2020
Beginning balance	\$1,512	\$1,921
Gross increases—Tax Positions in Current Period	409	601
Ending balance	\$1,921	\$2,522

## [Table of Contents](#)

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2019, and 2020, the Company had no accrued interest or penalties related to its unrecognized tax benefits. If any unrecognized tax benefits are realized, it would not result in any income tax benefit as the Company currently have a full valuation allowance against the deferred tax assets in which there is an uncertain tax benefit.

The Company files foreign and U.S. federal and various state income tax returns. For U.S. federal and state income tax purposes, the statute of limitations currently remains open for the years ending December 31, 2017 to present and December 31, 2016 to present, respectively. In addition, all of the prior year net operating losses and research and development credit carryforwards that may be utilized in future years may be subject to examination.

The Company is not currently under examination by income tax authorities in any jurisdiction.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Securities Act ("CARES Act") was signed into law in the U.S. in March 2020. The CARES Act adjusted a number of provisions in the tax code that could impact a business entity's income deductions and the treatment of net operating losses and tax credits. The enactment of the CARES Act did not result in any material adjustments to the Company's income tax provision for the year ended December 31, 2020, or to its net deferred tax assets as of December 31, 2020. The CARES Act also provides for other non-income tax related benefits to assist those impacted by the COVID-19 pandemic, such as, Paycheck Protection Program loans, deferral of the employer portion of social security taxes, and employee retention credits ("ERC"). The Company has elected to utilize the Paycheck Protection Program ("PPP") loan during 2020. The PPP loan was subsequently forgiven by December 31, 2020. The forgiveness will not result in an impact to the tax provision for federal purposes.

### **15. DEFINED CONTRIBUTION PLAN AND BENEFIT PLANS**

The Company has a 401(k) plan to provide defined contribution retirement benefits for all employees. Employees may elect to contribute a portion of their pretax compensation to the 401(k) plan, subject to annual limitations. The Company may make discretionary profit-sharing contributions at the discretion of the Board. Employee contributions are fully vested at all times. For the years ended December 31, 2019 and 2020, the Company did not make a profit-sharing contribution to the 401(k) plan.

The Company has two defined benefit pension plans (the "Plans"), and both Plans are outside the United States. One of the defined benefit plans was assumed as a result of the acquisition of Magillem during the year ended December 31, 2020. The Plans cover all employees of the Company's French subsidiary in accordance with French regulations. The Plans are unfunded and accounted for under the credit method and is subject to an actuarial measurement of what the Company needs at the present time to cover the future pension liabilities, including expected future salary increases.

Components of the net periodic pension costs and changes in benefit obligations under the Plan as of and for the years ended December 31, 2019 and 2020 were as follows (in thousands):

---

	<u>2019</u>	<u>2020</u>
Service costs	\$ 17	\$ 33
Interest costs	2	2
<b>Total net periodic pension cost</b>	<b><u>\$ 19</u></b>	<b><u>\$ 35</u></b>

---

## [Table of Contents](#)

	2019	2020
Benefit obligation, beginning of year	\$ 175	\$ 194
Assumption of pension liability due to acquisition	—	449
Service costs	17	33
Interest costs	2	2
Net actuarial loss	1	11
Currency translation adjustments	(1)	28
Benefit obligation, end of year, included as part of other liabilities	<u>\$ 194</u>	<u>\$ 717</u>

Weighted-average assumptions used to determine benefit obligations for the years ended December 31, 2019 and 2020 were as follows:

	2019	2020
Discount rate	0.76%	0.45%
Rate of compensation increase	3.00%	3.00%

### 16. RELATED PARTY TRANSACTIONS

The Company defines related parties as directors, executive officers, nominees for director, stockholders that have significant influence over the Company, or are a greater than 10% beneficial owner of the Company's capital and their affiliates or immediate family members. The Company procures certain consulting services from related parties. Total purchases related to consulting services from related parties under arm's length transaction were \$83 thousand and \$29 thousand for the years ended December 31, 2019 and 2020, respectively. Accounts payable to related parties as of December 31, 2019 and 2020 amounted to \$18 thousand and nil, respectively. In addition, in November 2020, the Company has entered into a lease agreement with a related party and the amount is immaterial for the year ended December 31, 2020.

### 17. SEGMENT AND GEOGRAPHIC INFORMATION

The Company's CODM, reviews operating results on an aggregate basis and manages the Company's operations as a whole for the purpose of evaluating financial performance and allocating resources. The Company thus operates in one reportable segment which, as more fully described in Note 1, provides NoC interconnect semiconductor IP and IP deployment technology for a wide range of applications.

Refer to Note 2 for information about customers which account for more than 10% of total revenue. Refer to Note 3 for a summary of revenue by major product and service group. Substantially all of the Company's long-lived assets, other than those related to the Magillem acquisition identified in Note 8, were attributable to operations in the United States as of December 31, 2019 and 2020 with less than 10% located in other countries.

The following tables summarize revenues by geographic area based on customer location (in thousands):

	2019		2020	
Americas	\$ 9,239	29.3% (1)	\$ 10,459	32.9% (1)
Asia Pacific	19,917	63.2 (2)	18,896	59.4 (2)
Europe, Middle East	2,345	7.5	2,457	7.7
	<u>\$ 31,501</u>	<u>100.0%</u>	<u>\$ 31,812</u>	<u>100.0%</u>
(1) United States	\$ 8,907	28.2%	\$ 10,135	31.9%
(1) Other Americas *	332	1.1%	324	1.0%
(2) China	17,110	54.3%	14,283	44.9%
(2) Other Asia *	2,807	8.9%	4,613	14.5%

\* Other countries individually less than 10%

[Table of Contents](#)

The following table summarize property and equipment, net by geographic area (in thousands):

---

	2019		2020	
Americas	\$1,005	97.9%	\$1,834	77.5%
Asia Pacific	8	0.8%	14	0.6%
Europe, Middle East	13	1.3%	517	21.9%
	<u>\$1,026</u>	<u>100.0%</u>	<u>\$2,365</u>	<u>100.0%</u>

---

**18. SUBSEQUENT EVENTS**

The Company evaluated subsequent events through June 11, 2021, the date the financial statements were available for issuance.

In May 2021, the Company received a \$5.4 million investment in exchange for an issuance of approximately 1.25 million shares of the Company's common stock.

\*\*\*\*\*

F-36

**ARTERIS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
(in thousands, except share and per share data)  
(Unaudited)

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
<b>ASSETS</b>		
Current assets:		
Cash	\$ 11,744	\$ 14,809
Accounts receivable-net	14,350	8,417
Prepaid expenses and other current assets	2,858	4,454
Total current assets	28,952	27,680
Property and equipment-net	2,365	2,382
Operating lease right-of-use assets	2,753	2,777
Intangibles-net	3,409	3,171
Goodwill	2,677	2,677
Other assets	2,580	4,033
<b>TOTAL ASSETS</b>	<b>\$ 42,736</b>	<b>\$ 42,720</b>
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,116	\$ 2,089
Accrued expenses and other current liabilities	7,249	7,215
Operating lease liabilities, current	767	849
Deferred revenue, current	17,894	22,060
Vendor financing arrangements, current	643	692
Term loan, current	557	249
Total current liabilities	28,226	33,154
Deferred revenue, noncurrent	15,014	14,564
Operating lease liabilities, noncurrent	2,079	1,988
Vendor financing arrangements, noncurrent	727	505
Other liabilities	2,986	2,986
Total liabilities	49,032	53,197
Commitments and contingencies (Note 10)		
Redeemable convertible preferred stock:		
Redeemable convertible preferred stock, par value of \$0.001—4,471,316 shares authorized; 4,471,316 shares issued and outstanding as of December 31, 2020 and June 30, 2021 (aggregate liquidation preference of \$5,768 as of December 31, 2020 and June 30, 2021)	5,712	5,712
Stockholders' deficit:		
Common stock, par value of \$0.001—31,525,154 and 34,525,154 shares authorized as of December 31, 2020 and June 30, 2021; 18,486,989 and 20,525,254 shares issued and outstanding as of December 31, 2020 and June 30, 2021, respectively	18	21
Additional paid-in capital	3,612	10,054
Accumulated other comprehensive loss	(31)	(31)
Accumulated deficit	(15,607)	(26,233)
Total stockholders' deficit	(12,008)	(16,189)
<b>TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 42,736</b>	<b>\$ 42,720</b>

See accompanying notes to condensed consolidated financial statements.

**ARTERIS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Loss and Comprehensive Loss**  
(in thousands, except share and per share data)  
(Unaudited)

---

	SIX MONTHS ENDED	
	JUNE 30,	
	2020	2021
Licensing, support and maintenance	\$ 8,794	\$ 16,217
Variable royalties and other	2,143	1,254
Total revenue	<u>10,937</u>	<u>17,471</u>
Cost of revenue	891	1,735
Gross profit	10,046	15,736
Operating expenses:		
Research and development	7,831	12,963
Sales and marketing	4,105	4,729
General and administrative	2,423	8,012
Total operating expenses	<u>14,359</u>	<u>25,704</u>
Loss from operations	(4,313)	(9,968)
Interest and other expense, net	(85)	(314)
Loss before provision for income taxes	(4,398)	(10,282)
Provision for income taxes	2,594	344
Net loss and comprehensive loss	<u>\$ (6,992)</u>	<u>\$ (10,626)</u>
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.40)	\$ (0.55)
Weighted average shares used in computing per share amounts, basic and diluted	17,428,227	19,354,965

---

See accompanying notes to condensed consolidated financial statements.

**ARTERIS INC. AND SUBSIDIARIES**

**Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit**  
(In thousands, except share data)  
(Unaudited)

	SIX MONTHS ENDED JUNE 30, 2020									
	REDEEMABLE CONVERTIBLE PREFERRED STOCK		STOCKHOLDERS' DEFICIT						ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE LOSS				
		SHARES	AMOUNT							
BALANCE—										
December 31, 2019	4,471,316	\$ 5,712	17,349,695	\$ 17	\$ 2,918	\$ (18)	\$ (12,347)	\$ (9,430)		
Issuance of common stock for cash upon exercise of stock options	—	—	196,582	1	91	—	—	—	92	
Issuance of common stock for settlement of restricted stock units	—	—	17,500	—	—	—	—	—	—	
Stock-based compensation expense	—	—	—	—	170	—	—	—	170	
Net loss	—	—	—	—	—	—	(6,992)	(6,992)		
<b>BALANCE—June 30, 2020</b>	<b>4,471,316</b>	<b>\$ 5,712</b>	<b>17,563,777</b>	<b>\$ 18</b>	<b>\$ 3,179</b>	<b>\$ (18)</b>	<b>\$ (19,339)</b>	<b>\$ (16,160)</b>		
	SIX MONTHS ENDED JUNE 30, 2021									
	REDEEMABLE CONVERTIBLE PREFERRED STOCK		STOCKHOLDERS' DEFICIT							
	SHARES	AMOUNT	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE LOSS	ACCUMULATED DEFICIT	TOTAL		
			SHARES	AMOUNT						
BALANCE—										
December 31, 2020	4,471,316	\$ 5,712	18,486,989	\$ 18	\$ 3,612	\$ (31)	\$ (15,607)	\$ (12,008)		
Issuance of common stock			1,250,000	1	5,435			5,436		
Issuance of common stock for cash upon exercise of stock options	—	—	771,934	2	296	—	—	—	298	
Issuance of common stock for settlement of restricted stock units	—	—	16,331	—	—	—	—	—	—	
Stock-based compensation expense	—	—	—	—	711	—	—	—	711	
Net loss	—	—	—	—	—	—	(10,626)	(10,626)		
<b>BALANCE—June 30, 2021</b>	<b>4,471,316</b>	<b>\$ 5,712</b>	<b>20,525,254</b>	<b>\$ 21</b>	<b>\$ 10,054</b>	<b>\$ (31)</b>	<b>\$ (26,233)</b>	<b>\$ (16,189)</b>		

See accompanying notes to condensed consolidated financial statements.

**ARTERIS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
(In thousands)  
(Unaudited)

	SIX MONTHS ENDED	
	JUNE 30,	
	2020	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (6,992)	\$(10,626)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	443	733
Stock-based compensation	170	711
Operating non-cash lease expense	257	(23)
Other, net	5	(8)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,055	5,932
Prepaid expenses and other assets	338	(2,872)
Accounts payable	(220)	973
Accrued expenses and other current liabilities	2,375	(34)
Operating lease liabilities	(252)	(8)
Deferred revenue	3,209	3,716
Net cash provided by (used in) operating activities	<u>388</u>	<u>(1,506)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(498)	(359)
Net cash used in investing activities	<u>(498)</u>	<u>(359)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	—	5,435
Proceeds from PPP Loan	1,603	—
Payments of principal portion of Term loan	(300)	(300)
Principal payments under vendor financing arrangements	(119)	(325)
Proceeds from exercise of stock options	92	298
Payments of deferred offering costs	—	(178)
Other	(3)	—
Net cash provided by financing activities	<u>1,273</u>	<u>4,930</u>
<b>NET INCREASE IN CASH</b>	<b>1,163</b>	<b>3,065</b>
<b>CASH, beginning of period</b>	<b>13,938</b>	<b>11,744</b>
<b>CASH, end of period</b>	<b><u>\$15,101</u></b>	<b><u>\$ 14,809</u></b>
<b>Noncash investing and financing activities:</b>		
Property and equipment included in vendor financing	\$ 1,075	\$ 1,197
Recognition of new right-of-use assets and lease liabilities for lease modification	\$ 148	\$ 327
Unpaid deferred offering costs	—	\$ 1,447

See accompanying notes to condensed consolidated financial statements.



**ARTERIS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS**

Arteris, Inc. and its subsidiaries (collectively, the “Company” or “Arteris”) was incorporated in Delaware on April 12, 2004. The Company develops, licenses, and supports the on-chip interconnect fabric technology used in System-on-Chip (“SoC”) designs for a variety of devices and in the development and distribution of Network-on-Chip (“NoC”) interconnect intellectual property (“IP”). The Company also provides software and services to enable efficient deployment of NoC IP, IP support & maintenance services, professional services and training and on-site support services. The Company is headquartered in Campbell, California and has offices in the United States, France, Japan, Korea and China.

**COVID-19 Pandemic**

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic which has resulted in substantial global economic disruption and uncertainty. In response to the COVID-19 pandemic, the measures implemented by various authorities have caused us to change the Company’s business practices, including those related to where employees work, the distance between employees in the Company’s facilities, limitations on in-person meetings between employees and with customers, suppliers, service providers and stakeholders, as well as restrictions on business travel to domestic and international locations and to attend trade shows, technical conferences and other events.

The Company is unable to accurately predict the full impact that COVID-19 will have on its future results of operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures. The Company will continue to monitor health orders issued by applicable governments to ensure compliance with evolving domestic and global COVID-19 guidelines.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**—The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and do not include all disclosures normally required in annual consolidated financial statements prepared in accordance with GAAP. Accordingly, these condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2020 and the related notes thereto. The December 31, 2020 condensed consolidated balance sheet was derived from our audited consolidated financial statements as of that date. In management’s opinion, the unaudited interim consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the condensed consolidated financial statements.

The operating results for the six months ended June 30, 2021 are not necessarily indicative of the results to be expected for the full year or any other future interim or annual period.

**Principles of Consolidation**—The consolidated financial statements include the accounts of Arteris, Inc. and its wholly-owned subsidiaries. All inter-company transactions and accounts have been eliminated.

There have been no material changes in the Company’s significant accounting policies as described in its consolidated financial statements and the related notes for the year ended December 31, 2020.

**Use of Estimates**—The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates relate to, among others, revenue recognition, the useful lives of assets, assessment of recoverability of property, plant and equipment, fair values of goodwill and other intangible assets, including impairments, leases, allowances for doubtful accounts, deferred tax assets and related valuation allowance, stock-based compensation, potential reserves relating to litigation and tax matters, as well as

## [Table of Contents](#)

other accruals or reserves. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements.

**Concentrations of Credit Risk**—Financial instruments that potentially subject us to concentration of credit risk consist of cash and accounts receivable. The Company maintains cash in checking and savings deposits. Management believes no significant concentration risk exists with respect to cash as in management's judgment the banks that hold the Company's cash are financially stable. The Company deposits cash with high-credit-quality financial institutions which, at times, may exceed federally insured amounts.

The Company's accounts receivable are derived principally from revenue earned from customers located in Asia Pacific and the Americas regions.

Accounts receivable from the Company's major customers representing 10% or more of total accounts receivable was as follows:

---

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
Customer A	31%	21%
Customer B	20%	*
Customer C	*	12%

---

\* Customer accounted for less than 10% of total accounts receivable at period end.

Revenue from the Company's major customers representing 10% or more of total revenue was as follows:

---

	SIX MONTHS ENDED JUNE 30,	
	2020	2021
Customer A	21%	21%
Customer D	11%	*
Customer E	11%	*

---

\* Customer accounted for less than 10% of total revenue in the period.

**Stock-based Compensation**—The Company measures equity classified stock-based awards, including stock options, RSUs, and RSAs granted to employees, directors, and non-employees based on the estimated fair values of the awards on the date of the grant. Stock-based compensation expense for awards with service-based vesting only is recognized on a straight-line basis over the requisite service period which is generally the vesting period of such awards, as a component of operating expenses within the Consolidated Statements of Income (Loss). For awards that include performance conditions stock-based compensation expense is recognized on a graded vesting basis over the requisite service period. Compensation expense is not recognized until the performance condition becomes probable.

The performance-based vesting condition of certain awards is satisfied in connection with the Company becoming a publicly listed company or a change in control. The Company's initial public offering ("IPO") is not deemed probable until consummated. Accordingly, no expense is recorded related to these awards until the performance-based vesting condition becomes probable of occurring. In connection with its IPO, the Company expects to record stock-based compensation expense for these awards with performance-based vesting conditions for the service period rendered from the date of grant through the IPO date.

The Company accounts for forfeitures related to these awards as they occur.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation including the expected term, the volatility of the Company's common stock, and an assumed risk-free interest rate. As a result, if the Company revises its assumptions and estimates, the Company's stock-based compensation expense could change.

## [Table of Contents](#)

The fair value of RSUs and RSAs granted is measured as the fair value per share of the Company's common stock on the date of grant.

**Deferred Offering Costs**— Deferred offering costs, which consist of direct incremental legal, accounting, consulting, and other fees related to the Company's planned IPO, are capitalized in other assets, non-current on the consolidated balance sheets. The deferred offering costs will be offset against IPO proceeds upon the consummation of an IPO. In the event the planned IPO is terminated, the deferred offering costs will be immediately expensed in the consolidated statements of income (loss). There were no deferred offering costs recorded as of December 31, 2020. Deferred offering costs as of June 30, 2021 were \$1.6 million.

### **Recent Accounting Pronouncements**

#### *Recently Adopted Accounting Pronouncements*

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes. This Update removes certain exceptions for performing intraperiod tax allocations, recognizing deferred taxes for investments, and calculating income taxes in interim periods. The guidance also simplifies the accounting for franchise taxes, transactions that result in a step-up in the tax basis of goodwill, and the effect of enacted changes in tax laws or rates in interim periods. The Company adopted ASU 2019-12 on January 1, 2021 and the adoption had no material impact on the Company's unaudited condensed consolidated financial statements.

#### *Recently Issued Accounting Pronouncements Not Yet Adopted*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and in May 2019 issued ASU No. 2019-05, *Credit Losses (Topic 326): Targeted Transition Relief* (collectively referred to as "Topic 326"), which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. Topic 326 replaces the existing incurred loss impairment model with a forward-looking expected credit loss model which will result in earlier recognition of credit losses. Topic 326 is effective for the Company for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14, *Retirement Benefits: Changes to the Disclosure Requirements for Defined Benefit and other Postretirement Plan* (Subtopic 715-20), that adds, removes, and clarifies disclosures requirements for defined benefit and other postretirement plans. This ASU will be effective for the Company for fiscal years ending after December 15, 2021, with early adoption permitted. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU will be effective for the Company for fiscal years beginning after December 15, 2020, and all interim periods beginning after December 15, 2021. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*. The amendments in this ASU simplify the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity's own equity. Among other changes, the guidance removes the liability and equity separation models for convertible instruments. Instead, entities will account for convertible debt instruments wholly as debt unless convertible instruments contain features that require bifurcation as a derivative or that result in substantial premiums accounted for as paid-in capital. The guidance also requires the application of the if-converted method to calculate the impact of convertible instruments on diluted earnings per share. The guidance is effective for the Company for fiscal years beginning after December 15, 2023, with early adoption permitted for fiscal years beginning after December 15, 2020, and can be adopted on either a retrospective or modified retrospective basis. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

[Table of Contents](#)

### 3. REVENUE

#### *Disaggregated Revenue*

The following table shows revenue by product and services groups (in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2020	2021
Licensing, support and maintenance	\$ 8,794	\$ 16,217
Variable royalties	1,847	1,174
Other	296	80
Total	<u>\$ 10,937</u>	<u>\$ 17,471</u>

#### *Contract Balances*

The timing of revenue recognition differs from the timing of invoicing to customers and this timing difference results in contract liabilities ("deferred revenue") on the Consolidated Balance Sheets. The following table provides information about accounts receivable, contract assets and deferred revenue (in thousands):

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
Accounts receivable—net	\$ 14,350	\$ 8,417
Contract assets	\$ 1,359	\$ 1,205
Deferred revenue	\$ (32,908)	\$(36,624)

The Company recognized revenue of \$7.8 million and \$9.3 million for the six months ended June 30, 2020 and 2021, respectively that was included in the deferred revenue balance at the beginning of the fiscal year.

Contracted but unsatisfied performance obligations were \$37.6 million and \$41.1 million as of December 31, 2020 and June 30, 2021, respectively and included unearned revenue and non-cancelable Flexible Spending Account ("FSA") Agreements from customers where actual product selection and quantities of specific products are to be determined by customers at a future period. FSA commitments amounted to \$4.7 million and \$4.5 million as of December 31, 2020 and June 30, 2021, respectively. The Company has elected to exclude the potential future royalty receipts from the remaining performance obligations. The contracted but unsatisfied or partially unsatisfied performance obligations, excluding non-cancelable FSA, expected to be recognized in revenue over the next 12 months as of June 30, 2021 are \$22.4 million, with the remainder recognized thereafter.

The following table is a rollforward of deferred revenue for the year ended December 31, 2020 and six months ended June 30, 2021 (in thousands):

	AS OF
	DECEMBER 31, 2020
Deferred revenue licensing, support and maintenance—beginning balance as of December 31, 2019	\$ 23,116
Additions	37,200
Revenue recognized	(27,408)
Deferred revenue licensing, support and maintenance—ending balance as of December 31, 2020	<u>\$ 32,908</u>

## [Table of Contents](#)

	AS OF JUNE 30, 2021
Deferred revenue licensing, support and maintainance—balance as of December 31, 2020	\$ 32,908
Additions	20,013
Revenue recognized	(16,297)
Deferred revenue licensing, support and maintainance—balance as of June 30, 2021	<u>\$ 36,624</u>

The Company recognized \$1.8 million and \$1.2 million for the six months ended June 30, 2020 and 2021, respectively from performance obligations satisfied from sales-based royalties earned during the periods.

### **Costs of Obtaining a Contract with a Customer**

Incremental costs of obtaining a contract with a customer consist primarily of direct sales commissions incurred upon execution of the contract. These costs are required to be capitalized under ASC 340-40, *Other Assets and Deferred Costs—Contracts With Customers*, and amortized over the license term. As direct sales commissions paid for term extensions are commensurate with the amounts paid for initial contracts, the deferred incremental costs for initial contracts and for term extensions are recognized over the respective contract terms. Total capitalized direct commission costs were as follows (in thousands):

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
Short-term commissions capitalized in prepaid expenses and other current assets	\$ 1,079	\$ 1,236
Long-term commissions capitalized in other assets	1,479	1,196
Total	<u>\$ 2,558</u>	<u>\$ 2,432</u>

Amortization of capitalized sales commissions was \$0.8 million and \$0.7 million for the six months ended June 30, 2020 and 2021, respectively.

Amortization of capitalized sales commissions are included in sales and marketing expense in the Consolidated Statements of Income (Loss).

## **4. NET LOSS PER SHARE**

The following table presents the calculation of basic and diluted net loss per share attributable to common stockholders (in thousands, except share and per share data):

	SIX MONTHS ENDED JUNE 30,	
	2020	2021
Numerator:		
Net loss	\$ (6,992)	\$ (10,626)
Denominator:		
Weighted-average shares outstanding—basic and diluted	17,428,227	19,354,965
Net loss per share, basic and diluted	<u>\$ (0.40)</u>	<u>\$ (0.55)</u>

Since the Company was in a loss position for all periods presented, the diluted earnings per share is equal to the basic earnings per share as the effect of potentially dilutive securities would have been antidilutive.

## [Table of Contents](#)

The following table summarizes the potentially dilutive securities that were excluded from the calculation of diluted earnings per share because they would be anti-dilutive were as follows:

	AS OF	
	JUNE 30, 2020	JUNE 30, 2021
Stock options	6,684,855	6,201,315
Restricted stock units	239,815	2,887,064
Preferred stock	4,471,316	4,471,316
Total	<u>11,395,986</u>	<u>13,559,695</u>

## 5. FAIR VALUE MEASUREMENTS

### *Assets Measured and Recorded at Fair Value on a Non-Recurring Basis*

Certain non-financial assets, such as intangible assets and property, plant and equipment, are remeasured at fair value only if an impairment or observable price adjustment is recognized in the current period.

### *Financial Instruments Not Recorded at Fair Value on a Recurring Basis*

Financial instruments not recorded at fair value on a recurring basis include the term loan and vendor financing arrangements. The aggregate carrying value of the term loan and vendor financing agreements were \$1.9 million and \$1.4 million as of December 31, 2020 and June 30, 2021, respectively. The estimated fair values of these financial instruments approximate their carrying values and are categorized as Level 2 within the fair value hierarchy based on the nature of the fair value inputs.

The Company's borrowings under its term loan facility and vendor financing arrangements are classified within Level 2 because these borrowings are not actively traded and have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities.

## 6. INTANGIBLE ASSETS AND GOODWILL

### *Intangible assets, net*

Intangible assets—net consisted of the following (in thousands):

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
Developed technology	\$ 1,700	\$ 1,700
Customer relationships	1,100	1,100
IPR&D	500	500
Trade name	150	150
Total intangible assets	<u>3,450</u>	<u>3,450</u>
Less: accumulated amortization	(41)	(279)
Total intangible assets—net	<u>\$ 3,409</u>	<u>\$ 3,171</u>

Amortization expense of intangible assets was nil and \$0.2 million for the six months ended June 30, 2020 and 2021.

### *Goodwill*

As of December 31, 2020 and June 30, 2021, goodwill was \$2.7 million. No goodwill impairments were recorded during the year ended December 31, 2020 and the six months ended June 30, 2021.

[Table of Contents](#)**7. BALANCE SHEET COMPONENTS****Accounts Receivable, net**

The following table represents the components of accounts receivable, net (in thousands):

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
Accounts receivable	\$ 13,927	\$ 8,107
Unbilled accounts receivable	812	590
Total accounts receivable	14,739	8,697
Less: allowance for doubtful accounts and allowance for foreign withholding tax	(389)	(280)
Total accounts receivable, net	\$ 14,350	\$ 8,417

The allowance for doubtful accounts was \$280 thousand both as of December 31, 2020 and June 30, 2021. The allowance for foreign withholding tax was \$109 thousand and nil as of December 31, 2020 and June 30, 2021, respectively.

**Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consisted of the following (in thousands):

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
State and local tax credit	\$ 523	\$ 1,889
Capitalized commissions asset, net	1,079	1,236
Subscriptions	158	340
Contract assets	551	295
Other	547	694
Total prepaid expenses and other current assets	\$ 2,858	\$ 4,454

**Property and Equipment, net**

Property and equipment, net consisted of the following (in thousands):

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
Software and technology equipment	\$ 3,209	\$ 3,462
Office furniture and hardware equipment	271	436
Leasehold improvements	100	100
Construction in progress	—	90
Others	14	18
Total property and equipment	3,594	4,106
Less: accumulated depreciation and amortization	(1,229)	(1,724)
Total property and equipment, net	\$ 2,365	\$ 2,382

Depreciation and amortization expenses were \$442 thousand and \$495 thousand for the six months ended June 30, 2020 and 2021, respectively.

## [Table of Contents](#)

### **Other Assets**

Other assets consisted of the following (in thousands):

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
Deferred offering costs	\$ —	\$ 1,625
Capitalized commissions asset, net	1,479	1,196
Contract assets	808	910
Deposits	1	139
Other assets	292	163
Total other assets	\$ 2,580	\$ 4,033

### **8. LEASES**

The Company leases its offices at various locations under noncancelable operating lease agreements expiring at various dates through 2027. Under the terms of these agreements, the Company also bears the costs for certain insurance, property tax, and maintenance. The terms of certain lease agreements provide for increasing rental payments at fixed intervals.

Total operating lease related costs were as follows (in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2020	2021
Operating lease cost	\$ 319	\$ 474
Short-term lease cost	43	52
Total lease cost	\$ 362	\$ 526

The weighted-average remaining term of the Company's operating leases was 4.4 and 3.9 years as of December 31, 2020 and June 30, 2021, respectively, and the weighted-average discount rate used to measure the present value of the operating lease liabilities was 7.5% as of both December 31, 2020 and June 30, 2021.

Maturities of operating lease liabilities as of June 30, 2021 were as follows (in thousands):

<b>Fiscal year ending December 31,</b>	
Remainder of 2021	\$ 519
2022	992
2023	782
2024	325
2025	258
Thereafter	412
Total undiscounted cash flows	\$ 3,288
Less: imputed interest	(451)
Present value of lease liabilities	\$ 2,837
Operating lease liabilities, current	\$ 849
Operating lease liabilities, non-current	1,988
	\$ 2,837



## [Table of Contents](#)

See Note 10, for contractual noncancelable commitments.

### 9. BORROWINGS

#### **Term loans—**

In November 2018, the Company entered into a business financing agreement (“2018 Term Loan”) of \$1.5 million with a bank with a maturity date of November 2021, and payable on a monthly basis of approximately \$50 thousand with the beginning six months being interest only payments. The interest rate on the 2018 Term Loan is prime plus 2%. The debt issuance costs related to the 2018 Term Loan was approximately \$26 thousand during the year ended December 31, 2018. Debt issuance costs were recorded as a direct reduction against the debt and amortized over the life of the associated debt as a component of interest expense using the effective interest method. Borrowings under the term loan are collateralized by substantially all the assets of the Company.

Under the terms of the 2018 Term Loan, the Company is required to comply with certain financial and nonfinancial covenants. Any failure to comply with these covenants and any other obligations under the agreement could result in an event of default, which would allow the Lender to require accelerated repayments of amounts owed. As of December 31, 2020 and June 30, 2021, the Company was in compliance with the financial and non-financial covenants.

As of December 31, 2020 and June 30, 2021, the Company had \$557 thousand and \$249 thousand outstanding balance, net of debt issuance costs, under the 2018 Term Loan, of which nil was classified as long-term liabilities, respectively.

The contractual future repayments of the 2018 Term Loan as of June 30, 2021 were as follows (in thousands):

---

	<b>AMOUNT</b>
Remainder of 2021	\$ 254
Less: interest	(4)
Less: unamortized debt issuance cost	(1)
Term loan, net of interest and debt issuance cost	<u>\$ 249</u>

---

**Revolving line of credit—**The Company has a revolving line of credit, under the business financing agreement dated August 2015, with a Lender for \$1.5 million that matured in August 2018 and renewed in November 2018 for another three years with a maturity date of November 2021 for \$2.0 million (“2018 Revolver”). The interest rate for the 2018 Revolver is prime plus 1%, and the 2018 Revolvers were not used as of both December 31, 2020 and June 30, 2021.

**Vendor financing arrangements—**The Company has various vendor financing arrangements with extended payment terms on the purchase of software licenses and equipment. In order to determine the present value of the commitments, the Company used an imputed interest rate of 7.5%, which is reflective of its collateralized borrowing rate with similar terms to that of the software licenses and equipment transactions.

## [Table of Contents](#)

Vendor financing arrangements were as follows (in thousands):

	<b>AMOUNT</b>
Remainder of 2021	\$ 338
2022	678
2023	259
Total undiscounted cash flows	\$ 1,275
Less: imputed interest	(78)
Present value of vendor financing arrangements	\$ 1,197
Vendor financing arrangements, current	\$ 692
Vendor financing arrangements, noncurrent	505
	<u>\$ 1,197</u>

Interest expense from term loan and vendor financing arrangements was \$55 thousand and \$59 thousand for the six months ended June 30, 2020 and 2021, respectively.

### **10. COMMITMENTS AND CONTINGENCIES**

**Indemnifications**—The Company enters into indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company agrees to indemnify, hold harmless, and reimburse the indemnified parties for losses suffered or incurred by such indemnified parties. The term of these indemnification agreements is generally perpetual beginning on the execution date of the agreement. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable. The Company has never incurred costs to defend lawsuits or settle claims related to these agreements. The Company has also indemnified its directors and officers, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or executive officer, other than liabilities arising from willful misconduct of the individual.

The Company has no obligations from these indemnification agreements and the consolidated financial statements do not include liabilities for any potential obligations as of December 31, 2020 and June 30, 2021.

**Legal**—In the normal course of business, the Company may receive inquiries or become involved in legal disputes regarding various litigation matters. Although claims are inherently unpredictable, the Company currently is not aware of any matters that may have a material adverse effect on the Company's financial position, results of operations, or cash flows.

The Company has no other contractual noncancelable commitments as of December 31, 2020 and June 30, 2021.

### **11. REDEEMABLE CONVERTIBLE PREFERRED STOCK AND COMMON STOCK**

**Redeemable Convertible Preferred Stock**—The Company's redeemable convertible preferred stock is issuable in series individually referred to as Series A Preferred. The holders of redeemable convertible preferred stock have the following rights, preferences, privileges and restrictions:

#### **Dividends**

The Company shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Company unless the holders of the Series A Preferred Stock then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Series A Preferred Stock in an amount at least equal to (i) in the case of a dividend on Common Stock or any class or series that is convertible into Common Stock, that dividend per share of Series A Preferred Stock would equal the product of (A) the dividend payable on each share of such class or series determined, if applicable, as if all shares of such class or series had been converted into Common Stock and (B) the number of shares of Common Stock issuable upon conversion of a share of Series A Preferred Stock, in each case calculated on the record date for determination of holders entitled to receive such dividend or (ii) in the case of a dividend on any class or series that is not convertible into Common Stock, at a rate per share of Series A Preferred Stock determined by (A) dividing the amount of the dividend payable on each share

## [Table of Contents](#)

of such class or series of capital stock by the original issuance price of such class or series of capital stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to such class or series) and (B) multiplying such fraction by an amount equal to the Series A Original Issue Price (as defined below); provided that, if the Company declares, pays or sets aside, on the same date, a dividend on shares of more than one class or series of capital stock of the Company, the dividend payable to the holders of Series A Preferred Stock shall be calculated based upon the dividend on the class or series of capital stock that would result in the highest Series A Preferred Stock dividend. The Series A Original Issue Price shall mean \$1.29 per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series A Preferred Stock. The Company has not declared dividends for the years ended December 31, 2020 and the six months ended June 30, 2021.

### **Liquidation**

Preferential payments to holders of Series A preferred stock—In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or Deemed Liquidation Event, the holders of shares of Series A Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of Common Stock by reason of their ownership thereof, an amount per share equal the Series A Original Issue Price (\$1.29 per share), plus any dividends declared but unpaid thereon. If upon any such Liquidation Event or Deemed Liquidation Event, the assets of the Company available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series A Preferred Stock the full amount to which they shall be to, the holders of shares of Series A Preferred Stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

In the event of any Liquidation Event or Deemed Liquidation Event, after the payment of all preferential amounts required to be paid to the holders of shares of Series A Preferred Stock, the remaining assets of the Company available for distribution to its stockholders shall be distributed among the holders of the shares of Series A Preferred Stock and Common Stock, pro rata based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to Common Stock pursuant to the terms of this Restated Certificate immediately prior to such Liquidation Event or Deemed Liquidation Event until such holders of Series A Preferred Stock have received an aggregate amount per share of Series A Preferred Stock equal to two and a half (2.5) times the Series A Original Issue Price, plus any dividends declared but unpaid thereon; thereafter, the remaining assets of the Company available for distribution in such Liquidation Event or Deemed Liquidation Event, if any, shall be distributed ratably to the holders of the Common Stock.

Notwithstanding the foregoing, upon any Liquidation Event or Deemed Liquidation Event, each holder of Series A Preferred Stock shall be entitled to receive, for each share of Series A Preferred Stock then held, out of the assets of the Company available for distribution to its stockholders, the greater of (i) the amount of cash, securities or other property to which such holder would be entitled to receive with respect to such shares in a Liquidation Event or Deemed Liquidation Event pursuant to above or (ii) such amount per share as would have been payable had all shares of Series A Preferred Stock been converted into Common Stock immediately prior to such Liquidation Event or Deemed Liquidation Event.

### **Voting**

On any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company, each holder of outstanding shares of Series A Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Series A Preferred Stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by the other provisions of this Restated Certificate, holders of Series A Preferred Stock shall vote together with the holders of Common Stock as a single class.

### **Optional Conversion**

Each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time, and without the payment of additional consideration by the holder thereof, into such number of Common Stock as is determined by dividing the Series A Original Issue Price by the Series A Conversion Price in effect at the time of conversion.

## [Table of Contents](#)

The Series A Conversion Price shall initially be equal to the Series A Original Issue Price. Such initial Series A Conversion Price, and the rate at which shares of Series A Preferred Stock may be converted into shares of Common Stock, shall be subject to adjustment for dilution related to the next qualified financing.

### **Mandatory Conversion**

Upon either (a) the closing of the sale of shares of Common Stock to the public in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, in which (i) the cash proceeds to the Company (net of underwriting discounts, commissions and fees) are at least \$25.0 million, (ii) the per share price is based on a pre-money valuation of at least \$100.0 million, and (iii) the Company's shares have been listed for trading on a national, international or transnational stock exchange (an IPO), or (b) the date and time, or the occurrence of an event, specified by vote or written consent of the Required Holders, then (1) all outstanding shares of Series A Preferred Stock shall automatically be converted into shares of Common Stock, at the then effective conversion rate and (2) such shares may not be reissued by the Company.

### **Redeemed or Acquired Shares**

Any shares of Series A Preferred Stock that are redeemed or otherwise acquired by the Company or any of its subsidiaries shall be automatically and immediately cancelled and retired and shall not be reissued, sold or transferred. Neither the Company nor any of its subsidiaries may exercise any voting or other rights granted to the holders of Series A Preferred Stock following redemption.

**Common Stock**—Holders of common stock are entitled to one vote per share and to receive dividends and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to common stockholders. The common stock has no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Common stock is subordinate to the redeemable convertible preferred stock with respect to dividend rights and rights upon liquidation, winding-up, and dissolution of the Company.

During the six months ended June 30, 2021, 1,250,000 shares of the Company's common stock were sold to third-party investors for an aggregate amount of \$5.4 million.

**Stock Repurchases**—There were no repurchased shares for the year ended December 31, 2020 and the six months ended June 30, 2021.

## **12. STOCK-BASED COMPENSATION**

**2013 Stock Plan**—The Board adopted and the Company's stockholders approved the 2013 Equity Incentive Plan ("2013 Plan") during the year ended December 31, 2013.

**2016 Stock Plan**—On October 10, 2016, the Company amended and restated the 2013 Equity Incentive Plan and changed the name of the plan to Arteris, Inc. 2016 Incentive Plan (the "2016 Plan"). Adoption of the 2016 Plan provides for participation by foreign nationals or those employed outside of the United States. Each stock award granted before the Amendment and Restatement Dated will be subject to the terms of the plan that was in effect at the time of the grant of such stock award.

The 2016 Plan is administered by the Board or its delegate. Subject to the provisions of the 2016 Plan, the administrator has the power to determine the terms of awards, including: the recipients, the exercise price, if any, the number of shares subject to each award, the fair value of a share of common stock, the vesting schedule applicable to the awards, together with any vesting acceleration, and the form of consideration, if any, payable upon exercise of the award and the terms of the award agreement for use under the 2016 Plan. The administrator has the power: to construe and interpret the 2016 Plan and stock awards granted under it and to establish, amend and revoke rules for administration of the 2016 Plan including correcting defects, omissions and inconsistencies to make the award fully effective; to settle all controversies regarding the 2016 Plan and stock awards granted under it; and to accelerate the time at which a stock award may be exercised or vest.

The administrator has the authority to amend, suspend or terminate the 2016 Plan provided such action does not impair the existing rights of any participant. The 2016 Plan will automatically terminate in 2023, unless the Company terminates it sooner.

## [Table of Contents](#)

The 2016 Plan provides for the granting of the following types of stock awards: incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards and other stock awards. The number of shares authorized for award is 18,803,838 as of June 30, 2021.

The Company grants incentive stock options and non-statutory stock options under the 2016 Plan. Incentive stock options may be granted only to employees. The exercise price of all stock options under the 2016 Plan must not be less than 100% of the fair market value of the common stock on the date of grant. After the termination of service of a participant, he or she may exercise his or her option for the period of time stated in his or her award agreement to the extent that the option is vested on the date of termination. However, in no event may an option be exercised later than the expiration of its term. The maximum contractual term of share options is ten years from the date of grant.

The Company grants restricted stock units and restricted stock awards under the 2016 Plan. Restricted stock units and restricted stock awards under the 2016 Plan cover one share of common stock for each restricted stock unit or award. The administrator determines the terms and conditions of restricted stock units/awards including the number of units/awards granted, the vesting criteria (which may include accomplishing specified performance criteria or continued service) and the form and timing of payment. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed.

Under the 2016 Plan, in the event of the termination of a participant's employment, the Company has the right to repurchase any stock issued pursuant to the 2016 Plan following the date of such termination, for a period of six months, under terms specified in the exercise notice and subject to restrictions in the 2016 Plan. Shares exercised or settled from currently outstanding awards under the 2016 Plan are generally not transferrable unless permitted by the Board so long as the Company is a private company. In the event of a proposed transfer to a third party of shares purchased by an employee that is permitted by the Board or the award agreement, the Company has a right of first refusal over such transfer.

The 2016 Plan provides that in the event of a merger or change in control, as defined under the 2016 Plan, each outstanding award will be treated as the administrator determines, in its sole discretion.

**Shares Available for Future Grant**—Shares available for future grant under the Company's 2016 Plan consisted of the following:

	AS OF	
	DECEMBER 31, 2020	JUNE 30, 2021
Shares available for future grant	650,170	440,205

The Company issues new shares upon a share option exercise or release.

**Stock Options**—The following table summarizes the stock option activities under the Company's 2013 and 2016 Plans:

	OPTIONS OUTSTANDING			
	NUMBER OF SHARES	WEIGHTED- AVERAGE EXERCISE PRICE	WEIGHTED- AVERAGE REMAINING CONTRACTUAL TERM (YEARS)	AGGREGATE INTRINSIC VALUE (\$'000S)
BALANCE—December 31, 2020	7,073,584	\$ 0.85	7.90	\$ 13,348
Granted	—	—	—	—
Exercised	(771,934)	0.38	—	—
Canceled	(100,335)	0.54	—	—
BALANCE—June 30, 2021	<u>6,201,315</u>	\$ 0.92	7.63	\$ 11,305
Options vested and exercisable—June 30, 2021	<u>3,035,578</u>	\$ 0.44	6.51	\$ 6,995

## [Table of Contents](#)

The aggregate intrinsic value of the options exercised during the six months ended June 30, 2020 and 2021 was \$25 thousand and \$974 thousand, respectively. The total grant-date fair value of options vested was \$123 thousand and \$144 thousand during the six months ended June 30, 2020 and 2021, respectively.

The amount of cash received by the Company for the exercise of stock options was \$92 thousand and \$293 thousand for the six months ended June 30, 2020 and 2021, respectively.

As of June 30, 2021, there was \$1.3 million of unamortized stock-based compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 3.0 years.

The fair value of each stock option granted is estimated using the Black-Scholes option-pricing model. The Company determines valuation assumptions for Black-Scholes as follows:

**Risk-Free Interest Rate**—The Company bases the risk-free interest rate used in the Black-Scholes option-pricing model on the implied yield available on US Treasury zero coupon issues with an equivalent expected term of the options for each option group.

**Expected Term**—The expected term represents the period that the Company's stock-based awards are expected to be outstanding. The expected term assumption is based on the simplified method. The Company expects to continue using the simplified method until sufficient information about the Company's historical behavior is available.

**Volatility**—The Company determines the price volatility factor based on the historical volatilities of the Company's peer group as the Company does not have trading history for its common stock.

**Dividend Yield**—The Company has never declared or paid any cash dividend and does not currently plan to pay a cash dividend in the foreseeable future. Consequently, the Company used an expected dividend yield of zero.

The following table summarizes the valuation assumptions:

	<u>SIX MONTHS ENDED</u> <u>JUNE 30,</u> <u>2020</u>
Fair value of common stock	\$0.60
Expected volatility	33.9% – 37.6%
Expected term (in years)	5.7 – 6.1
Risk-free interest rate	0.4% – 1.5%
Expected dividend yield	0%

The Company had no stock option grants during the six months ended June 30, 2021.

**Restricted Stock Units and Awards**—The following table summarizes the restricted stock units activities under the Company's 2013 and 2016 Plans:

	<u>RESTRICTED STOCK UNITS</u>	
	<u>NUMBER</u> <u>OF</u> <u>SHARES</u>	<u>WEIGHTED-</u> <u>AVERAGE</u> <u>GRANT DATE</u> <u>FAIR VALUE</u>
Unvested—December 31, 2020	843,095	\$ 2.25
Granted	2,210,300	\$ 3.85
Vested	(16,331)	0.60
Forfeited	(150,000)	\$ 3.61
Unvested—June 30, 2021	<u>2,887,064</u>	<u>\$ 3.41</u>

## [Table of Contents](#)

The total grant-date fair value of restricted stock units vested was \$8 thousand and \$10 thousand, during the six months ended June 30, 2020 and 2021, respectively.

As of June 30, 2021, there was \$2.7 million of unamortized stock-based compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 3.4 years.

For the six months ended June 30, 2021, the Company granted 1.7 million RSUs with both a service-based vesting condition and a performance-based vesting condition, as defined in Note 2. The service-based vesting condition for these awards is generally satisfied by rendering continuous service for approximately four years, during which time the grants will vest periodically. As the performance-based vesting condition of these RSUs is not deemed probable until consummated, no stock-based compensation expense is recorded related to these RSUs until the performance-based vesting condition becomes probable of occurring. If the performance-based vesting condition had been satisfied on June 30, 2021, the Company would have recognized stock-based compensation of \$0.8 million and would have \$5.5 million of unrecognized stock-based compensation expense as of June 30, 2021 to be recognized over a weighted-average remaining requisite service period of 4.0 years.

All restricted stock awards were fully vested as of December 31, 2019.

**Stock-based Compensation**—Stock-based compensation expense is recorded on a departmental basis, based on the classification of the award holder. The following table presents the amount of stock-based compensation related to stock-based awards to employees on the Company's consolidated statements of income (loss) (in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2020	2021
Research and development	\$ 90	\$ 420
Sales and marketing	45	76
General and administrative	35	215
Total stock-based compensation	<u>\$ 170</u>	<u>\$ 711</u>

No non-employee stock-based compensation was recognized for the six months ended June 30, 2020 and 2021.

### 13. INCOME TAXES

The Company's effective tax rate was (92.88)% and (3.22)% for the six months ended June 30, 2020 and 2021, respectively. The Company's income tax provision was \$2.6 million and \$0.3 million for the six months ended June 30, 2020 and 2021, respectively. The decrease in the Company's year-to-date income tax provision was primarily due to a decrease in the forecasted annual foreign withholding tax. The decrease in forecasted foreign withholding tax, coupled with changes in the geographic mix of year-to-date and forecasted worldwide earnings and financial results in jurisdictions which are taxed at different rates and the impact of losses in jurisdictions with full valuation allowances, has resulted in the decrease to the year-to-date income tax provision for the period ended June 30, 2021 compared to the period ended June 30, 2020.

Management continuously evaluates the need for a valuation allowance and, as of June 30, 2021, concluded that a full valuation allowance on its federal and state deferred tax assets was still appropriate. During the quarter ended June 30, 2021, management determined that a full valuation allowance was necessary against its French net deferred tax assets.

As of June 30, 2020 and 2021, the Company's gross liability for unrecognized tax benefits was \$1.9 million and \$2.5 million, respectively. As of June 30, 2020 and 2021, the Company had no accrued interest or penalties related to its unrecognized tax benefits. Although it is possible that some of the unrecognized tax benefits could be settled within the next twelve months, the Company cannot reasonably estimate the outcome at this time.

On December 27, 2020, the U.S. government enacted the Consolidated Appropriations Act, 2021, which enhances and expands certain provisions of the CARES Act. This legislative act did not have a material impact on the Company's condensed consolidated financial statements.

## [Table of Contents](#)

On March 11, 2021, the American Rescue Plan Act of 2021 (“American Rescue Plan”) was signed into law to provide additional relief in connection with the ongoing COVID-19 pandemic. The American Rescue Plan includes, among other things, provisions relating to PPP loan expansion, defined pension contributions, excessive employee remuneration, and the repeal of the election to allocate interest expense on a worldwide basis. Under ASC 740, the effects of new legislation are recognized upon enactment. Accordingly, the American Rescue Plan is effective beginning in the quarter that includes March 11, 2021. Such provisions did not have a material impact on the company’s condensed consolidated financial statements.

### **14. RELATED PARTY TRANSACTIONS**

The Company defines related parties as directors, executive officers, nominees for director, stockholders that have significant influence over the Company, or are a greater than 10% beneficial owner of the Company’s capital and their affiliates or immediate family members. The Company procures certain consulting services from related parties. In addition, in November 2020, the Company entered into a lease agreement with a related party and the total lease payment was \$120 thousand for the six months ended June 30, 2021.

### **15. SUBSEQUENT EVENTS**

The Company evaluated subsequent events through August 20, 2021, the date the condensed consolidated financial statements were available for issuance.

In July 2021, the Board of Directors approved an increase of 2,000,000 shares of the Company’s common stock available for future issuance under the 2016 Plan.



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Magillem Design Services SA

### Opinion

We have audited the financial statements of Magillem Design Services SA which comprise the balance sheet as of June 30, 2020, and the related statement of operations and comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Magillem Design Services, as of June 30, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Magillem Design Services and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Magillem Design Services' ability to continue as a going concern for one year after the date that the financial statements are issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Magillem Design Services' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

---

[Table of Contents](#)

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Magillem Design Services' ability to continue as a going concern for a reasonable period of time.

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

/s/ Mazars  
Courbevoie, France  
June 11, 2021

**MAGILLEM DESIGN SERVICES SA**  
**BALANCE SHEET**  
AS OF JUNE 30, 2020  
(in thousands of Euro, except per share data)

<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	€ 4,359
Accounts receivable-net	3,882
Prepaid expenses and other current assets	1,638
Total current assets	9,879
Property and equipment-net	626
Operating lease right-of-use assets	1,360
Intangibles-net	342
Other assets	103
Total assets	<u>€ 12,310</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current liabilities:	
Accounts payable	€ 349
Accrued expenses and other current liabilities	44
Operating lease liabilities, current	208
Deferred revenue, current	1,581
Term loan, current	1,250
Total current liabilities	3,432
Operating lease liabilities, noncurrent	1,152
Term loan, noncurrent	336
Other liabilities	850
Total liabilities	<u>5,770</u>
Commitments and contingencies (Note 7)	
Stockholders' equity:	
Common stock, par value of €1—445,220 shares authorized; 445,220 shares issued and outstanding	445
Additional paid-in capital	1,692
Accumulated other comprehensive income	5
Retained earnings	4,398
Total stockholders' equity	<u>6,540</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>€ 12,310</u>

See notes to the financial statements.

**MAGILLEM DESIGN SERVICES SA**  
**STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME**  
YEAR ENDED JUNE 30, 2020  
(in thousands of Euro)

---

	<b>YEAR ENDED JUNE 30, 2020</b>
Revenue	€ 8,661
Cost of revenue	2,776
Gross profit	<u>5,885</u>
Operating expenses:	
Sales and marketing	850
Research and development	4,248
General and administrative	255
Total operating expenses	<u>5,353</u>
Income from operations	532
Interest and other income	132
Income before provision for income taxes	664
Income tax benefit	(4)
Net income	<u>668</u>
Other comprehensive income	
Unrealized pension actuarial income	4
Comprehensive income	<u>€ 672</u>

---

See notes to the financial statements.

**MAGILLEM DESIGN SERVICES SA**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
YEAR ENDED JUNE 30, 2020  
(in thousands of Euro)

	STOCKHOLDERS' EQUITY					TOTAL
	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS	
	SHARES	AMOUNT				
<b>Balance at June 30, 2019</b>	445,220	€ 445	€ 1,692	€ 1	€ 3,730	€5,868
Unrealized pension actuarial income	—	—	—	4	—	4
Net income	—	—	—	—	668	668
<b>Balance at June 30, 2020</b>	<u>445,220</u>	<u>€ 445</u>	<u>€ 1,692</u>	<u>€ 5</u>	<u>€ 4,398</u>	<u>€6,540</u>

See notes to the financial statements.

**MAGILLEM DESIGN SERVICES SA****STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2020

(in thousands of Euro)

---

	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	€ 668
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	207
Loss on disposal of assets	14
Accounts receivable, net	98
Prepaid expenses and other current assets	1,202
Accounts payable	(368)
Accrued expenses and other current liabilities	(521)
Other liabilities	167
Deferred revenue	(161)
Net cash provided by operating activities	<u>1,306</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of property and equipment	(419)
Net cash used in investing activities	<u>(419)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Proceeds from term loan	1,250
Payment of principal portion of term loan	(230)
Net cash provided by financing activities	<u>1,020</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>1,907</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>2,452</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>€ 4,359</u>
<b>Supplemental cash flow information:</b>	
Cash paid for interest	€ (207)
Cash paid for taxes	—

---

See notes to the Financial Statements.

**MAGILLEM DESIGN SERVICES SA**  
**NOTES TO THE FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business:** Magillem Design Services SA (“Magillem” and “Company”) was incorporated in Paris, France in 2006. Magillem is a leading provider of complex design flow and content management software solutions. The products are essentially automation of IP aggregation.

The customers are first tier “system-on-chip” manufacturers, content publishers and high-end industrials engaged in the research, design, development and integration of advanced technology systems and products, or complex content publishing. The Company licenses its software products on a term basis, with software support and maintenance systematically bundled and co-termed with the license. The Company also provides professional and training services.

**Fiscal Year:** The Company reports results of operations based on the fiscal year ending on June 30.

**Covid -19:** A novel strain of the coronavirus (“COVID-19”) was first reported in December 2019 and on March 11, 2020 the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic has resulted, and is likely to continue to result, in substantial economic disruption for the foreseeable future. Despite the challenges the COVID-19 pandemic caused in the Company’s operations including delays on delivery timing to certain customers, it did not have a material adverse impact on its results of operations, financial condition, liquidity or cash flows during fiscal year 2020.

**Risks and Uncertainties:** The Company is subject to a number of risks associated with companies of similar size in its industry, including, but not limited to, the need for successful development of products, the need for additional capital and financing to fund the operations, competition from substitute products and services from larger companies, legal protection of proprietary technology, patent litigation, dependence on key individuals, and risks associated with changes in information technology.

**Basis of Presentation:** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

**Use of Estimates:** The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates relate to, among others, revenue recognition, the useful lives of assets, assessment of recoverability of property, plant and equipment, leases, allowances for doubtful accounts, deferred tax assets, R&D tax credit potential reserves relating to litigation and tax matters, as well as other accruals or reserves. Specifically, determining eligible research and development costs for the R&D tax credit is highly judgmental. Actual results could differ from those estimates and such differences may be material to the financial statements.

**Foreign Currency:** The Company’s functional currency is the Euro. The Company accounts for foreign currency exchange transactions and translation in accordance with ASC Topic 830, Foreign Currency Matters. Foreign currency transactions are remeasured into the functional currency with gains and losses included in other income, net in the consolidated statements of operations. The translation adjustments are reported in accumulated other comprehensive income on the consolidated balance sheet. The impact from foreign currency transactions was immaterial for 2020.

**Comprehensive Income:** Comprehensive income generally represents all changes in stockholders’ equity during the fiscal year except those resulting from investments by, or distributions to, stockholders. For the fiscal year ended June 30, 2020, comprehensive income consists of net income and an unrealized pension actuarial gain.

**Cash and Cash Equivalents:** The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value.

## [Table of Contents](#)

**Accounts Receivable and Allowance for Doubtful Accounts:** Accounts receivable, net consist of billed and unbilled trade accounts receivable. Unbilled accounts receivable represents amounts recorded as revenue from non-cancellable contracts with customers. The Company records accounts receivable when it has an unconditional right to consideration. Trade accounts receivable is recorded at the invoiced amount. In general, the Company does not offer extended credit terms and also does not require any security or collateral from its customers.

The Company maintains allowances for doubtful accounts to reduce the receivables to their estimated net realizable value. The Company performs ongoing credit evaluations of its customers and establishes allowances for potential credit losses by considering factors such as historical experience, credit quality, age of the account receivable balances, and current economic conditions that may affect a customer's ability to pay.

**Concentrations of Credit Risk:** Financial instruments that potentially subject the Company to concentration of credit risk consist of cash, and accounts receivable. The Company maintains cash in checking and saving deposits. The Company believes no significant concentration risk exists with respect to cash, as in management's judgment, the banks that hold the Company's cash are financially sound. Deposits held with banks may exceed the amount of insurance provided on such deposits.

The accounts receivable are derived principally from revenue earned from customers located in Europe, Asia and the United States. Revenue derived from Customers A, B and C represented 34%, 21% and 10% of total accounts receivable at June 30, 2020.

The Company had three major customers in fiscal year 2020. Major customers are defined as customers who represent greater than 10% of the total annual revenue. Customers A, D and E represented 11%, 14%, and 17%, respectively, of total revenue for the fiscal year ended June 30, 2020.

**Property and Equipment:** Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives, generally ranging from one to ten years. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded as a component of operating expenses. Repairs and maintenance costs are expensed as incurred. Estimated useful lives per category are listed in the below table:

---

<u>DESCRIPTION</u>	<u>USEFUL LIFE</u>
Software and technology equipment	one to ten years
Office furniture and hardware equipment	one to five years
Vehicles	three years

---

**Leases:** The Company leases its office located in Paris, France under noncancelable operating lease agreements expiring in 2027. In addition, the Company has leased cars under noncancelable operating lease agreements expiring through 2023. Under the terms of the office and car lease agreements, the Company also bears the costs for certain insurance, property tax, and maintenance. The terms of certain lease agreements provide for rental payments at fixed intervals.

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, Leases (Topic 842) which superseded previous guidance related to accounting for leases. Topic 842 requires lessees to recognize most leases on the balance sheet as lease right-of-use ("ROU") assets with corresponding lease liabilities and eliminates certain real estate-specific provisions. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842). The ASU also provides an optional transition method that entities can use when adopting the new standard and practical expedients.

The Company adopted Accounting Standards Update ("ASU") 2016-02 Leases (Topic 842) effective July 1, 2019, using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application. The Company elected to use the package of practical expedients permitted under the transition guidance, which allowed the Company to carryforward the historical lease classification, assessment conclusions of whether a contract was or contains a lease, and the initial direct costs for any leases that existed prior to July 1,



## [Table of Contents](#)

2019. The Company also elected to keep leases with an initial term of twelve months or less off the balance sheet and recognize the associated lease payments in the statement of operations on a straight-line basis over the lease term.

Under Topic 842, if the Company determines an arrangement is a lease at inception, ROU assets and lease liabilities are recognized at the commencement date based on the present value of remaining lease payments over the lease term. At inception of the lease, the Company is not reasonably certain that any available lease extensions or renewal terms will be exercised. For this purpose, the Company considered the initial lease term and only payments that are fixed and determinable at the time of commencement. As the leases do not provide an implicit rate, the Company used the incremental borrowing rate to determine the present value of lease payments adjusted to the rate required to prevent negative amortization. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. The lease agreements may contain other variable costs such as common area maintenance, insurance, real estate taxes or other costs. The Company does not include non-lease components with lease payments for the purpose of calculating lease right-of-use assets and lease liabilities. The lease agreements do not contain any residual guarantees or restrictive covenants. Operating leases are included in operating lease ROU assets, operating lease liabilities, current and operating lease liabilities, noncurrent in the balance sheet.

At the effective date, the Company recognized total right-of-use assets of 1,473 thousand euro, with corresponding lease liabilities of 1,473 thousand euro on its balance sheet.

**Revenue Recognition:** The Company recognizes revenue in compliance with the requirements of, and the guidance provided by Accounting Standards Codification ("ASC") 606—*Revenue from Contracts with Customers (Topic 606)*. The core principle of Topic 606 is to recognize revenue when goods are transferred, or services are provided to customers in an amount that reflects the consideration to which the Company expects to be entitled to in exchange for those goods and services. The principle is achieved through the following five-step approach:

- Identification of the contract, or contracts, with the customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the company satisfies a performance obligation

### **Business Offerings**

The Company recognizes revenue from term-based software licensing arrangements, support and maintenance services, professional services, and training services.

The software licensing arrangements do not typically include termination rights for convenience, cancellation rights or refund rights. When the customer may terminate their arrangement for convenience, the Company applies the guidance in ASC 606 only to the contractual period in which the parties have present enforceable rights and obligations.

- *Software licenses:* The Company enters into licensing arrangements with its customers that typically range from 2 to 3 years in duration and grant the customer the right to use the software over the license term. The license fee is generally invoiced upfront for shorter licensing terms, or annually for larger, multi-year transactions.
- *Tokens:* A limited number of arrangements with customers include "tokens", a mechanism used to both enable "peak" users to choose a combination of the software products on a monthly basis and restrict the number of users.
- *Support and Maintenance:* The Company provides its customers error correction (bug fixing) support, and generally unlimited telephone support in addition to updates the Company makes available for its customers at its discretion.
- *Professional Services:* Although infrequent, the Company may develop customer-specific features that do not significantly modify or customize its software for any customer. Services are provided under fixed-fee arrangements or on a Time and Material ("T&M") basis, as applicable.
- *Training services:* The Company provides training services to its customers on a fixed fee basis.

## [Table of Contents](#)

Business offerings discussed above are distinct performance obligations. Specifically, the software license and the promise to provide unspecified updates, upgrades and enhancements as part of the support and maintenance are distinct from each other as the utility of the software does not degrade significantly during the license period (and not predominantly at or near the end of that period only) if updates, upgrades or enhancements are not provided, and such updates are not integral to the customer continuing to obtain substantive utility from the software license—the software is functional when made available to customers and updates, upgrades or enhancements released do not materially modify the software. Further, Magillem does not significantly modify or customize the software for any customer.

Revenue recognition for each of the business offerings is listed below:

- *Software licenses*: Revenue is recognized at a point in time, the later of the term start date or the date on which the license key is made available to the customer.
- *Tokens*: The Company recognizes revenue related to these tokens at a point in time, based on quarterly consumption information provided by the customer.:
- *Support and Maintenance*: Revenue is recognized ratably over the support term
- *Professional services*: Revenue is recognized over time, in proportion of efforts expended in providing services.
- *Training services*: Revenue is generally recognized at a point in time as delivery is short in duration.

Revenue recognized at a point in time and over time was \$6.8 million and \$1.8 million, respectively for the fiscal year ended June 30, 2020.

### **Significant Judgments:**

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together requires significant judgment. Judgment is also required to determine the standalone selling price for each distinct performance obligation.

**Costs of Obtaining a Contract with a Customer:** Incremental costs of obtaining a contract with a customer consist primarily of direct sales commissions incurred upon execution of the contract. These costs are required to be capitalized under ASC 340-40 and amortized over the estimated period over which the benefit is expected to be received. As direct sales commissions paid for term extensions are commensurate with the amounts paid for initial contracts, the deferred incremental costs for initial contracts and for term extensions are recognized over the respective contract terms. Total capitalized direct commission costs as of June 30, 2020 was 376 thousand euro.

**Cost of Revenue:** Cost of Revenue relates to costs associated with the software licensing arrangements and support and maintenance, including applicable personnel related costs, travel, and overhead.

**Sales and Marketing:** Sales and marketing expenses consist of compensation and employee benefits of marketing and sales personnel and related support teams, as well as travel, trade show sponsorships and events, conferences, and internet advertising costs. Advertising costs are expensed as incurred.

**Research and Development:** Research and development costs that do not meet the criteria for capitalization are expensed as incurred. Research and development costs consist primarily of compensation, and employee benefits of engineering and product development personnel, consulting services, and other direct expenses. The French government provides tax credits to companies for innovative research and development. This tax credit is calculated based on a percentage of eligible research and development costs and it can be refundable in cash and is not contingent on future taxable income. As such, the Company considers the research tax credits as a grant, offsetting research and development expenses.

**Software Development Costs:** External-use software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. The period between establishing technological feasibility and general customer release has historically been short. Therefore, the Company has not capitalized any software development costs as of and for the fiscal year ended June 30, 2020.

## [Table of Contents](#)

**General and Administrative:** General and administrative expenses include executive and administrative compensation and employee benefits, depreciation and amortization expenses, professional services fees, insurance costs, bad debt, other allocated costs, such as facility-related expenses, supplies, and other fixed costs. A portion of the general and administrative expenses are *allocated to research and development and software and marketing expenses based on the number of employees in each function*. The allocations have been determined on a basis considered to be reasonable reflections of the utilization of services provided or the benefit received. However, these allocations are not necessarily indicative of the amounts that would have been recorded by us on a stand-alone basis.

**Income Taxes:** The Company accounts for income taxes under the asset and liability method. Under this method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The Company provides for a valuation allowance when it is more likely than not that some portion, or all of our deferred tax assets will not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. As of June 30, 2020 the Company recorded a full valuation allowance against its US deferred tax assets.

ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. There were no unrecognized tax benefits as of June 30, 2020. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties as of June 30, 2020. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

## 2. REVENUE AND ACCOUNTS RECEIVABLE

The timing of revenue recognition differs from the timing of invoicing to customers and this timing difference results in both unbilled revenue and deferred revenue on the balance sheet. During the fiscal year 2020, revenue consisted of 6,019 thousand euro from licenses, 819 thousand euro from tokens, and 1,725 thousand euro from support and maintenance and others.

The following table represents the components of accounts receivable, net, as of June 30, 2020 (in thousands of euro):

	<b>JUNE 30, 2020</b>
Accounts receivable	€ 3,135
Unbilled accounts receivable	909
<b>Total</b>	<b>4,044</b>
Less: allowance for doubtful accounts	(162)
<b>Accounts receivable-net</b>	<b>€ 3,882</b>

Included in the accounts receivable balance is 909 thousand euro as of June 30, 2020, related to unbilled revenue. Deferred revenue as of June 30, 2020, was 1,581 thousand euro. For the fiscal year ended June 30, 2020, the Company recognized revenue of approximately 1,351 thousand euro that was included in the deferred revenue balance at the beginning of the fiscal year.

### 3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets as of June 30, 2020 consisted of:

---

(in thousands of euro)	JUNE 30, 2020
Taxes receivable	€ 641
Government grants	416
Value added tax credit	74
Other	154
Prepaid expenses and other current assets	<u>€ 1,285</u>

---

### 4. PROPERTY AND EQUIPMENT-NET

Property and equipment-net as of June 30, 2020 consisted of:

---

(in thousands of euro)	JUNE 30, 2020
Software and technology equipment	€ 966
Office furniture and hardware equipment	375
Vehicles	5
Total	1,346
Less accumulated depreciation and amortization	(720)
Property and equipment—net	<u>€ 626</u>

---

Included in general and administrative expenses are depreciation and amortization expense of property and equipment of 289 thousand euro for the fiscal year ended June 30, 2020.

### 5. TERM LOANS

**Term loan, current:** As of June 30, 2020, the Company had a term loan of 1,250 thousand euro with a maturity date of June 2021 with no interest as this loan was obtained from the French government as a support to businesses due to COVID-19. The outstanding term loan amount was reported in term loan, current on the consolidated balance sheet.

**Term loan, non-current:** As of June 30, 2020, the Company had an incentive loan of \$336 thousand euro obtained from a private organization whose mission is to help companies in France to generate international revenue in certain countries. This balance is required to be repaid as a percent of international revenue and is expected to be repaid within the next two-to-five-year period. Accordingly, the outstanding incentive loan amount was reported in term loan, non-current on the consolidated balance sheet.

### 6. LEASES

The Company leases its office and automobiles under non-cancelable operating lease agreements expiring at various dates through 2027. Under the terms of these agreements, the Company also bears the costs for certain insurance, property tax, and maintenance. The terms of certain lease agreements provide for rental payments at fixed intervals.

During the fiscal year ended June 30, 2020 total lease expense was 218 thousand euro. The weighted-average remaining lease term as of June 30, 2020, was 7.3 years.

## [Table of Contents](#)

The following is a schedule, by years, of payments of lease liabilities as of June 30, 2020 (in thousands of euro):

<b>YEAR ENDING JUNE 30,</b>	
2021	€ 208
2022	190
2023	180
2024	176
2025	176
Thereafter	430
Total undiscounted cash flows	1,360
Less: Imputed interest	—
Present value of lease liabilities	<u>€1,360</u>
Operating lease liabilities, current	€ 208
Operating lease liabilities, noncurrent	1,152
Total	<u>€1,360</u>

## **7. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Company may receive inquiries or become involved in legal disputes regarding various litigation matters. Although claims are inherently unpredictable, the Company currently is not aware of any matters that may have a material adverse effect on its financial position, results of operations, or cash flows.

As of the fiscal year ended June 30, 2020, there were two ongoing lawsuits that were filed in Conseil des Prud'hommes (French Labor Court) by two of the former employees. The lawsuits were originally filed in 2016 and 2019 and the plaintiffs are seeking monetary damages of 663 and 21 thousand euro, respectively. A favorable initial court decision was issued in October 2020 for the former lawsuit. As of the fiscal year ended June 30, 2020, no liability related to above matters was recorded because the Company has concluded the amounts of such liabilities were more likely than not to be zero.

The Company has no other contractual noncancelable commitments as of June 30, 2020.

## **8. COMMON STOCK**

Holders of common stock are entitled to one vote per share and to receive dividends and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to common stockholders. The common stock has no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares.

## **9. INCOME TAXES**

The major components of income tax expense are as follows (in thousands of euro):

<b>YEAR ENDED</b>	<b>JUNE 30, 2020</b>
Current income tax	€ —
Deferred income tax	(4)
Income tax benefit	<u>€ (4)</u>

## [Table of Contents](#)

The following table provides a reconciliation of the income tax expense calculated at the French statutory tax rate to the income tax expense (in thousands of euro):

<b>YEAR ENDED</b>	<b>JUNE 30, 2020</b>
Income before provision for income taxes	€ 664
Statutory rate	28%
Tax provision at statutory rate	186
Research tax credit	(272)
Deferred tax assets not recognized	31
Other	51
Income tax benefit	€ (4)

As of June 30, 2020, the Company had deferred tax assets which have not been recognized in the amount of 618 thousand euro. Deferred tax assets have not been recognized since the Company has been in a loss position for the past three years and it is not probable that it will generate future taxable income in the near term. Gross tax losses can be forward indefinitely.

### **10. DEFINED BENEFIT PLAN**

The Company sponsors a defined non-US benefit plan (the "Plan"), for the fiscal year ended June 30, 2020, which covers all of the employees. The Plan is unfunded. The Plan is accounted for under the credit method and is subject to an actuarial measurement of what the Company needs at the present time to cover the future pension liabilities, including expected future salary increases.

Included in the net periodic pension costs and changes in benefit obligations under the Plan as of and for the years ended June 30, 2020, were service cost of 27 thousand euro and interest cost of 1,400 euro.

### **11. RELATED PARTY TRANSACTIONS**

The Company defines related parties as directors, executive officers, nominees for director, stockholders that have significant influence over the Company, or are a greater than 10% beneficial owner of the Company's capital and their affiliates or immediate family members. The Company procures certain consulting services from certain related parties and in addition the Company has entered into a lease agreement with a related party. Total purchases from and lease payments to related parties were 1,945 thousand euro and 173 thousand euro, respectively, for the year ended June 30, 2020.

### **12. SUBSEQUENT EVENTS**

On October 1, 2020, the Company announced that it entered a definitive agreement ("Agreement") with Arteris IP, a wholly owned subsidiary of Arteris, Inc. ("Parent"), under which Arteris IP agreed to acquire the Company's assets as set forth in the Agreement for a purchase price of USD\$8.0 million, including USD\$3.0 million of payments upon the achievement of certain milestones as set forth in the Agreement. The acquisition was completed on November 30, 2020, and upon completion of the acquisition, the Company became a division within the Parent.

The Company has evaluated subsequent events through June 11, 2021, the date the financial statements were available for issuance, and concluded that no other material transactions occurred that provide additional evidence about conditions that existed at June 30, 2020, that require adjustment or additional disclosure to the financial statements.

\*\*\*\*\*

Shares



Arteris, Inc.

Common Stock

---

Prospectus

---

**Jefferies**

**Cowen**

**BMO Capital Markets**

**Northland Capital Markets**

**Rosenblatt Securities**

, 2021

---

---

**PART II**  
**INFORMATION NOT REQUIRED IN THE PROSPECTUS**

**Item 13. Other expenses of issuance and distribution.**

The following table sets forth all fees and expenses, other than the underwriting discounts and commissions, payable solely by Arteris, Inc. in connection with the offer and sale of the securities being registered. All amounts shown are estimated except for the SEC registration fee, the Financial Industry Regulatory Authority, Inc. ("FINRA"), filing fee and the exchange listing fee.

	AMOUNT TO BE PAID	
SEC registration fee	\$	*
FINRA filing fee		*
Exchange listing fee		*
Accounting fees and expenses		*
Legal fees and expenses		*
Printing expenses		*
Transfer agent and registrar fees		*
Miscellaneous expenses		*
<b>Total</b>	<b>\$</b>	<b>*</b>

\* To be completed by amendment.

**Item 14. Indemnification of directors and officers.**

Section 102 of the DGCL permits a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his or her duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of the DGCL or obtained an improper personal benefit. We expect to adopt an amended and restated certificate of incorporation, which will become effective immediately prior to the closing of this offering, and which will provide that none of our directors shall be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability, except to the extent that the DGCL prohibits the elimination or limitation of liability of directors for breaches of fiduciary duty.

Section 145 of the DGCL provides that a corporation has the power to indemnify a director, officer, employee, or agent of the corporation, or a person serving at the request of the corporation for another corporation, partnership, joint venture, trust or other enterprise in related capacities, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with an action, suit or proceeding to which he or she was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of such position, if such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful, except that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or other adjudicating court determines that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Upon the closing of this offering, our amended and restated certificate of incorporation and amended and restated bylaws will provide indemnification for our directors and officers to the fullest extent permitted by the DGCL, subject to certain limited exceptions. We will indemnify each person who was or is a party or threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of us) by reason of the fact that he or she is or was, or has agreed to become, a director or officer, or is or was serving, or has



## Table of Contents

agreed to serve, at our request as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (all such persons being referred to as an "Indemnitee"), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding and any appeal therefrom, if such Indemnitee acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests, and, with respect to any criminal action or proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful. Our amended and restated certificate of incorporation and amended and restated bylaws will provide that we will indemnify any Indemnitee who was or is a party to an action or suit by or in the right of us to procure a judgment in our favor by reason of the fact that the Indemnitee is or was, or has agreed to become, a director or officer, or is or was serving, or has agreed to serve, at our request as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees) and, to the extent permitted by law, amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding, and any appeal therefrom, if the Indemnitee acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests, except that no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to us, unless a court determines that, despite such adjudication but in view of all of the circumstances, he or she is entitled to indemnification of such expenses. Notwithstanding the foregoing, to the extent that any Indemnitee has been successful, on the merits or otherwise, he or she will be indemnified by us against all expenses (including attorneys' fees) actually and reasonably incurred in connection therewith. Expenses must be advanced to an Indemnitee under certain circumstances.

Prior to the closing of this offering, we intend to enter into separate indemnification agreements with each of our directors and executive officers. Each indemnification agreement will provide, among other things, for indemnification to the fullest extent permitted by law and our amended and restated certificate of incorporation and amended and restated bylaws against any and all expenses, judgments, fines, penalties and amounts paid in settlement of any claim. The indemnification agreements will provide for the advancement or payment of all expenses to the indemnitee and for the reimbursement to us if it is found that such indemnitee is not entitled to such indemnification under applicable law and our amended and restated certificate of incorporation and amended and restated bylaws.

We maintain a general liability insurance policy that covers certain liabilities of directors and officers of our corporation arising out of claims based on acts or omissions in their capacities as directors or officers.

In any underwriting agreement we enter into in connection with the sale of common stock being registered hereby, the underwriters will agree to indemnify, under certain conditions, us, our directors, our officers and persons who control us within the meaning of the Securities Act Securities Act against certain liabilities.

### **Item 15. Recent sales of unregistered securities.**

The following is a summary of all transactions since January 1, 2017 involving sales of our securities that were not registered under the Securities Act, including the consideration received by us for such securities and information relating to the section of the Securities Act, or rule of the Securities and Exchange Commission, under which exemption from registration is claimed.

- (a) Issuance of Capital Stock.
  - 1. In May 2021, we issued and sold an aggregate of 1,250,000 shares of our common stock to eight accredited investors at \$4.349 per share, for an aggregate purchase price of approximately \$5.4 million.
- (b) Equity Awards.
  - 1. Since January 1, 2017, we have issued and sold to our directors, officers, employees, consultants and other service providers an aggregate of 2,929,447 shares of our common stock upon the exercise of options under our equity compensation plans at exercise prices ranging from \$0.02 to \$0.60, for an aggregate purchase price of \$845,911.39.
  - 2. Since January 1, 2017, we granted to our employees, directors, consultants and other service providers options to purchase an aggregate of 8,963,500 shares of common stock under our equity compensation

## Table of Contents

plans at exercise prices ranging from \$0.50 to \$2.74 per share, for a weighted-average exercise price of \$0.8233 per share.

3. Since January 1, 2017, we granted to our employees, directors, consultants and other service providers an aggregate of 1,869,541 and 57,000 RSUs and RSAs respectively, to be settled in shares of our common stock under our equity compensation plans.

Unless otherwise stated, the issuances of the above securities were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(a)(2) of the Securities Act or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act as transactions by an issuer not involving any public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. Individuals who purchased securities as described above represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates issued in such transactions.

No underwriter or underwriting discount or commission was involved in any of the transactions set forth in this Item 15.

### **Item 16. Exhibits and financial statements.**

#### (a) Exhibits

The following documents are filed as exhibits to this registration statement.

---

<u>EXHIBIT NO.</u>	<u>DESCRIPTION OF EXHIBIT</u>
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation of Arteris, Inc., as amended and currently in effect.
3.2*	Form of Amended and Restated Certificate of Incorporation of Arteris, Inc., to be in effect immediately prior to the closing of this offering.
3.3	Amended and Restated Bylaws of Arteris, Inc., as currently in effect.
3.4*	Form of Amended and Restated Bylaws of Arteris, Inc., to be in effect immediately prior to the closing of this offering.
4.1*	Specimen Stock Certificate evidencing the shares of common stock.
5.1*	Opinion of Latham & Watkins LLP.
10.1	Investors' Rights Agreement, dated February 5, 2016, by and among Arteris, Inc. and the investors listed therein.
10.2	Amended and Restated Business Financing Agreement, by and between Arteris, Inc. and Western Alliance Bank dated as of December 16, 2020.
10.3*	License Agreement, dated as of October 11, 2013, by and between Arteris, Inc. and Qualcomm Technologies, Inc.
10.4	Office Lease, by and between Millich Commercial, LLC and Arteris, Inc., dated as of July 17, 2017.
10.5##	Employment Agreement, by and between Arteris, Inc. and K. Charles Janac.
10.6##	Employment Agreement and Commission Agreement, by and between Arteris, Inc. and David Mertens.
10.7##	Employment Agreement, by and between Arteris IP SAS and Isabelle Geday.
10.8#	Arteris, Inc. 2013 Equity Incentive Plan and related form agreements, as amended.

---

---

<u>EXHIBIT NO.</u>	<u>DESCRIPTION OF EXHIBIT</u>
10.9#	Arteris, Inc. 2016 Equity Incentive Plan for the Grant of Restricted Stock Unit Awards to Employees in France.
10.10#*	Form of Arteris, Inc. 2021 Incentive Award Plan.
10.11#*	Form of Stock Option Award Agreement under Arteris, Inc. 2021 Incentive Award Plan.
10.12#*	Arteris, Inc. Non-Employee Director Compensation Policy.
10.13*	Form of Indemnification Agreement between Arteris, Inc. and its directors and officers.
21.1	Subsidiaries of Arteris, Inc.
23.1*	Consent of Moss Adams LLP.
23.2*	Consent of Mazars
23.3*	Consent of Latham & Watkins LLP (included in Exhibit 5.1).
24.1*	Power of Attorney (included on signature page).

---

\* To be filed by amendment.

# Indicates a management contract or compensatory plan or arrangement.

† Portions of this exhibit (indicated by asterisks) have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K under the Securities Act of 1933, as amended, because they are both (i) not material and (ii) the type of information that the registrant both customarily and actually treats as private and confidential.

(b) Financial Statement Schedules. Schedules not listed above have been omitted because the information required to be set forth in the schedules is either not applicable or is shown in the financial statements or notes thereto.

#### **Item 17. Undertakings.**

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction, the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) The undersigned hereby further undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Arteris, Inc. has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Campbell, California, on this      day of      , 2021.

**Arteris, Inc.**

By: \_\_\_\_\_  
K. Charles Janac  
President and Chief Executive Officer

## POWER OF ATTORNEY

Each of the undersigned officers and directors of Arteris, Inc. hereby constitutes and appoints K. Charles Janac and Nicholas B. Hawkins, and each of them any of whom may act without joinder of the other, the individual's true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for the person and in his or her name, place and stead, in any and all capacities, to sign this registration statement on Form S-1, and any other registration statement relating to the same offering (including any registration statement, or amendment thereto, that is to become effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended), and any and all amendments thereto (including post-effective amendments to the registration statement), and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement on Form S-1 has been signed by the following persons in the capacities set forth opposite their names and on the date indicated above.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
_____ K. Charles Janac	President and Chief Executive Officer (Principal Executive Officer) and Chairman of the Board of Directors	, 2021
_____ Nicholas B. Hawkins	Chief Financial Officer (Principal Financial and Accounting Officer)	, 2021
_____ Wayne C. Cantwell	Director	, 2021
_____ Christian Claussen	Director	, 2021
_____ Raman K. Chitkara	Director	, 2021
_____ Isabelle F. Geday	Director	, 2021

[Table of Contents](#)

---

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
_____ S. Atiq Raza	Director	, 2021
_____ Antonio J. Viana	Director	, 2021

---

**AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION OF  
ARTERIS, INC.**

(Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware)

Arteris, Inc., a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware (the “**General Corporation Law**”),

**DOES HEREBY CERTIFY:**

1. That the name of this corporation is Arteris, Inc., and that this corporation was originally incorporated pursuant to the General Corporation Law on April 12, 2004 under the name Arteris, Inc.

2. That the Board of Directors duly adopted resolutions proposing to amend and restate the Certificate of Incorporation of this corporation, declaring said amendment and restatement to be advisable and in the best interests of this corporation and its stockholders, and authorizing the appropriate officers of this corporation to solicit the consent of the stockholders therefor, which resolution setting forth the proposed amendment and restatement is as follows:

**RESOLVED**, that the Certificate of Incorporation of this corporation, as amended, be amended and restated in its entirety to read as follows:

**FIRST:** The name of this corporation is Arteris, Inc. (the “**Corporation**”).

**SECOND:** The address of the Corporation’s registered office in the State of Delaware is 1209 Orange Street, Wilmington, DE 19801, County of New Castle, and the name of its registered agent at such address is The Corporation Trust Company.

**THIRD:** The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law.

**FOURTH:** The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) 27,000,000 shares of Common Stock, \$0.001 par value per share (“**Common Stock**”) and (ii) 5,176,162 shares of Preferred Stock, \$0.001 par value per share (“**Preferred Stock**”).

The following is a statement of the designations and the powers, privileges and rights, and the qualifications, limitations or restrictions thereof in respect of each class of capital stock of the Corporation.

## A COMMON STOCK

1. **General.** The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights, powers and preferences of the holders of the Preferred Stock set forth herein.

2. **Voting.** The holders of the Common Stock are entitled to one vote for each share of Common Stock held at all meetings of stockholders (and written actions in lieu of meetings). No person entitled to vote at an election for directors may cumulate votes to which such person is entitled, unless, at the time of such election, the Corporation is subject to Section 2115 of the California Corporations Code. During such time or times that the Corporation is subject to Section 2115(b) of the California Corporations Code, every stockholder entitled to vote at an election for directors may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which such stockholder's shares are otherwise entitled, or distribute the stockholder's votes on the same principle among as many candidates as such stockholder desires. No stockholder, however, shall be entitled to so cumulate such stockholder's votes unless (i) the names of such candidate or candidates have been placed in nomination prior to the voting, and (ii) the stockholder has given notice at the meeting, prior to the voting, of such stockholder's intention to cumulate such stockholder's votes. If any stockholder has given proper notice to cumulate votes, all stockholders may cumulate their votes for any candidates who have been properly placed in nomination. Under cumulative voting, the candidates receiving the highest number of votes, up to the number of directors to be elected, are elected. The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by (in addition to any vote of the holders of one or more series of Preferred Stock that may be required by the terms of this Amended and Restated Certificate of Incorporation (the "**Restated Certificate**")) the affirmative vote of the holders of shares of capital stock of the Corporation representing a majority of the votes represented by all outstanding shares of capital stock of the Corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law.

3. **Redemption.** The Common Stock is not redeemable, provided, however, that notwithstanding the foregoing, the Corporation may repurchase stock from former employees, officers, directors, consultants or other persons who performed services for the Corporation or any subsidiary in connection with the cessation of such employment or service at the lower of the original purchase price or the then-current fair market value thereof.

## B PREFERRED STOCK

5,176,162 shares of the authorized and unissued Preferred Stock of the Corporation are hereby designated "**Series A Preferred Stock**" with the following rights, preferences, powers, privileges and restrictions, qualifications and limitations. Unless otherwise indicated, references to "sections" in this Part B of this Article Fourth refer to sections of Part B of this Article Fourth.

1. **Dividends.** The Corporation shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Corporation (other than dividends on shares of Common Stock payable in shares of Common Stock) unless (in addition to the obtaining of any consents required elsewhere in the Restated Certificate) the holders of the Series A Preferred Stock then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Series A Preferred Stock in an amount at least equal to (i) in the case of a dividend on Common Stock or any class or series that is convertible into Common Stock, that dividend per share of Series A Preferred Stock as would equal the product of (A) the dividend payable on each share of such class or series determined, if applicable, as if all shares of such class or series had been converted into Common Stock and (B) the number of shares of Common Stock issuable upon conversion of a share of Series A Preferred Stock, in each case calculated on the record date for determination of holders entitled to receive such dividend or (ii) in the case of a dividend on any class or series that is not convertible into Common Stock, at a rate per share of Series A Preferred Stock determined by (A) dividing the amount of the dividend payable on each share of such class or series of capital stock by the original issuance price of such class or series of capital stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to such class or series) and (B) multiplying such fraction by an amount equal to the Series A Original Issue Price (as defined below); provided that, if the Corporation declares, pays or sets aside, on the same date, a dividend on shares of more than one class or series of capital stock of the Corporation, the dividend payable to the holders of Series A Preferred Stock pursuant to this Section 1 shall be calculated based upon the dividend on the class or series of capital stock that would result in the highest Series A Preferred Stock dividend. The “**Series A Original Issue Price**” shall mean \$1.29 per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series A Preferred Stock.

## 2. **Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales.**

2.1. **Preferential Payments to Holders of Series A Preferred Stock.** In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation (a “**Liquidation Event**”) or Deemed Liquidation Event (as defined below), the holders of shares of Series A Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders before any payment shall be made to the holders of Common Stock by reason of their ownership thereof, an amount per share equal the Series A Original Issue Price, plus any dividends declared but unpaid thereon. If upon any such Liquidation Event or Deemed Liquidation Event, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series A Preferred Stock the full amount to which they shall be entitled under this Section 2.1, the holders of shares of Series A Preferred Stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

### 2.2. **Payments to Holders of Common Stock.**

2.2.1. In the event of any Liquidation Event or Deemed Liquidation Event, after the payment of all preferential amounts required to be paid to the holders of shares of Series A Preferred Stock pursuant to Section 2.1, the remaining assets of the Corporation available for distribution to its stockholders shall be distributed among the holders of



the shares of Series A Preferred Stock and Common Stock, pro rata based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to Common Stock pursuant to the terms of this Restated Certificate immediately prior to such Liquidation Event or Deemed Liquidation Event until such holders of Series A Preferred Stock have received pursuant to Section 2.1 above and this Section 2.2.1 an aggregate amount per share of Series A Preferred Stock equal to two and a half (2.5) times the Series A Original Issue Price, plus any dividends declared but unpaid thereon; thereafter, the remaining assets of the Corporation available for distribution in such Liquidation Event or Deemed Liquidation Event, if any, shall be distributed ratably to the holders of the Common Stock.

2.2.2. Notwithstanding the foregoing, upon any Liquidation Event or Deemed Liquidation Event, each holder of Series A Preferred Stock shall be entitled to receive, for each share of each Series A Preferred Stock then held, out of the assets of the Corporation available for distribution to its stockholders, the greater of (i) the amount of cash, securities or other property to which such holder would be entitled to receive with respect to such shares in a Liquidation Event or Deemed Liquidation Event pursuant to Section 2.1 and Section 2.2.1 (without giving effect to this Section 2.2.2) or (ii) such amount per share as would have been payable had all shares of Series A Preferred Stock been converted into Common Stock pursuant to Section 4 immediately prior to such Liquidation Event or Deemed Liquidation Event.

2.2.3. The aggregate amount which a holder of a share of Series A Preferred Stock is entitled to receive under Sections 2.1 and 2.2 is hereinafter referred to as the “**Series A Liquidation Amount.**”

### 2.3. Deemed Liquidation Events.

2.3.1. Definition. Each of the following events shall be considered a “**Deemed Liquidation Event**” unless the holders of a majority of the then outstanding shares of Series A Preferred Stock (voting as a separate class) (the “**Required Holders**”) elect otherwise by written notice sent to the Corporation prior to the effective date of any such event:

- (a) a merger or consolidation in which
  - (i) the Corporation is a constituent party or
  - (ii) a subsidiary of the Corporation is a constituent party and the Corporation issues shares of its capital stock pursuant to such merger or consolidation,

except any such merger or consolidation involving the Corporation or a subsidiary in which the shares of capital stock of the Corporation outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of (1) the surviving or resulting corporation; or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation; or

(b) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Corporation or any subsidiary of the Corporation of more than fifty percent (50%) of the assets of the Corporation and its subsidiaries taken as a whole, or the sale or disposition (whether by merger, consolidation or otherwise) of one or more subsidiaries of the Corporation if more than fifty percent (50%) of the assets of the Corporation and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned subsidiary of the Corporation (an “**Asset Transfer**”).

### 2.3.2. Effecting a Deemed Liquidation Event.

(a) The Corporation shall not have the power to effect a Deemed Liquidation Event referred to in Section 2.3.1(a)(i) unless the agreement or plan of merger or consolidation for such transaction (the “**Merger Agreement**”) provides that the consideration payable to the stockholders of the Corporation shall be allocated among the holders of capital stock of the Corporation in accordance with Sections 2.1 and 2.2.

(b) In the event of a Deemed Liquidation Event referred to in Section 2.3.1(a)(ii) or 2.3.1(b), if the Corporation does not effect a dissolution of the Corporation under the General Corporation Law within ninety (90) days after such Deemed Liquidation Event, then (i) the Corporation shall send a written notice to each holder of Series A Preferred Stock no later than the ninetieth (90<sup>th</sup>) day after the Deemed Liquidation Event advising such holders of their right (and the requirements to be met to secure such right) pursuant to the terms of the following clause; (ii) to require the redemption of such shares of Series A Preferred Stock, and (iii) if the Required Holders so request in a written instrument delivered to the Corporation not later than one hundred twenty (120) days after such Deemed Liquidation Event, the Corporation shall use the consideration received by the Corporation for such Deemed Liquidation Event (net of any retained liabilities associated with the assets sold or technology licensed, as determined in good faith by the Board of Directors of the Corporation (the “**Board**”), together with any other assets of the Corporation available for distribution to its stockholders, all to the extent permitted by Delaware law governing distributions to stockholders (the “**Available Proceeds**”), on the one hundred fiftieth (150<sup>th</sup>) day after such Deemed Liquidation Event (the “**Redemption Date**”), to redeem all outstanding shares of Series A Preferred Stock at a price per share equal to the Series A Liquidation Amount. Notwithstanding the foregoing, in the event of a redemption pursuant to the preceding sentence, if the Available Proceeds are not sufficient to redeem all outstanding shares of Series A Preferred Stock, the Corporation shall ratably redeem each holder’s shares of Series A Preferred Stock to the fullest extent of such Available Proceeds, and shall redeem the remaining shares as soon as it may lawfully do so under Delaware law governing distributions to stockholders. Prior to the distribution or redemption provided for in this Section 2.3.2(b), the Corporation shall not expend or dissipate the consideration received for such Deemed Liquidation Event, except to discharge expenses incurred in connection with such Deemed Liquidation Event or as necessary in the ordinary course of business.

(c) In the event of any redemption of the Series A Preferred Stock pursuant to Section 2.3.2(b), the Corporation shall send written notice of such redemption (the “**Redemption Notice**”) to each holder of record of Series A Preferred Stock promptly following the receipt of request for such redemption. Each Redemption Notice shall

state: (A) the number of shares of Series A Preferred Stock held by the holder that the Corporation shall redeem on the Redemption Date specified in the Redemption Notice; (B) the Redemption Date and the amount of the Available Proceeds such holder is entitled to receive pursuant to such redemption (the “**Redemption Price**”); (C) the date upon which the holder’s right to convert such shares terminates (as determined in accordance with Section 4.1.2); and (D) that the holder is to surrender to the Corporation, in the manner and at the place designated, his, her or its certificate or certificates representing the shares of Series A Preferred Stock to be redeemed.

(d) On or before the Redemption Date, each holder of shares of Series A Preferred Stock to be redeemed on such Redemption Date, unless such holder has exercised his, her or its right to convert such shares as provided in Section 4, shall surrender the certificate or certificates representing such shares or an Affidavit of Loss to the Corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof. In the event less than all of the shares of Series A Preferred Stock represented by a certificate are redeemed, a new certificate representing the unredeemed shares of Series A Preferred Stock shall promptly be issued to such holder.

(e) If the Redemption Notice shall have been duly given, and if on the Redemption Date the Redemption Price payable upon redemption of the shares of Series A Preferred Stock to be redeemed on such Redemption Date is paid or tendered for payment or deposited with an independent payment agent so as to be available therefor in a timely manner, then notwithstanding that the certificates evidencing any of the shares of Series A Preferred Stock so called for redemption shall not have been surrendered, dividends with respect to such shares of Series A Preferred Stock shall cease to accrue after such Redemption Date and all rights with respect to such shares shall forthwith after the Redemption Date terminate, except only the right of the holders to receive the Redemption Price without interest upon surrender of their certificate or certificates therefor.

2.3.3. Amount Deemed Paid or Distributed. The amount deemed paid or distributed to the holders of capital stock of the Corporation upon any such merger, consolidation, sale, transfer, exclusive license, other disposition or redemption shall be the cash or the value of the property, rights or securities paid or distributed to such holders by the Corporation or the acquiring person, firm or other entity. The value of such property, rights or securities shall be determined in good faith by the Board.

### 3. Voting.

3.1. General. On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of stockholders of the Corporation (or by written consent of stockholders in lieu of meeting), each holder of outstanding shares of Series A Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Series A Preferred Stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by the other provisions of this Restated Certificate, holders of Series A Preferred Stock shall vote together with the holders of Common Stock as a single class.

### 3.2. Election of Directors.

(a) The holders of record of the shares of Series A Preferred Stock, exclusively and as a separate class, shall be entitled to elect one (1) director of the Corporation (the “**Preferred Director**”) at each meeting or pursuant to each consent of the Corporation’s stockholders for the election of directors, and to remove from office such director and to fill any vacancy caused by the resignation, death or removal of such director.

(b) The holders of record of the shares of Common Stock, exclusively and as a separate class, shall be entitled to elect three (3) directors of the Corporation (the “**Common Directors**”) at each meeting or pursuant to each consent of the Corporation’s stockholders for the election of directors, and to remove from office such directors and to fill any vacancy caused by the resignation, death or removal of such directors.

(c) The holders of record of the shares of Common Stock and of any other class or series of voting stock (including the Series A Preferred Stock), exclusively and voting together as a single class on an as-if-converted to Common Stock basis, shall be entitled to elect the balance of the total number of directors of the Corporation (the “**Mutual Directors**”) at each meeting or pursuant to each consent of the Corporation’s stockholders for the election of directors, and to remove from office such directors and to fill any vacancy caused by the resignation, death or removal of such directors.

(d) Notwithstanding the provisions of Section 223(a)(1) and 223(a)(2) of the General Corporation Law, any vacancy, including newly created directorships resulting from any increase in the authorized number of directors or amendment of this Restated Certificate, and vacancies created by removal or resignation of a director, may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and shall qualify, unless sooner displaced; provided, however, that where such vacancy occurs among the directors elected by the holders of a class or series of stock (including, without limitation, a director elected according to Sections 3.2(a) or 3.2(b) (hereof), the holders of shares of such class or series may override the Board’s action to fill such vacancy by (i) voting for their own designee to fill such vacancy at a meeting of the Corporation’s stockholders, or (ii) written consent, if the consenting stockholders hold a sufficient number of shares to elect their designee at a meeting of the stockholders in which all members of such class or series are present and voted. Any director may be removed during his or her term of office without cause, by, and only by, the affirmative vote of the holders of the shares of the class or series of stock entitled to elect such director or directors, given either at a special meeting of such stockholders duly called for that purpose or pursuant to a written consent of stockholders, and any vacancy thereby created may be filled by the holders of that class or series of stock represented at the meeting or pursuant to written consent. If the holders of the shares of a class or series of stock entitled to elect a director pursuant to this Section 3.2 fail to elect a sufficient number of directors to fill all directorships for which they are entitled to elect directors, voting exclusively and as a separate class, pursuant to Section 3.2(a) or Section 3.2(b), then any directorship not so filled shall remain vacant until such time as (i) the holders of the shares of such class or series of stock elect a person to fill such directorship by vote or written consent in lieu of a meeting, or (ii) such vacancy is filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director

as provided in this Section 3.2(d); and no such directorship may be filled by stockholders of the Corporation other than by the stockholders of the Corporation that are entitled to elect a person to fill such directorship, voting exclusively and as a separate class. At any meeting held for the purpose of electing a director, the presence in person or by proxy of the holders of a majority of the outstanding shares of the class or series entitled to elect such director shall constitute a quorum for the purpose of electing such director.

3.3. Protective Provisions. At any time when any shares of Series A Preferred Stock are outstanding, the Corporation shall not, either directly or indirectly by amendment, merger, consolidation or otherwise, do any of the following without (in addition to any other vote required by law or this Restated Certificate) the written consent or affirmative vote of the holders of at least sixty six and two thirds percent (66 and 2/3%) of the then outstanding shares of Common Stock and Series A Preferred Stock (voting together as a single class on an as-if-converted to Common Stock basis), given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, and any such act or transaction entered without such consent or vote shall be null and void ab initio, and of no force or effect:

(a) liquidate, dissolve or wind-up the business and affairs of the Corporation, effect any Deemed Liquidation Event, or consent to any of the foregoing;

(b) amend, alter or repeal any provision of the Certificate of Incorporation or Bylaws of the Corporation;

(c) effect a Deemed Liquidation Event; or

(d) file a registration statement under the Securities Act of 1933, as amended, covering the registration of any of the Corporation's securities or list any of the Corporation's securities for trading on a national, international or transnational stock exchange.

3.4. Series A Protective Provision. At any time when any shares of Series A Preferred Stock are outstanding, the Corporation shall not, either directly or indirectly by amendment, merger, consolidation or otherwise, do any of the following without (in addition to any other vote required by law or this Restated Certificate) the written consent or affirmative vote of the holders of a majority of the Series A Preferred Stock, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, and any such act or transaction entered without such consent or vote shall be null and void ab initio, and of no force or effect:

(a) amend, alter or repeal any provision of the Certificate of Incorporation or Bylaws of the Corporation in a manner that affects the rights, preferences, privileges or powers of, or the restrictions provided for the benefit of, the Series A Preferred Stock; or

(b) increase or decrease the authorized number of directors constituting the Board.

#### 4. Optional Conversion.

The holders of the Series A Preferred Stock shall have conversion rights as follows (the “**Conversion Rights**”):

##### 4.1. Right to Convert.

4.1.1. Conversion Ratio. Each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into such number of fully paid and non-assessable shares of Common Stock as is determined by dividing the Series A Original Issue Price by the Series A Conversion Price (as defined below) in effect at the time of conversion. The “**Series A Conversion Price**” shall initially be equal to the Series A Original Issue Price. Such initial Series A Conversion Price, and the rate at which shares of Series A Preferred Stock may be converted into shares of Common Stock, shall be subject to adjustment as provided below

4.1.2. Termination of Conversion Rights. In the event of a notice of redemption of any shares of Series A Preferred Stock pursuant to Section 2.3.2, the Conversion Rights of the shares designated for redemption shall terminate at the close of business on the last full day preceding the date fixed for redemption, unless the redemption price is not fully paid on such redemption date, in which case the Conversion Rights for such shares shall continue until such price is paid in full. In the event of a Liquidation Event or a Deemed Liquidation Event, the Conversion Rights shall terminate at the close of business on the last full day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Series A Preferred Stock.

4.2. Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of Series A Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the fair market value of a share of Common Stock as determined in good faith by the Board. Whether or not fractional shares would be issuable upon such conversion shall be determined on the basis of the total number of shares of Series A Preferred Stock the holder is at the time converting into Common Stock and the aggregate number of shares of Common Stock issuable upon such conversion.

##### 4.3. Mechanics of Conversion.

4.3.1. Notice of Conversion. In order for a holder of Series A Preferred Stock to voluntarily convert shares of Series A Preferred Stock into shares of Common Stock, such holder shall (a) provide written notice to the Corporation’s transfer agent at the office of the transfer agent for the Series A Preferred Stock (or at the principal office of the Corporation if the Corporation serves as its own transfer agent) that such holder elects to convert all or any number of such holder’s shares of Series A Preferred Stock and, if applicable, any event on which such conversion is contingent and (b), if such holder’s shares are certificated, surrender the certificate or certificates for such shares of Series A Preferred Stock (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and

agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate), at the office of the transfer agent for the Series A Preferred Stock (or at the principal office of the Corporation if the Corporation serves as its own transfer agent). Such notice shall state such holder's name or the names of the nominees in which such holder wishes the shares of Common Stock to be issued. If required by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or his, her or its attorney duly authorized in writing. The close of business on the date of receipt by the transfer agent (or by the Corporation if the Corporation serves as its own transfer agent) of such notice and, if applicable, certificates (or lost certificate affidavit and agreement) shall be the time of conversion (the "**Conversion Time**"), and the shares of Common Stock issuable upon conversion of the specified shares shall be deemed to be outstanding of record as of such date. The Corporation shall, as soon as practicable after the Conversion Time (i) issue and deliver to such holder of Series A Preferred Stock, or to his, her or its nominees, a certificate or certificates for the number of full shares of Common Stock issuable upon such conversion in accordance with the provisions hereof and a certificate for the number (if any) of the shares of Series A Preferred Stock represented by the surrendered certificate that were not converted into Common Stock, (ii) pay in cash such amount as provided in Section 4.2 in lieu of any fraction of a share of Common Stock otherwise issuable upon such conversion and (iii) pay all declared but unpaid dividends on the shares of Series A Preferred Stock converted.

4.3.2. Reservation of Shares. The Corporation shall at all times when the Series A Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of the Series A Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series A Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, the Corporation shall take such corporate action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to the Certificate of Incorporation. Before taking any action which would cause an adjustment reducing the Series A Conversion Price below the then par value of the shares of Common Stock issuable upon conversion of the Series A Preferred Stock, the Corporation will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and non-assessable shares of Common Stock at such adjusted Series A Conversion Price.

4.3.3. Effect of Conversion. All shares of Series A Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares shall immediately cease and terminate at the Conversion Time, except only the right of the holders thereof to receive shares of Common Stock in exchange therefor, to receive payment in lieu of any fraction of a share otherwise issuable upon such conversion as provided in Section 4.2 and to receive payment of any dividends declared but unpaid thereon. Any shares of Series A Preferred Stock so converted shall be retired and cancelled and may not be reissued as shares of such series, and the Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of shares of Series A Preferred Stock accordingly.

4.3.4. **No Further Adjustment.** Upon any such conversion, no adjustment to the Series A Conversion Price shall be made for any declared but unpaid dividends on the Series A Preferred Stock surrendered for conversion or on the Common Stock delivered upon conversion.

4.3.5. **Taxes.** The Corporation shall pay any and all issue and other similar taxes that may be payable in respect of any issuance or delivery of shares of Common Stock upon conversion of shares of Series A Preferred Stock pursuant to this Section 4. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock in a name other than that in which the shares of Series A Preferred Stock so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

4.4. **Adjustments to Series A Conversion Price for Diluting Issues Prior to or in Connection with the Next Qualified Financing.**

4.4.1. **Special Definitions.** For purposes of this Article Fourth, the following definitions shall apply:

(a) **“Option”** shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire shares of the Corporation’s Common Stock or Convertible Securities.

(b) **“Series A Original Issue Date”** shall mean the date on which the first share of Series A Preferred Stock was issued.

(c) **“Convertible Securities”** shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for shares of the Corporation’s Common Stock, but excluding Options.

(d) **“Next Qualified Financing”** shall mean the sale and issuance by the Corporation of Common Stock, Convertible Securities or Options to investors acceptable to the Board in the first equity financing transaction following the Series A Original Issue Date that results in at least \$5,000,000 of gross proceeds (including the conversion of any indebtedness) to the Corporation.

(e) **“Additional Shares of Common Stock”** shall mean all shares of Common Stock issued (or, pursuant to Section 4.4.3 below, deemed to be issued) by the Corporation after the Series A Original Issue Date and prior to or in connection with the Next Qualified Financing, other than (1) the following shares of Common Stock and (2) shares of Common Stock deemed issued pursuant to the following Options and Convertible Securities (clauses (1) and (2), collectively, **“Exempted Securities”**):



- 
- (i) shares of Common Stock, Options or Convertible Securities issued as a dividend or distribution on Series A Preferred Stock;
  - (ii) shares of Common Stock, Options or Convertible Securities issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Section 4.5, 4.6, 4.7 or 4.8;
  - (iii) shares of Common Stock or Options issued to employees or directors of, or consultants or advisors to, the Corporation or any of its subsidiaries pursuant to the Corporation's 2013 Equity Incentive Plan or any other plan, agreement or arrangement approved by an 80% majority of the Board (calculated as if all directors were present for the vote);
  - (iv) shares of Common Stock or Convertible Securities actually issued upon the exercise of Options or shares of Common Stock actually issued upon the conversion or exchange of Convertible Securities, in each case provided such issuance is pursuant to the terms of such Option or Convertible Security;
  - (v) shares of Common Stock, Options or Convertible Securities issued to banks, equipment lessors or other financial institutions, or to real property lessors, pursuant to a debt financing, equipment leasing or real property leasing transaction approved by an 80% majority of the Board (calculated as if all directors were present for the vote);
  - (vi) shares of Common Stock, Options or Convertible Securities issued to suppliers or third party service providers in connection with the provision of goods or services pursuant to transactions approved by an 80% majority of the Board (calculated as if all directors were present for the vote);
  - (vii) shares of Common Stock, Options or Convertible Securities issued pursuant to the

acquisition of another corporation by the Corporation by merger, purchase of substantially all of the assets or other reorganization or to a joint venture agreement, provided that such issuances are approved by an 80% majority of the Board (calculated as if all directors were present for the vote);

- (viii) shares of Common Stock, Options or Convertible Securities issued in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar agreements or strategic partnerships approved by an 80% majority of the Board (calculated as if all directors were present for the vote); or
- (ix) the Series A Warrants (as defined in that certain Investor Rights Agreement, dated as of the date hereof, by and among the Corporation and the investors listed on the signature pages thereto), any Convertible Securities issued upon exercise thereof and any shares of Common Stock issued upon conversion of such Convertible Securities.

4.4.2. No Adjustment of Series A Conversion Price. No adjustment in the Series A Conversion Price shall be made as the result of the issuance or deemed issuance of Additional Shares of Common Stock if the Corporation receives written notice from the Required Holders agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

4.4.3. Deemed Issue of Additional Shares of Common Stock.

(a) If the Corporation shall, at any time or from time to time after the Series A Original Issue Date and prior to or in connection with the Next Qualified Financing, issue any Options or Convertible Securities (excluding Options or Convertible Securities which are themselves Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto, assuming the satisfaction of any conditions to exercisability, convertibility or exchangeability but without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(b) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Series A Conversion Price pursuant to the terms of Section 4.4.4, are revised as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Corporation upon such exercise, conversion and/or exchange, then, effective upon such increase or decrease becoming effective, the Series A Conversion Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Series A Conversion Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no readjustment pursuant to this clause (b) shall have the effect of increasing the Series A Conversion Price to an amount which exceeds the lower of (i) the Series A Conversion Price in effect immediately prior to the original adjustment made as a result of the issuance of such Option or Convertible Security, or (ii) the Series A Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock (other than deemed issuances of Additional Shares of Common Stock as a result of the issuance of such Option or Convertible Security) between the original adjustment date and such readjustment date.

(c) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which are themselves Exempted Securities), the issuance of which did not result in an adjustment to the Series A Conversion Price pursuant to the terms of Section 4.4.4 (either because the consideration per share (determined pursuant to Section 4.4.5) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Series A Conversion Price then in effect, or because such Option or Convertible Security was issued before the Series A Original Issue Date), are revised after the Series A Original Issue Date (and prior to or in connection with the Next Qualified Financing) as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any decrease in the consideration payable to the Corporation upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended or adjusted, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Section 4.4.3(a)) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(d) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security (or portion thereof) which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Series A Conversion Price pursuant to the terms of Section 4.4.4, the Series A Conversion Price shall be readjusted to such Series A Conversion Price as would have obtained had such Option or Convertible Security (or portion thereof) never been issued.

(e) If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion and/or exchange, is calculable at the time such Option or Convertible Security is issued or amended but is subject to adjustment based upon subsequent events, any adjustment to the Series A Conversion Price provided for in this Section 4.4.3 shall be effected at the time of such issuance or amendment based on such number of shares or amount of consideration without regard to any provisions for subsequent adjustments (and any subsequent adjustments shall be treated as provided in clauses (b) and (c) of this Section 4.4.3). If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion and/or exchange, cannot be calculated at all at the time such Option or Convertible Security is issued or amended, any adjustment to the Series A Conversion Price that would result under the terms of this Section 4.4.3 at the time of such issuance or amendment shall instead be effected at the time such number of shares and/or amount of consideration is first calculable (even if subject to subsequent adjustments), assuming for purposes of calculating such adjustment to the Series A Conversion Price that such issuance or amendment took place at the time such calculation can first be made.

4.4.4. Adjustment of Series A Conversion Price Upon Issuance of Additional Shares of Common Stock. In the event the Corporation shall at any time after the Series A Original Issue Date and prior to or in connection with the Next Qualified Financing issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 4.4.3), without consideration or for a consideration per share less than the Series A Conversion Price in effect immediately prior to such issue, then the Series A Conversion Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent) determined in accordance with the following formula:

$$CP_2 = CP_1 * (A + B) \div (A + C).$$

For purposes of the foregoing formula, the following definitions shall apply:

(a) “CP<sub>2</sub>” shall mean the Series A Conversion Price in effect immediately after such issue or deemed issue of Additional Shares of Common Stock

(b) “CP<sub>1</sub>” shall mean the Series A Conversion Price in effect immediately prior to such issue or deemed issue of Additional Shares of Common Stock;

(c) “A” shall mean the number of shares of Common Stock outstanding immediately prior to such issue of Additional Shares of Common Stock (treating for this purpose as outstanding all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such issue or upon conversion or exchange of Convertible Securities (including the Series A Preferred Stock) outstanding (assuming exercise of any outstanding Options therefor) immediately prior to such issue);

(d) "B" shall mean the number of shares of Common Stock that would have been issued if such Additional Shares of Common Stock had been issued at a price per share equal to  $CP_1$  (determined by dividing the aggregate consideration received by the Corporation in respect of such issue by  $CP_1$ ); and

(e) "C" shall mean the number of such Additional Shares of Common Stock issued in such transaction.

4.4.5. Determination of Consideration. For purposes of this Section 4.4, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(a) Cash and Property: Such consideration shall:

- (i) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation, excluding amounts paid or payable for accrued interest;
- (ii) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board; and
- (iii) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (i) and (ii) above, as determined in good faith by the Board.

(b) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Section 4.3 relating to Options and Convertible Securities, shall be determined by dividing:

- (i) The total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such

Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by

- (ii) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities.

4.4.6. Multiple Closing Dates. In the event the Corporation shall issue on more than one date Additional Shares of Common Stock that are a part of one transaction or a series of related transactions and that would result in an adjustment to the Series A Conversion Price pursuant to the terms of Section 4.4.4, and such issuance dates occur within a period of no more than ninety (90) days from the first such issuance to the final such issuance, then, upon the final such issuance, the Series A Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the first such issuance (and without giving effect to any additional adjustments as a result of any such subsequent issuances within such period).

4.4.7. Prior to or in Connection with the Next Qualified Financing Only. For the avoidance of doubt, the provisions set forth in this Section 4.4 shall only apply prior to or in connection with the Next Qualified Financing. No adjustment shall be made with respect to the issuance (or deemed issuance) of any Common Stock, Convertible Securities or Options subsequent to the Next Qualified Financing.

4.5. Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the Series A Original Issue Date effect a subdivision of the outstanding Common Stock, the Series A Conversion Price in effect immediately before that subdivision shall be proportionately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the Corporation shall at any time or from time to time after the Series A Original Issue Date combine the outstanding shares of Common Stock, the Series A Conversion Price in effect immediately before the combination shall be proportionately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in the aggregate number of shares of Common Stock outstanding. Any adjustment under this Section 4.5 shall become effective at the close of business on the date the subdivision or combination becomes effective.

4.6. Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series A Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable on the Common Stock in additional shares of Common Stock, then and in each such event the Series A Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Series A Conversion Price then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

Notwithstanding the foregoing (a) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series A Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Series A Conversion Price shall be adjusted pursuant to this Section as of the time of actual payment of such dividends or distributions; and (b) that no such adjustment shall be made if the holders of Series A Preferred Stock simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if all outstanding shares of Series A Preferred Stock had been converted into Common Stock on the date of such event.

4.7. Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series A Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation (other than a distribution of shares of Common Stock in respect of outstanding shares of Common Stock) or in other property and the provisions of Section 1 do not apply to such dividend or distribution, then and in each such event the holders of Series A Preferred Stock shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have received if all outstanding shares of Series A Preferred Stock had been converted into Common Stock on the date of such event.

4.8. Adjustment for Merger or Reorganization, etc. Subject to the provisions of Section 2.3, if there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Corporation in which the Common Stock (but not the Series A Preferred Stock) is converted into or exchanged for securities, cash or other property (other than

a transaction covered by Sections 4.4, 4.6 or 4.7), then, following any such reorganization, recapitalization, reclassification, consolidation or merger, each share of Series A Preferred Stock shall thereafter be convertible in lieu of the Common Stock into which it was convertible prior to such event into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Corporation issuable upon conversion of one share of Series A Preferred Stock immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in good faith by the Board) shall be made in the application of the provisions in this Section 4 with respect to the rights and interests thereafter of the holders of the Series A Preferred Stock, to the end that the provisions set forth in this Section 4 (including provisions with respect to changes in and other adjustments of the Series A Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or other property thereafter deliverable upon the conversion of the Series A Preferred Stock. For the avoidance of doubt, nothing in this Section 4.8 shall be construed as preventing the holders of Series A Preferred Stock from seeking any appraisal rights to which they are otherwise entitled under the DGCL in connection with a merger triggering an adjustment hereunder, nor shall this Section 4.8 be deemed conclusive evidence of the fair value of the shares of Series A Preferred Stock in any such appraisal proceeding.

4.9. Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Series A Conversion Price pursuant to this Section 4, the Corporation at its expense shall, as promptly as reasonably practicable but in any event not later than ten (10) days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series A Preferred Stock a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Series A Preferred Stock is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, as promptly as reasonably practicable after the written request at any time of any holder of Series A Preferred Stock (but in any event not later than ten (10) days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (i) the Series A Conversion Price then in effect, and (ii) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of Series A Preferred Stock.

4.10. Notice of Record Date. In the event:

(a) the Corporation shall take a record of the holders of its Common Stock (or other capital stock or securities at the time issuable upon conversion of the Series A Preferred Stock) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of capital stock of any class or any other securities, or to receive any other security; or

(b) of any capital reorganization of the Corporation, any reclassification of the Common Stock of the Corporation, any Liquidation Event or any Deemed Liquidation Event;

then, and in each such case, the Corporation will send or cause to be sent to the holders of the Series A Preferred Stock a notice specifying, as the case may be, (i) the record date for such



dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is proposed to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other capital stock or securities at the time issuable upon the conversion of the Series A Preferred Stock) shall be entitled to exchange their shares of Common Stock (or such other capital stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series A Preferred Stock and the Common Stock. Such notice shall be sent at least ten (10) days prior to the record date or effective date for the event specified in such notice.

#### 5. **Mandatory Conversion.**

5.1. **Trigger Events.** Upon either (a) the closing of the sale of shares of Common Stock to the public in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, in which (i) the cash proceeds to the Corporation (net of underwriting discounts, commissions and fees) are at least \$25,000,000, (ii) the per share price is based on a pre-money valuation of at least \$100,000,000, and (iii) the Corporation's shares have been listed for trading on a national, international or transnational stock exchange (a "**Qualified IPO**"), or (b) the date and time, or the occurrence of an event, specified by vote or written consent of the Required Holders (the time of such closing or the date and time specified or the time of the event specified in such vote or written consent is referred to herein as the "**Mandatory Conversion Time**"), then (1) all outstanding shares of Series A Preferred Stock shall automatically be converted into shares of Common Stock, at the then effective conversion rate as calculated pursuant to Section 4.1.1 and (2) such shares may not be reissued by the Corporation.

5.2. **Procedural Requirements.** All holders of record of shares of Series A Preferred Stock shall be sent written notice of the Mandatory Conversion Time and the place designated for mandatory conversion of all such shares of Series A Preferred Stock pursuant to this Section 5. Such notice need not be sent in advance of the occurrence of the Mandatory Conversion Time. Upon receipt of such notice, each holder of shares of Series A Preferred Stock in certificated form shall surrender his, her or its certificate or certificates for all such shares (or, if such holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate) to the Corporation at the place designated in such notice. If so required by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his, her or its attorney duly authorized in writing. All rights with respect to the Series A Preferred Stock converted pursuant to Section 5.1, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock), will terminate at the Mandatory Conversion Time (notwithstanding the failure of the holder or holders thereof to surrender any certificates at or prior to such time), except only the rights of the holders thereof, upon surrender of any certificate or certificates of such holders (or lost certificate affidavit and agreement) therefor, to receive the items provided for in the next

sentence of this Section 5.2. As soon as practicable after the Mandatory Conversion Time and, if applicable, the surrender of any certificate or certificates (or lost certificate affidavit and agreement) for Series A Preferred Stock, the Corporation shall (a) issue and deliver to such holder, or to his, her or its nominees, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof and (b) pay cash as provided in Section 4.2 in lieu of any fraction of a share of Common Stock otherwise issuable upon such conversion and the payment of any declared but unpaid dividends on the shares of Series A Preferred Stock converted. Such converted Series A Preferred Stock shall be retired and cancelled and may not be reissued as shares of such series, and the Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of shares of Series A Preferred Stock accordingly.

6. **Redeemed or Otherwise Acquired Shares.** Any shares of Series A Preferred Stock that are redeemed or otherwise acquired by the Corporation or any of its subsidiaries shall be automatically and immediately cancelled and retired and shall not be reissued, sold or transferred. Neither the Corporation nor any of its subsidiaries may exercise any voting or other rights granted to the holders of Series A Preferred Stock following redemption.

7. **Waiver.** Any of the rights, powers, preferences and other terms of the Series A Preferred Stock set forth herein may be waived on behalf of all holders of Series A Preferred Stock by the affirmative written consent or vote of the Required Holders.

8. **Notices.** Any notice required or permitted by the provisions of this Article Fourth to be given to a holder of shares of Series A Preferred Stock shall be mailed, postage prepaid, to the post office address last shown on the records of the Corporation, or given by electronic communication in compliance with the provisions of the General Corporation Law, and shall be deemed sent upon such mailing or electronic transmission.

**FIFTH:** Subject to any additional vote required by this Restated Certificate or the Bylaws, in furtherance and not in limitation of the powers conferred by statute, the Board is expressly authorized to make, repeal, alter, amend and rescind any or all of the Bylaws of the Corporation.

**SIXTH:** Subject to any additional vote required by this Restated Certificate, the number of directors of the Corporation shall be determined in the manner set forth in the Bylaws of the Corporation.

**SEVENTH:** Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

**EIGHTH:** Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the Board or in the Bylaws of the Corporation.

**NINTH:** To the fullest extent permitted by law, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the General Corporation Law or any other law of the State of Delaware is amended after approval by the stockholders of this Article Ninth to authorize

corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law as so amended.

Any repeal or modification of the foregoing provisions of this Article Ninth by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director occurring prior to, such repeal or modification.

**TENTH:** To the fullest extent permitted by applicable law, the Corporation is authorized to provide indemnification of (and advancement of expenses to) directors, officers and agents of the Corporation (and any other persons to which General Corporation Law permits the Corporation to provide indemnification) through Bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the General Corporation Law.

Any amendment, repeal or modification of the foregoing provisions of this Article Tenth shall not adversely affect any right or protection of any director, officer or other agent of the Corporation existing at the time of such amendment, repeal or modification.

**ELEVENTH:** The Corporation renounces, to the fullest extent permitted by law, any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, any Excluded Opportunity. An “**Excluded Opportunity**” is any matter, transaction or interest that is presented to, or acquired, created or developed by, or which otherwise comes into the possession of (i) any director of the Corporation who is not an employee of the Corporation or any of its subsidiaries, or (ii) any holder of Series A Preferred Stock or any partner, member, director, stockholder, employee or agent of any such holder, other than someone who is an employee of the Corporation or any of its subsidiaries (collectively, “**Covered Persons**”), unless such matter, transaction or interest is presented to, or acquired, created or developed by, or otherwise comes into the possession of a Covered Person expressly and solely in such Covered Person’s capacity as a director of the Corporation.

**TWELFTH:** For purposes of Section 500 of the California Corporations Code (to the extent applicable), in connection with any repurchase of shares of Common Stock permitted under this Restated Certificate from employees, officers, directors or consultants of the Corporation in connection with a termination of employment or services pursuant to agreements or arrangements approved by the Board (in addition to any other consent required under this Restated Certificate), such repurchase may be made without regard to any “preferential dividends arrears amount” or “preferential rights amount” (as those terms are defined in Section 500 of the California Corporations Code). Accordingly, for purposes of making any calculation under California Corporations Code Section 500 in connection with such repurchase, the amount of any “preferential dividends arrears amount” or “preferential rights amount” (as those terms are defined therein) shall be deemed to be zero (0).

\* \* \*

3. That the foregoing amendment and restatement was approved by the holders of the requisite number of shares of this corporation in accordance with Section 228 of the General Corporation Law.

4. That this Amended and Restated Certificate of Incorporation, which restates and integrates and further amends the provisions of this Corporation's Certificate of Incorporation, as amended, has been duly adopted in accordance with Sections 242 and 245 of the General Corporation Law.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

**IN WITNESS WHEREOF**, this Amended and Restated Certificate of Incorporation has been executed by a duly authorized officer of this corporation on this 5<sup>th</sup> day of February, 2016.

By: /s/ K. Charles Janac

K. Charles Janac

President and Chief Executive Officer

**CERTIFICATE OF AMENDMENT TO THE  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
ARTERIS, INC.**

Arteris, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “**Corporation**”), does hereby certify that:

**FIRST:** The original name of the Corporation was “**Arteris, Inc.**” and the date of filing of the original Certificate of Incorporation of the Corporation with the Secretary of State of the State of Delaware was April 12, 2004.

**SECOND:** The Board of Directors of the Corporation, acting in accordance with the provisions of Sections 141 and 242 of the General Corporation Law of the State of Delaware, adopted resolutions to amend the Corporation’s Amended and Restated Certificate of Incorporation as follows:

The heading and the first full sentence of the Article Fourth of the Corporation’s Amended and Restated Certificate of Incorporation shall be amended and restated in its entirety to read as follows:

“**FOURTH:** The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) 28,825,154 shares of Common Stock, \$0.001 par value per share (“**Common Stock**”) and (ii) 4,471,316 shares of Preferred Stock, \$0.001 par value per share (“**Preferred Stock**”).”

The heading and the first full sentence of Part B of the Article Fourth of the Corporation’s Amended and Restated Certificate of Incorporation shall be amended and restated in its entirety to read as follows:

**“B. PREFERRED STOCK**

4,471,316 shares of the authorized and unissued Preferred Stock of the Corporation are hereby designated “**Series A Preferred Stock**” with the following rights, preferences, powers, privileges and restrictions, qualifications and limitations.”

**THIRD:** Thereafter, pursuant to a resolution by the Board of Directors of the Corporation, this Certificate of Amendment was submitted to the stockholders of the Corporation for their approval in accordance with the provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware. Accordingly, said proposed Certificate of Amendment has been duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

**IN WITNESS WHEREOF**, Arteris, Inc. has caused this Certificate of Amendment to its Amended and Restated Certificate of Incorporation to be signed by its President and Chief Executive Officer this 30<sup>th</sup> day of November, 2017.

**ARTERIS, INC.**

By: /s/ K. Charles Janac

K. Charles Janac

President and Chief Executive Officer

**CERTIFICATE OF AMENDMENT TO THE  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF ARTERIS, INC.**

Arteris, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “**Corporation**”), does hereby certify that:

**FIRST:** The original name of the Corporation was “ Arteris, Inc.” and the date of filing of the original Certificate of Incorporation of the Corporation with the Secretary of State of the State of Delaware was April 12, 2004.

**SECOND:** The Board of Directors of the Corporation, acting in accordance with the provisions of Sections 141 and 242 of the General Corporation Law of the State of Delaware, adopted resolutions to amend the Corporation’s Amended and Restated Certificate of Incorporation as follows:

The heading and the first full sentence of the Article Fourth of the Corporation’s Amended and Restated Certificate of Incorporation shall be amended and restated in its entirety to read as follows:

“**FOURTH:** The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) 31,525,154 shares of Common Stock, \$0.001 par value per share (“**Common Stock**”) and (ii) 4,471,316 shares of Preferred Stock, \$0.001 par value per share (“**Preferred Stock**”).”

**THIRD:** Thereafter, pursuant to a resolution by the Board of Directors of the Corporation, this Certificate of Amendment was submitted to the stockholders of the Corporation for their approval in accordance with the provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware. Accordingly, said proposed Certificate of Amendment has been duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**



**IN WITNESS WHEREOF**, Arteris, Inc. has caused this Certificate of Amendment to its Amended and Restated Certificate of Incorporation to be signed by its President and Chief Executive Officer this 24th day of February, 2020.

**ARTERIS, INC.**

By: /s/ K. Charles Janac

K. Charles Janac

President and Chief Executive Officer

**CERTIFICATE OF AMENDMENT TO THE  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF  
ARTERIS, INC.**

Arteris, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “**Corporation**”), does hereby certify that:

**FIRST:** The original name of the Corporation was “Arteris, Inc.” and the date of filing of the original Certificate of Incorporation of the Corporation with the Secretary of State of the State of Delaware was April 12, 2004.

**SECOND:** The Board of Directors of the Corporation, acting in accordance with the provisions of Sections 141 and 242 of the General Corporation Law of the State of Delaware, adopted resolutions to amend the Corporation’s Amended and Restated Certificate of Incorporation as follows:

The heading and the first full sentence of the Article Fourth of the Corporation’s Amended and Restated Certificate of Incorporation shall be amended and restated in its entirety to read as follows:

“**FOURTH:** The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) 36,525,154 shares of Common Stock, \$0.001 par value per share (“**Common Stock**”) and (ii) 4,471,316 shares of Preferred Stock, \$0.001 par value per share (“**Preferred Stock**”).”

**THIRD:** Thereafter, pursuant to a resolution by the Board of Directors of the Corporation, this Certificate of Amendment was submitted to the stockholders of the Corporation for their approval in accordance with the provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware. Accordingly, said proposed Certificate of Amendment has been duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

**IN WITNESS WHEREOF**, Arteris, Inc. has caused this Certificate of Amendment to its Amended and Restated Certificate of Incorporation to be signed by its President and Chief Executive Officer this 11<sup>th</sup> day of August, 2021.

**ARTERIS, INC.**

By: /s/ K. Charles Janac

\_\_\_\_\_

K. Charles Janac

President and Chief Executive Officer

**AMENDED AND RESTATED BYLAWS  
OF  
ARTERIS, INC.  
(A DELAWARE CORPORATION)**

**ARTICLE I  
OFFICES**

**Section 1. Registered Office.** The registered office of the corporation in the State of Delaware shall be as determined by the Board of Directors from time to time.

**Section 2. Other Offices.** The corporation shall also have and maintain an office or principal place of business at such place as may be fixed by the Board of Directors, and may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the corporation may require.

**ARTICLE II  
CORPORATE SEAL**

**Section 3. Corporate Seal.** The Board of Directors may adopt a corporate seal. Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

**ARTICLE III  
STOCKHOLDERS' MEETINGS**

**Section 4. Place of Meetings.** Meetings of the stockholders of the corporation may be held at such place, either within or without the State of Delaware, as may be determined from time to time by the Board of Directors. The Board of Directors may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as provided under the Delaware General Corporation Law ("*DGCL*").

**Section 5. Annual Meeting.**

(a) The annual meeting of the stockholders of the corporation, for the purpose of election of directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors. Nominations of persons for election to the Board of Directors of the corporation and the proposal

i.

of business to be considered by the stockholders may be made at an annual meeting of stockholders: (i) pursuant to the corporation's notice of meeting of stockholders; (ii) by or at the direction of the Board of Directors; or (iii) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in the following paragraph, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 5.

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of Section 5(a) of these Amended and Restated Bylaws ("**Bylaws**"), (i) the stockholder must have given timely notice thereof in writing to the Secretary of the corporation, (ii) such other business must be a proper matter for stockholder action under the DGCL and applicable law, (iii) if the stockholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the corporation with a Solicitation Notice (as defined in this Section 5(b)), such stockholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the corporation's voting shares required under applicable law to carry any such proposal, or, in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of the corporation's voting shares reasonably believed by such stockholder or beneficial owner to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder, and must, in either case, have included in such materials the Solicitation Notice, and (iv) if no Solicitation Notice relating thereto has been timely provided pursuant to this section, the stockholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this Section 5. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (A) as to each person whom the stockholder proposed to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "**1934 Act**") and Rule 14a-4(d) thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of

such stockholder, as they appear on the corporation's books, and of such beneficial owner, (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner, and (iii) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of the proposal, at least the percentage of the corporation's voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the corporation's voting shares to elect such nominee or nominees (an affirmative statement of such intent, a "**Solicitation Notice**").

(c) Notwithstanding anything in the second sentence of Section 5(b) of these Bylaws to the contrary, in the event that the number of directors to be elected to the Board of Directors of the corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the corporation at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 5 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the corporation.

(d) Only such persons who are nominated in accordance with the procedures set forth in this Section 5 (or elected or appointed pursuant to Section 13 or Section 18) shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 5. Except as otherwise provided by law, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made, or proposed, as the case may be, in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defective proposal or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

(e) Notwithstanding the foregoing provisions of this Section 5, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholders' meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Nothing in these Bylaws shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation proxy statement pursuant to Rule 14a-8 under the 1934 Act.

(f) For purposes of this Section 5, "**public announcement**" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the 1934 Act.

#### **Section 6. Special Meetings.**

(a) Special meetings of the stockholders of the corporation may be called, for any purpose or purposes, by (i) the Chairman of the Board of Directors, (ii) the Chief Executive Officer, (iii) the Board of Directors pursuant to a resolution adopted by a majority of the total number of directors then holding office or (iv) by the holders of shares entitled to cast not less than 20% of the votes at the meeting, and shall be held at such place, on such date, and at such time as the Board of Directors shall fix.

(b) If a special meeting is properly called by any person or persons other than the Board of Directors, the request shall be in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by certified or registered mail, return receipt requested, or by electronic mail or other facsimile transmission to the Chairman of the Board of Directors, the Chief Executive Officer, or the Secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The Board of Directors shall determine the time and place of such special meeting, which shall be held not less than 35 nor more than 120 days after the date of the receipt of the request. Upon determination of the time and place of the meeting, the officer receiving the request shall cause notice to be given to the stockholders entitled to vote, in accordance with the provisions of Section 7 of these Bylaws. Nothing contained in this paragraph (b) shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

**Section 7. Notice of Meetings.** Except as otherwise provided by law, notice, given in writing or by electronic transmission, of each meeting of stockholders shall be given not less than ten nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting, such notice to specify the place, if any, date and hour, in the case of special meetings, the purpose or purposes of the meeting, and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at any such meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation. Notice of the time, place, if any, and purpose of any meeting of stockholders may be waived in writing, signed by the person entitled to notice thereof or by electronic transmission by such person, either before or after such meeting, and will be waived by any stockholder by his attendance thereat in person, by remote communication, if applicable, or by proxy, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

**Section 8. Quorum.** At all meetings of stockholders, except where otherwise provided by statute or by the Certificate of Incorporation, or by these Bylaws, the presence, in person, by remote communication, if applicable, or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. In the absence of a quorum, any meeting of stockholders may be adjourned, from time to time, either by the chairman of the meeting or by vote of the holders of a majority of the shares represented thereat, but no other business shall be transacted at such meeting. The stockholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Except as otherwise provided by statute, or by the Certificate of Incorporation or these Bylaws, in all matters other than the election of directors, the affirmative

vote of a majority of shares present in person, by remote communication, if applicable, or represented by proxy duly authorized at the meeting and entitled to vote generally on the subject matter shall be the act of the stockholders. Except as otherwise provided by statute, the Certificate of Incorporation or these Bylaws, directors shall be elected by a plurality of the votes of the shares present in person, by remote communication, if applicable, or represented by proxy duly authorized at the meeting and entitled to vote generally on the election of directors. Where a separate vote by a class or classes or series is required, except where otherwise provided by the statute or by the Certificate of Incorporation or these Bylaws, a majority of the outstanding shares of such class or classes or series, present in person, by remote communication, if applicable, or represented by proxy duly authorized, shall constitute a quorum entitled to take action with respect to that vote on that matter. Except where otherwise provided by statute or by the Certificate of Incorporation or these Bylaws, the affirmative vote of the majority (plurality, in the case of the election of directors) of shares of such class or classes or series present in person, by remote communication, if applicable, or represented by proxy at the meeting shall be the act of such class or classes or series.

**Section 9. Adjournment and Notice of Adjourned Meetings.** Any meeting of stockholders, whether annual or special, may be adjourned from time to time either by the chairman of the meeting or by the vote of a majority of the shares present in person, by remote communication, if applicable, or represented by proxy. When a meeting is adjourned to another time or place, if any, notice need not be given of the adjourned meeting if the time and place, if any, thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact any business that might have been transacted at the original meeting pursuant to the Certificate of Incorporation, these Bylaws or applicable law. If the adjournment is for more than 30 days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

**Section 10. Voting Rights.** For the purpose of determining those stockholders entitled to vote at any meeting of the stockholders, except as otherwise provided by law, only persons in whose names shares stand on the stock records of the corporation on the record date, as provided in Section 12 of these Bylaws, shall be entitled to vote at any meeting of stockholders. Every person entitled to vote or execute consents shall have the right to do so either in person, by remote communication, if applicable, or by an agent or agents authorized by a proxy granted in accordance with Delaware law. An agent so appointed need not be a stockholder. No proxy shall be voted after three years from its date of creation unless the proxy provides for a longer period.

**Section 11. Joint Owners of Stock.** If shares or other securities having voting power stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting (including giving consent pursuant to Section 13) shall have the following effect: (a) if only one votes, his act binds all; (b) if more than one votes, the act of the majority so voting binds all; (c) if more than one votes, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionally, or may apply to the Delaware Court of Chancery for relief as provided in the DGCL, Section 217(b). If the instrument filed with the Secretary shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of subsection (c) shall be a majority or even-split in interest.



**Section 12. List of Stockholders.** The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or during ordinary business hours, at the principal place of business of the corporation. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. The list shall be open to examination of any stockholder during the time of the meeting as provided by law.

**Section 13. Action Without Meeting.**

(a) Unless otherwise provided in the Certificate of Incorporation, any action required by statute to be taken at any annual or special meeting of the stockholders, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, or by electronic transmission setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

(b) Every written consent or electronic transmission shall bear the date of signature of each stockholder who signs the consent, and no written consent or electronic transmission shall be effective to take the corporate action referred to therein unless, within 60 days of the earliest dated consent delivered to the corporation in the manner herein required, written consents or electronic transmissions signed by a sufficient number of stockholders to take action are delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested.

(c) Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing or by electronic transmission and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders to take action were delivered to the corporation as provided in Section 228I of the DGCL. If the action which is consented to is such as would have required the filing of a certificate under any section of the DGCL if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written consent has been given in accordance with Section 228 of the DGCL.

(d) An electronic mail, facsimile or other electronic transmission consenting to an action to be taken and transmitted by a stockholder or proxyholder, shall be deemed to be written, signed and dated for the purposes of this section, provided that any such electronic mail, facsimile or other electronic transmission sets forth or is delivered with information from which the corporation can determine (i) that the electronic mail, facsimile or other electronic transmission was transmitted by the stockholder or proxyholder or by a person or persons authorized to act for the stockholder and (ii) the date on which such stockholder or proxyholder or authorized person or persons transmitted such electronic mail, facsimile or electronic transmission. The date on which such electronic mail, facsimile or electronic transmission is transmitted shall be deemed to be the date on which such consent was signed. No consent given by electronic mail, facsimile or other electronic transmission shall be deemed to have been delivered until such consent is reproduced in paper form and until such paper form shall be delivered to the corporation by delivery to its registered office in the state of Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be made by hand or by certified or registered mail, return receipt requested. Notwithstanding the foregoing limitations on delivery, consents given by electronic mail, facsimile or other electronic transmission may be otherwise delivered to the principal place of business of the corporation or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded if, to the extent and in the manner provided by resolution of the board of directors of the corporation. Any copy, facsimile or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used, provided that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing.

#### **Section 14. Organization.**

(a) At every meeting of stockholders, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the Chief Executive Officer, or, if the Chief Executive Officer is absent, a chairman of the meeting chosen by a majority in interest of the stockholders entitled to vote, present in person or by proxy, shall act as chairman. The Secretary, or, in his absence, an Assistant Secretary directed to do so by the Chief Executive Officer, shall act as secretary of the meeting.

(b) The Board of Directors of the corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

---

## ARTICLE IV

### DIRECTORS

**Section 15. Number and Term of Office.** The authorized number of directors of the corporation shall be fixed by the Board of Directors from time to time. Directors need not be stockholders unless so required by the Certificate of Incorporation. If for any cause, the directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient.

**Section 16. Powers.** The powers of the corporation shall be exercised, its business conducted and its property controlled by the Board of Directors, except as may be otherwise provided by statute or by the Certificate of Incorporation.

**Section 17. Term of Directors.**

(a) Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, directors shall be elected at each annual meeting of stockholders to serve until his successor is duly elected and qualified or until his death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

**Section 18. Vacancies.**

(a) Unless otherwise provided in the Certificate of Incorporation, and subject to the rights of the holders of any series of Preferred Stock, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other causes and any newly created directorships resulting from any increase in the number of directors shall, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships shall be filled by stockholders, be filled only by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors, or by a sole remaining director, *provided, however*, that whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series shall, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships shall be filled by stockholders, be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's successor shall have been elected and qualified. A vacancy in the Board of Directors shall be deemed to exist under this Bylaw in the case of the death, removal or resignation of any director.

**Section 19. Resignation.** Any director may resign at any time by delivering his or her notice in writing or by electronic transmission to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it shall be deemed effective at the pleasure of the Board of Directors. When one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office for the unexpired portion of the term of the Director whose place shall be vacated and until his successor shall have been duly elected and qualified.

**Section 20. Removal.**

(a) Subject to any limitations imposed by the Certificate of Incorporation and applicable law (and assuming the corporation is not subject to Section 2115 of the California Corporations Code), the Board of Directors or any director may be removed from office at any time with or without cause by the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of capital stock of the corporation entitled to vote generally at an election of directors.

**Section 21. Meetings**

(a) **Regular Meetings.** Unless otherwise restricted by the Certificate of Incorporation, regular meetings of the Board of Directors may be held at any time or date and at any place within or without the State of Delaware which has been designated by the Board of Directors and publicized among all directors, either orally or in writing, including a voice-messaging system or other system designated to record and communicate messages, facsimile, telegraph or telex, or by electronic mail or other electronic means. No further notice shall be required for a regular meeting of the Board of Directors.

(b) **Special Meetings.** Unless otherwise restricted by the Certificate of Incorporation, special meetings of the Board of Directors may be held at any time and place within or without the State of Delaware whenever called by the Chairman of the Board, the Chief Executive Officer (if a director), the President (if a director) or any director.

(c) **Meetings by Electronic Communications Equipment.** Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(d) **Notice of Special Meetings.** Notice of the time and place of all special meetings of the Board of Directors shall be orally or in writing, by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, facsimile, telegraph or telex, or by electronic mail or other electronic means, during normal business hours, at least 24 hours before the date and time of the meeting. If notice is sent by US mail, it shall be sent by first class mail, postage prepaid at least three days before the date of the meeting. Notice of any meeting may be waived in writing or by electronic transmission at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

**(e) Waiver of Notice.** The transaction of all business at any meeting of the Board of Directors, or any committee thereof, however called or noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors not present who did not receive notice shall sign a written waiver of notice or shall waive notice by electronic transmission. All such waivers shall be filed with the corporate records or made a part of the minutes of the meeting.

## **Section 22. Quorum and Voting.**

**(a)** Unless the Certificate of Incorporation requires a greater number, a quorum of the Board of Directors shall consist of a majority of the directors then in office; *provided, however*, at any meeting, whether a quorum be present or otherwise, a majority of the directors present may adjourn from time to time until the time fixed for the next regular meeting of the Board of Directors, without notice other than by announcement at the meeting.

**(b)** At each meeting of the Board of Directors at which a quorum is present, all questions and business shall be determined by the affirmative vote of a majority of the directors present, unless a different vote is required by law, the Certificate of Incorporation or these Bylaws.

**Section 23. Action Without Meeting.** Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and such writing or writings or transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

**Section 24. Fees and Compensation.** Directors shall be entitled to such compensation for their services as may be approved by the Board of Directors, including, if so approved, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, for attendance at each regular or special meeting of the Board of Directors and at any meeting of a committee of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise and receiving compensation therefor.

## **Section 25. Committees.**

**(a) Executive Committee.** The Board of Directors may appoint an Executive Committee to consist of one or more members of the Board of Directors. The Executive Committee, to the extent permitted by law and provided in the resolution of the Board of Directors shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopting, amending or repealing any bylaw of the corporation.

**(b) Other Committees.** The Board of Directors may, from time to time, appoint such other committees as may be permitted by law. Such other committees appointed by the Board of Directors shall consist of one or more members of the Board of Directors and shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committees, but in no event shall any such committee have the powers denied to the Executive Committee in these Bylaws.

**(c) Term.** The Board of Directors, subject to any requirements of any outstanding series of Preferred Stock and the provisions of subsections (a) or (b) of this Bylaw may at any time increase or decrease the number of members of a committee or terminate the existence of a committee. The membership of a committee member shall terminate on the date of his death or voluntary resignation from the committee or from the Board of Directors. The Board of Directors may at any time for any reason remove any individual committee member and the Board of Directors may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

**(d) Meetings.** Unless the Board of Directors shall otherwise provide, regular meetings of the Executive Committee or any other committee appointed pursuant to this Section 25 shall be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter. Special meetings of any such committee may be held at any place which has been determined from time to time by such committee, and may be called by any director who is a member of such committee, upon notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends such special meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Unless otherwise provided by the Board of Directors in the resolutions authorizing the creation of the committee, a majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present shall be the act of such committee.

**Section 26. Organization.** At every meeting of the directors, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the Chief Executive Officer (if a director), or if the Chief Executive Officer is not a director or is absent, the President (if a director), or if the President is not a director or is absent, the most senior Vice President, (if a director) or, in the absence of any such person, a chairman of the meeting chosen by a majority of the directors present, shall preside over the meeting. The Secretary, or in his absence, any Assistant Secretary directed to do so by the Chief Executive Officer or President, shall act as secretary of the meeting.

## **ARTICLE V OFFICERS**

**Section 27. Officers Designated.** The officers of the corporation shall include, if and when designated by the Board of Directors, the Chief Executive Officer, the President, one or more Vice Presidents, the Secretary, the Chief Financial Officer, the Treasurer and the Controller, all of whom shall be elected at the annual organizational meeting of the Board of Directors. The Board of Directors may also appoint one or more Assistant Secretaries, Assistant Treasurers, Assistant Controllers and such other officers and agents with such powers and duties as it shall deem necessary. The Board of Directors may assign such additional titles to one or more of the officers as it shall deem appropriate. Any one person may hold any number of offices of the corporation at any one time unless specifically prohibited therefrom by law. The salaries and other compensation of the officers of the corporation shall be fixed by or in the manner designated by the Board of Directors.

### **Section 28. Tenure and Duties of Officers.**

**(a) General.** All officers shall hold office at the pleasure of the Board of Directors and until their successors shall have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors, or by the Chief Executive Officer or other officer if so authorized by the Board of Directors.

**(b) Duties of Chairman of the Board of Directors.** The Chairman of the Board of Directors, when present, shall preside at all meetings of the stockholders and the Board of Directors. The Chairman of the Board of Directors shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. If there is no Chief Executive Officer and no President, then the Chairman of the Board of Directors shall also serve as the Chief Executive Officer of the corporation and shall have the powers and duties prescribed in paragraph (c) of this Section 28.

**(c) Duties of Chief Executive Officer.** The Chief Executive Officer shall preside at all meetings of the stockholders and (if a director) at all meetings of the Board of Directors, unless the Chairman of the Board of Directors has been appointed and is present. The Chief Executive Officer shall be the chief executive officer of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the corporation. The Chief Executive Officer shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

**(d) Duties of President.** In the absence or disability of the Chief Executive Officer or if the office of Chief Executive Officer is vacant, the President shall preside at all meetings of the stockholders and (if a director) at all meetings of the Board of Directors, unless the Chairman of the Board of Directors has been appointed and is present. If the office of Chief Executive Officer is vacant, the President shall be the chief executive officer of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the corporation. The President shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

**(e) Duties of Vice Presidents.** The Vice Presidents may assume and perform the duties of the President in the absence or disability of the President or whenever the office of President is vacant. The Vice Presidents shall perform other duties commonly incident to their office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

**(f) Duties of Secretary.** The Secretary shall attend all meetings of the stockholders and of the Board of Directors and shall record all acts and proceedings thereof in the minute book of the corporation. The Secretary shall give notice in conformity with these Bylaws of all meetings of the stockholders and of all meetings of the Board of Directors and any committee thereof requiring notice. The Secretary shall perform all other duties provided for in these Bylaws and other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. The Chief Executive Officer may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer shall designate from time to time.

**(g) Duties of Chief Financial Officer.** The Chief Financial Officer shall keep or cause to be kept the books of account of the corporation in a thorough and proper manner and shall render statements of the financial affairs of the corporation in such form and as often as required by the Board of Directors or the Chief Executive Officer. The Chief Financial Officer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the corporation. The Chief Financial Officer shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer shall designate from time to time. The Chief Executive Officer may direct the Treasurer or any Assistant Treasurer, or the Controller or any Assistant Controller to assume and perform the duties of the Chief Financial Officer in the absence or disability of the Chief Financial Officer, and each Treasurer and Assistant Treasurer and each Controller and Assistant Controller shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer shall designate from time to time.



**Section 29. Delegation of Authority.** The Board of Directors may from time to time delegate the powers or duties of any officer to any other officer or agent, notwithstanding any provision hereof.

**Section 30. Resignations.** Any officer may resign at any time by giving notice in writing or by electronic transmission notice to the Board of Directors or to the Chief Executive Officer or to the President or to the Secretary. Any such resignation shall be effective when received by the person or persons to whom such notice is given, unless a later time is specified therein, in which event the resignation shall become effective at such later time. Unless otherwise specified in such notice, the acceptance of any such resignation shall not be necessary to make it effective. Any resignation shall be without prejudice to the rights, if any, of the corporation under any contract with the resigning officer.

**Section 31. Removal.** Any officer may be removed from office at any time, either with or without cause, by the affirmative vote of a majority of the directors in office at the time, or by the unanimous written consent of the directors in office at the time, or by any committee or superior officers upon whom such power of removal may have been conferred by the Board of Directors.

## ARTICLE VI

### EXECUTION OF CORPORATE INSTRUMENTS AND VOTING OF SECURITIES OWNED BY THE CORPORATION

**Section 32. Execution of Corporate Instruments.** The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute on behalf of the corporation any corporate instrument or document, or to sign on behalf of the corporation the corporate name without limitation, or to enter into contracts on behalf of the corporation, except where otherwise provided by law or these Bylaws, and such execution or signature shall be binding upon the corporation.

All checks and drafts drawn on banks or other depositories on funds to the credit of the corporation or in special accounts of the corporation shall be signed by such person or persons as the Board of Directors shall authorize so to do.

Unless authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

**Section 33. Voting of Securities Owned by the Corporation.** All stock and other securities of other corporations owned or held by the corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairman of the Board of Directors, the Chief Executive Officer, the President, or any Vice President.

**ARTICLE VII**  
**SHARES OF STOCK**

**Section 34. Form and Execution of Certificates.** Certificates for the shares of stock of the corporation shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of shares of stock in the corporation represented by certificate shall be entitled to have a certificate signed by or in the name of the corporation by the Chairman of the Board of Directors, the Chief Executive Officer, or the President or any Vice President and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary, certifying the number of shares owned by him in the corporation. Any or all of the signatures on the certificate may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue.

**Section 35. Lost Certificates.** A new certificate or certificates shall be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. The corporation may require, as a condition precedent to the issuance of a new certificate or certificates, the owner of such lost, stolen, or destroyed certificate or certificates, or the owner's legal representative, to agree to indemnify the corporation in such manner as it shall require or to give the corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

**Section 36. Restrictions on Transfers.**

(a) No holder of any of the shares of common stock of the corporation (other than shares of common stock issued upon conversion of any shares of preferred stock of, or convertible debt issued by, the corporation) ("**Restricted Shares**") may sell, transfer, assign, pledge, or otherwise dispose of or encumber any Restricted Shares or any right or interest therein, whether voluntarily or by operation of law, or by gift or otherwise (each, a "**Transfer**") without the prior written consent of the corporation, upon duly authorized action of its Board of Directors. The corporation may withhold consent for any legitimate corporate purpose, as determined by the Board of Directors. Examples of the basis for the corporation to withhold its consent include, without limitation, (i) if such Transfer to individuals, companies or any other form of entity identified by the corporation as a potential competitor or considered by the corporation to be unfriendly; or (ii) if such Transfer increases the risk of the corporation having a class of security held of record by 2,000 or more persons, or 500 or more persons who are not accredited investors (as such term is defined by the SEC), as described in Section 12(g) of the 1934 Act and any related regulations, or otherwise requiring the corporation to register any class of securities under the 1934 Act; or (iii) if such Transfer would result in the loss of any federal or state securities law exemption relied upon by the corporation in connection with the initial issuance of such Restricted Shares or the issuance of any other securities; or (iv) if such Transfer is facilitated in any manner by any public posting, message board, trading portal, internet site, or similar method of communication, including without limitation any trading portal or internet site intended to facilitate secondary transfers of securities; or (v) if such Transfer is to be effected in a brokered transaction; or (vi) if such Transfer represents a Transfer of less than all of the Restricted Shares then held by the stockholder and its affiliates or is to be made to more than a single transferee.

(b) If a stockholder desires to Transfer any Restricted Shares, then the stockholder shall first give written notice thereof to the corporation. The notice shall name the proposed transferee and state the number of Restricted Shares to be transferred, the proposed consideration, and all other terms and conditions of the proposed transfer. Any Restricted Shares proposed to be transferred to which Transfer the corporation has consented pursuant to Section 36(a) will first be subject to the corporation's right of first refusal located in Section 46 hereof.

(c) Any Transfer, or purported Transfer, of Restricted Shares not made in strict compliance with this Section 36 shall be null and void, shall not be recorded on the books of the corporation and shall not be recognized by the corporation.

(d) The foregoing restriction on Transfer shall terminate upon the date securities of the corporation are first offered to the public pursuant to a registration statement filed with, and declared effective by, the United States Securities and Exchange Commission under the Securities Act of 1933, as amended.

(e) The certificates representing Restricted Shares shall bear on their face substantially the following legend so long as the foregoing Transfer restrictions are in effect:

“THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A TRANSFER RESTRICTION, AS PROVIDED IN THE BYLAWS OF THE CORPORATION (AS MAY BE AMENDED FROM TIME TO TIME).”

### **Section 37. Fixing Record Dates.**

(a) In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall, subject to applicable law, not be more than 60 nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. Any

stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in all events within ten days after the date on which such a request is received, adopt a resolution fixing the record date. If no record date has been fixed by the Board of Directors within ten days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(c) In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

**Section 38. Registered Stockholders.** The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

## ARTICLE VIII

### OTHER SECURITIES OF THE CORPORATION

**Section 39. Execution of Other Securities.** All bonds, debentures and other corporate securities of the corporation, other than stock certificates (covered in Section 34), may be signed by the Chairman of the Board of Directors, the Chief Executive Officer, the President or any Vice President, or such other person as may be authorized by the Board of Directors, and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Chief Financial Officer or Treasurer or an Assistant Treasurer; *provided, however,* that where any such bond, debenture or other corporate security shall be authenticated by the manual signature, or where permissible facsimile signature, of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signatures of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such

persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer of the corporation or such other person as may be authorized by the Board of Directors or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon or on any such interest coupon, shall have ceased to be such officer before the bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the corporation.

## **ARTICLE IX**

### **DIVIDENDS**

**Section 40. Declaration of Dividends.** Dividends upon the capital stock of the corporation, subject to the provisions of the Certificate of Incorporation and applicable law, if any, may be declared by the Board of Directors pursuant to law at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation and applicable law.

**Section 41. Dividend Reserve.** Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the Board of Directors shall think conducive to the interests of the corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

## **ARTICLE X**

### **FISCAL YEAR**

**Section 42. Fiscal Year.** The fiscal year of the corporation shall be fixed by resolution of the Board of Directors.

## **ARTICLE XI**

### **INDEMNIFICATION**

**Section 43. Indemnification of Directors, Executive Officers, Other Officers, Employees and Other Agents.**

**(a) Directors and Executive Officers.** The corporation shall indemnify its directors and executive officers (for the purposes of this Article XI, "executive officers" shall have the meaning defined in Rule 3b-7 promulgated under the 1934 Act) to the fullest extent not prohibited by the DGCL or any other applicable law; *provided, however*, that the corporation may modify the extent of such indemnification by individual contracts with its directors and executive

officers; and, *provided, further*, that the corporation shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the Board of Directors of the corporation, (iii) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under the DGCL or any other applicable law or (iv) such indemnification is required to be made under subsection (d).

**(b) Other Officers, Employees and Other Agents.** The corporation shall have the power to indemnify its other officers, employees and other agents as set forth in the DGCL or any other applicable law. The Board of Directors shall have the power to delegate the determination of whether indemnification shall be given to any such person (except executive officers) to such officers or other persons as the Board of Directors shall determine.

**(c) Expenses.** The corporation shall advance to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer, of the corporation, or is or was serving at the request of the corporation as a director or executive officer of another corporation, partnership, joint venture, trust or other enterprise, prior to the final disposition of the proceeding, promptly following request therefor, all expenses incurred by any director or executive officer in connection with such proceeding, provided, however, that, if the DGCL requires, an advancement of expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Section 43 or otherwise.

Notwithstanding the foregoing, unless otherwise determined pursuant to paragraph (e) of this Bylaw, no advance shall be made by the corporation to an executive officer of the corporation (except by reason of the fact that such executive officer is or was a director of the corporation, in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made (i) by a majority vote of a quorum consisting of directors who were not parties to the proceeding, even if not a quorum, or (ii) by a committee of such directors designated by a majority of such directors, even though less than a quorum, or (iii) if there are no such directors, or such directors so direct, by independent legal counsel in a written opinion, that the facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

**(d) Enforcement.** Without the necessity of entering into an express contract, all rights to indemnification and advances to directors and executive officers under this Bylaw shall be deemed to be contractual rights and be effective to the same extent and as if provided for in a contract between the corporation and the director or executive officer. Any right to indemnification or advances granted by this Bylaw to a director or executive officer shall be

enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within 90 days of request therefor. The claimant in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting the claim. In connection with any claim for indemnification, the corporation shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under the DGCL or any other applicable law for the corporation to indemnify the claimant for the amount claimed. In connection with any claim by an executive officer of the corporation (except in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such executive officer is or was a director of the corporation) for advances, the corporation shall be entitled to raise as a defense as to any such action clear and convincing evidence that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation, or with respect to any criminal action or proceeding that such person acted without reasonable cause to believe that his conduct was lawful. Neither the failure of the corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the DGCL or any other applicable law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

**(e) Non-Exclusivity of Rights.** The rights conferred on any person by this Bylaw shall not be exclusive of any other right which such person may have or hereafter acquire under any applicable statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by the DGCL or any other applicable law.

**(f) Survival of Rights.** The rights conferred on any person by this Bylaw shall continue as to a person who has ceased to be a director or executive officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

**(g) Insurance.** To the fullest extent permitted by the DGCL, or any other applicable law, the corporation, upon approval by the Board of Directors, may purchase insurance on behalf of any person required or permitted to be indemnified pursuant to this Bylaw.

**(h) Amendments.** Any repeal or modification of this Bylaw shall only be prospective and shall not affect the rights under this Bylaw in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the corporation.

**(i) Saving Clause.** If this Bylaw or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each director and executive officer to the full extent not prohibited by any applicable portion of this Bylaw that shall not have been invalidated, or by any other applicable law. If this Section 43 shall be invalid due to the application of the indemnification provisions of another jurisdiction, then the corporation shall indemnify each director and executive officer to the full extent under applicable law.

**(j) Certain Definitions.** For the purposes of this Bylaw, the following definitions shall apply:

**(1)** The term “*proceeding*” shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

**(2)** The term “*expenses*” shall be broadly construed and shall include, without limitation, court costs, attorneys’ fees, witness fees, fines, amounts paid in settlement or judgment and any other costs and expenses of any nature or kind incurred in connection with any proceeding.

**(3)** The term the “*corporation*” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Bylaw with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

**(4)** References to a “*director*,” “*executive officer*,” “*officer*,” “*employee*,” or “*agent*” of the corporation shall include, without limitation, situations where such person is serving at the request of the corporation as, respectively, a director, executive officer, officer, employee, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise.

**(5)** References to “*other enterprises*” shall include employee benefit plans; references to “*fines*” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “*servng at the request of the corporation*” shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the corporation” as referred to in this Bylaw.



## ARTICLE XII

### NOTICES

#### Section 44. Notices.

**(a) Notice to Stockholders.** Written notice to stockholders of stockholder meetings shall be given as provided in Section 7 herein. Without limiting the manner by which notice may otherwise be given effectively to stockholders under any agreement or contract with such stockholder, and except as otherwise required by law, written notice to stockholders for purposes other than stockholder meetings may be sent by United States mail or nationally recognized overnight courier, or by facsimile, telegraph or telex or by electronic mail or other electronic means.

**(b) Notice to Directors.** Any notice required to be given to any director may be given by the method stated in subsection (a), or as provided for in Section 21 of these Bylaws. If such notice is not delivered personally, it shall be sent to such address as such director shall have filed in writing with the Secretary, or, in the absence of such filing, to the last known post office address of such director.

**(c) Affidavit of Mailing.** An affidavit of mailing, executed by a duly authorized and competent employee of the corporation or its transfer agent appointed with respect to the class of stock affected or other agent, specifying the name and address or the names and addresses of the stockholder or stockholders, or director or directors, to whom any such notice or notices was or were given, and the time and method of giving the same, shall in the absence of fraud, be prima facie evidence of the facts therein contained.

**(d) Methods of Notice.** It shall not be necessary that the same method of giving notice be employed in respect of all recipients of notice, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others.

**(e) Notice to Person with Whom Communication Is Unlawful.** Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or Bylaws of the corporation, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the DGCL, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

**(f) Notice to Stockholders Sharing an Address.** Except as otherwise prohibited under DGCL, any notice given under the provisions of DGCL, the Certificate of Incorporation or the Bylaws shall be effective if given by a single written notice to stockholders who share an address if consented to by the stockholders at that address to whom such notice is given. Such consent shall have been deemed to have been given if such stockholder fails to object in writing to the corporation within 60 days of having been given notice by the corporation of its intention to send the single notice. Any consent shall be revocable by the stockholder by written notice to the corporation.

### ARTICLE XIII

#### AMENDMENTS

**Section 45. Amendments.** The Board of Directors is expressly empowered to adopt, amend or repeal Bylaws of the corporation. The stockholders shall also have power to adopt, amend or repeal the Bylaws of the corporation; provided, however, that, in addition to any vote of the holders of any class or series of stock of the corporation required by law or by the Certificate of Incorporation, such action by stockholders shall require the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of the capital stock of the corporation entitled to vote generally in the election of directors, voting together as a single class.

### ARTICLE XIV

#### RIGHT OF FIRST REFUSAL

**Section 46. Right of First Refusal.** No stockholder shall Transfer any of the Restricted Shares or any right or interest therein, except by a Transfer which meets the requirements set forth in Section 36 and this Section 46:

**(a)** If the stockholder desires to Transfer any of his Restricted Shares, then the stockholder shall first give written notice thereof to the corporation. The notice shall name the proposed transferee and state the number of Restricted Shares to be transferred (the “*Transfer Shares*”), the proposed consideration, and all other terms and conditions of the proposed Transfer.

**(b)** For 30 days following receipt of such notice, the corporation shall have the option to purchase all or any lesser portion of the Transfer Shares at the price and upon the terms set forth in such notice. In the event of a gift, property settlement or other Transfer in which the proposed transferee is not paying the full price for the Transfer Shares, and that is not otherwise exempted from the provisions of this Section 46, the price shall be deemed to be the fair market value of the stock at such time as determined in good faith by the Board of Directors. In the event the corporation elects to purchase all or any lesser portion of the Transfer Shares, it shall give written notice to the transferring stockholder of its election and settlement for such Transfer Shares to be purchased shall be made as provided below in paragraph (d).

**(c)** The corporation may assign its rights hereunder.

**(d)** In the event the corporation and/or its assignee(s) elect to acquire any of the Transfer Shares, the Secretary of the corporation shall so notify the transferring stockholder and settlement thereof shall be made in cash within 30 days after the Secretary of the corporation receives said transferring stockholder’s notice; provided that if the terms of payment set forth in said transferring stockholder’s notice were other than cash against delivery, the corporation and/or its assignee(s) shall pay for said shares on the same terms and conditions set forth in said transferring stockholder’s notice.

(e) In the event the corporation and/or its assignees(s) do not elect to acquire all of the Transfer Shares, the transferring stockholder may, subject to the corporation's approval and all other restrictions on Transfer located in Section 36, within the 60-day period following the expiration of the option rights granted to the corporation and/or its assignees(s) herein, Transfer the Transfer Shares that were not acquired or elected to be acquired by the corporation and/or its assignees(s) as specified in said transferring stockholder's notice. All Transfer Shares so sold by said transferring stockholder shall continue to be subject to the provisions of this bylaw in the same manner as before said Transfer.

(f) Anything to the contrary contained herein notwithstanding, the following transactions shall be exempt from the right of first refusal set forth in this Section 46:

(1) A stockholder's Transfer of any or all Restricted Shares held either during such stockholder's lifetime or on death by will or intestacy to such stockholder's immediate family or to any custodian or trustee for the account of such stockholder or such stockholder's immediate family or to any limited partnership of which the stockholder, members of such stockholder's immediate family or any trust for the account of such stockholder or such stockholder's immediate family will be the general or limited partner(s) of such partnership. "**Immediate family**" as used herein shall mean spouse, lineal descendant, father, mother, brother, or sister of the stockholder making such Transfer.

(2) A stockholder's bona fide pledge or mortgage of any Restricted Shares with a commercial lending institution, provided that any subsequent Transfer of such Restricted Shares by such institution shall be conducted in the manner set forth in this bylaw.

(3) A stockholder's Transfer of any or all of such stockholder's Restricted Shares to the corporation or to any other stockholder of the corporation.

(4) A stockholder's Transfer of any or all of such stockholder's Restricted Shares to a person who, at the time of such Transfer, is an officer or director of the corporation.

(5) A corporate stockholder's Transfer of any or all of its Restricted Shares pursuant to and in accordance with the terms of any merger, consolidation, reclassification of shares or capital reorganization of the corporate stockholder, or pursuant to a sale of all or substantially all of the stock or assets of a corporate stockholder.

(6) A corporate stockholder's Transfer of any or all of its Restricted Shares to any or all of its stockholders.

(7) A Transfer by a stockholder that is a limited or general partnership to any or all of its partners or former partners.

In any such case, the transferee, assignee, or other recipient shall receive and hold such stock subject to the provisions of this Section 46 and the transfer restrictions in Section 36, and there shall be no further Transfer of such stock except in accord with this Section 46 and Section 36.

(g) The provisions of this bylaw may be waived with respect to any Transfer either by the corporation, upon duly authorized action of its Board of Directors, or by the stockholders, upon the express written consent of the owners of a majority of the voting power of the corporation (excluding the votes represented by the Transfer Shares). This bylaw may be amended or repealed either by a duly authorized action of the Board of Directors or by the stockholders, upon the express written consent of the owners of a majority of the voting power of the corporation.

(h) Any Transfer, or purported Transfer, of securities of the corporation shall be null and void unless the terms, conditions, and provisions of this bylaw are strictly observed and followed.

(i) The foregoing right of first refusal shall terminate upon the date securities of the corporation are first offered to the public pursuant to a registration statement filed with, and declared effective by, the United States Securities and Exchange Commission under the Securities Act of 1933, as amended.

(j) The certificates representing Restricted Shares shall bear on their face substantially the following legend so long as the foregoing right of first refusal remains in effect:

“THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A RIGHT OF FIRST REFUSAL OPTION IN FAVOR OF THE CORPORATION AND/OR ITS ASSIGNEE(S), AS PROVIDED IN THE BYLAWS OF THE CORPORATION (AS MAY BE AMENDED FROM TIME TO TIME).”

(k) Notwithstanding anything to the contrary in the foregoing provisions of this Article XIV, to the extent that the right of first refusal set forth herein conflicts with a right of first refusal in any written agreement between the corporation and any stockholder of the corporation, the right of first refusal set forth in such written agreement shall supersede the right of first refusal set forth herein, but only with respect to the specific stockholder(s), share(s) of stock and proposed Transfer(s) to which the conflict relates.

## ARTICLE XV LOANS TO OFFICERS

**Section 47. Loans to Officers.** Except as otherwise prohibited under applicable law, the corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiaries, including any officer or employee who is a Director of the corporation or its subsidiaries, whenever, in the judgment of the Board of Directors, such loan, guarantee or assistance may reasonably be expected to benefit the corporation. The loan, guarantee or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in these Bylaws shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

\*\*\*

## ARTERIS, INC.

## INVESTOR RIGHTS AGREEMENT

THIS INVESTOR RIGHTS AGREEMENT (this “**Agreement**”), is made as of the 5<sup>th</sup> day of February, 2016, by and among Arteris, Inc., a Delaware corporation (the “**Company**”), each of the investors listed on **Schedule A** hereto, each of which is referred to in this Agreement as an “**Investor**”, and each of the holders of the Company’s Common Stock, par value \$0.001 per share (the “**Common Stock**”) listed on **Schedule B**, each of which is referred to in this Agreement as a “**Major Common Holder**”. The Investors and the Major Common Holders shall be referred to herein collectively as the “**Stockholders**”.

## RECITALS

**WHEREAS**, the Company has authorized the sale and issuance of shares of its Series A Preferred Stock, par value \$0.001 per share (the “**Series A Preferred Stock**”) pursuant to a Series A Preferred Stock Purchase Agreement of even date herewith (the “**Purchase Agreement**”); and

**WHEREAS**, in order to induce the Company to enter into the Purchase Agreement and to induce the Investors to invest funds in the Company pursuant to the Purchase Agreement, the Investors, the Major Common Holders and the Company hereby agree that this Agreement shall govern the rights of the Investors to cause the Company to register shares of Common Stock issuable to the Investors and to receive certain information from the Company, and the right of the Stockholders to participate in future equity offerings by the Company, and shall govern certain other matters as set forth in this Agreement.

## AGREEMENT

**NOW, THEREFORE**, the parties hereby agree as follows:

1. **Definitions.** For purposes of this Agreement:

1.1 “**Affiliate**” means, with respect to any specified Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with such Person, including without limitation any general partner, managing member, officer or director of such Person or any venture capital fund now or hereafter existing that is controlled by one or more general partners or managing members of, or shares the same management company with, such Person.

1.2 “**Board**” means the Board of Directors of the Company.

1.3 “**Common Stock**” means shares of the Company’s Common Stock, par value \$0.001 per share.

1.4 “**Damages**” means any loss, damage, claim or liability (joint or several) to which a party hereto may become subject under the Securities Act, the Exchange Act, or other federal or state law, insofar as such loss, damage, claim or liability (or any action in respect thereof) arises out of or is based upon: (i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement of the Company, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto; (ii) an omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or (iii) any violation or alleged violation by the indemnifying party (or any of its agents or Affiliates) of the Securities Act, the Exchange Act, any state securities law, or any rule or regulation promulgated under the Securities Act, the Exchange Act, or any state securities law.

1.5 “**Derivative Securities**” means any securities or rights convertible into, or exercisable or exchangeable for (in each case, directly or indirectly), Common Stock, including options and warrants.

1.6 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

1.7 “**Excluded Registration**” means (i) a registration relating to the sale of securities to employees of the Company or a subsidiary pursuant to a stock option, stock purchase, or similar plan; (ii) a registration relating to an SEC Rule 145 transaction; (iii) a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities; or (iv) a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered.

1.8 “**Form S-1**” means such form under the Securities Act as in effect on the date hereof or any successor registration form under the Securities Act subsequently adopted by the SEC.

1.9 “**Form S-3**” means such form under the Securities Act as in effect on the date hereof or any registration form under the Securities Act subsequently adopted by the SEC that permits incorporation of substantial information by reference to other documents filed by the Company with the SEC.

1.10 “**GAAP**” means generally accepted accounting principles in the United States.

1.11 “**Holder**” means any holder of Registrable Securities who is a party to this Agreement.

1.12 “**Immediate Family Member**” means, for a natural person referred to herein, a child or other direct lineal descendant, stepchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, niece or nephew, including adoptive relationships, or the spouse of any of the foregoing.

1.13 “**Initiating Holders**” means, collectively, Holders who properly initiate a registration request under this Agreement.

1.14 “**IPO**” means the Company’s first underwritten public offering of its Common Stock under the Securities Act.

1.15 “**Key Executive Officer**” means the Company’s Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Vice Presidents and General Counsel.

1.16 “**Major Investor**” means any Investor holding at least 200,000 shares of Series A Preferred Stock.

1.17 “**New Securities**” means, collectively, equity securities of the Company, whether or not currently authorized, as well as rights, options, or warrants to purchase such equity securities, or securities of any type whatsoever that are, or may become, convertible or exchangeable into or exercisable for such equity securities.

1.18 “**Person**” means any individual, corporation, partnership, trust, limited liability company, association or other entity.

1.19 “**Preferred Director**” means the director of the Company that the holders of record of Series A Preferred Stock are entitled to elect pursuant to the Restated Certificate.

1.20 “**Restated Certificate**” means the Company’s Amended and Restated Certificate of Incorporation, as amended from time to time.

1.21 “**Registrable Securities**” means (i) the Common Stock issuable or issued upon conversion of the Series A Preferred Stock; (ii) any Common Stock, or any Common Stock issued or issuable (directly or indirectly) upon conversion and/or exercise of any other securities of the Company, acquired by the Investors after the date hereof and (iii) any Common stock issued as (or issuable upon the conversion or exercise of any warrant, right, or other security that is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, the shares referenced in clauses (i) and (ii) above, excluding however, any Registrable Securities sold by a Person in a transaction in which the applicable rights under this Agreement are not assigned pursuant to Section 6.1, and excluding for purposes of Section 2 any shares for which registration rights have terminated pursuant to Section 2.13 of this Agreement.

1.22 “**Registrable Securities then outstanding**” means the number of shares determined by adding the number of shares of outstanding Common Stock that are Registrable Securities and the number of shares of Common Stock issuable (directly or indirectly) pursuant to then exercisable and/or convertible securities that are Registrable Securities.

1.23 “**Restricted Securities**” means the securities of the Company required to be notated with the legend set forth in Section 2.12(b) hereof.

1.24 “**Requisite Major Common Holders**” shall mean the Major Common Holders holding a majority of the Stockholder Shares then held by all Major Common Holders who are then providing services to the Company as officers, employees, consultants or directors, it being understood and agreed that Arteris IP, LLC shall be deemed to be providing services to the Company as an officer, employee, consultant or director so long as it or K. Charles Janac is providing services to the Company as an officer, employee, consultant or director.

1.25 “**SAS Acquisition**” shall mean the acquisition (through a newly created subsidiary of the Company or otherwise) by the Company of the operating assets and liabilities of Arteris, SAS, a French société par actions simplifiée.

1.26 “**Stockholder Shares**” means Series A Preferred Stock, Common Stock, or Common Stock issued or issuable on conversion of such Series A Preferred Stock held by any Investor or Major Common Holder. For purposes of votes or consents, these are accounted for on an as-if-converted to Common Stock basis.

1.27 “**Subsidiary**” shall mean any entity in which the Company beneficially owns a majority of the outstanding voting power.

1.28 “**SEC**” means the Securities and Exchange Commission.

1.29 “**SEC Rule 144**” means Rule 144 promulgated by the SEC under the Securities Act.

1.30 “**SEC Rule 145**” means Rule 145 promulgated by the SEC under the Securities Act.

1.31 “**Securities Act**” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

1.32 “**Selling Expenses**” means all underwriting discounts, selling commissions, and stock transfer taxes applicable to the sale of Registrable Securities, and fees and disbursements of counsel for any Holder, except for the fees and disbursements of the Selling Holder Counsel borne and paid by the Company as provided in [Section 2.6](#).

1.33 “**Series A Preferred Stock**” means shares of the Company’s Series A Preferred Stock, par value \$0.001 per share.

1.34 “**Ventech**” means Ventech Capital F.



2. **Registration Rights.** The Company covenants and agrees as follows:

2.1 Demand Registration.

(a) **Form S-1 Demand.** If at any time after the earlier of (i) five (5) years after the date of this Agreement or (ii) one hundred eighty (180) days after the effective date of the registration statement for the IPO, the Company receives a request from Holders of a majority of the Registrable Securities then outstanding that the Company file a Form S-1 registration statement with respect to at least a majority of the Registrable Securities then outstanding (or a lesser percent if the anticipated aggregate offering price, net of Selling Expenses, would exceed \$15 million), then the Company shall (x) within thirty (30) days after the date such request is given, give notice thereof (the “**Demand Notice**”) to all Holders other than the Initiating Holders; and (y) as soon as practicable, and in any event within sixty (60) days after the date such request is given by the Initiating Holders, file a Form S-1 registration statement under the Securities Act covering all Registrable Securities that the Initiating Holders requested to be registered and any additional Registrable Securities requested to be included in such registration by any other Holders, as specified by notice given by each such Holder to the Company within twenty (20) days of the date the Demand Notice is given, and in each case, subject to the limitations of Sections 2.1(c) and 2.3.

(b) **Form S-3 Demand.** If at any time when it is eligible to use a Form S-3 registration statement, the Company receives a request from Holders of at least ten percent (10%) the Registrable Securities then outstanding that the Company file a Form S-3 registration statement with respect to outstanding Registrable Securities of such Holders having an anticipated aggregate offering price, net of Selling Expenses, of at least \$1 million, then the Company shall (i) within thirty (30) days after the date such request is given, give a Demand Notice to all Holders other than the Initiating Holders; and (ii) as soon as practicable, and in any event within forty-five (45) days after the date such request is given by the Initiating Holders, file a Form S-3 registration statement under the Securities Act covering all Registrable Securities requested to be included in such registration by any other Holders, as specified by notice given by each such Holder to the Company within twenty (20) days of the date the Demand Notice is given, and in each case, subject to the limitations of Sections 2.1(c) and 2.3.

(c) Notwithstanding the foregoing obligations, if the Company furnishes to Holders requesting a registration pursuant to this Section 2.1 a certificate signed by the Company’s chief executive officer stating that in the good faith judgment of the Company’s Board of Directors it would be materially detrimental to the Company and its stockholders for such registration statement to either become effective or remain effective for as long as such registration statement otherwise would be required to remain effective, because such action would (i) materially interfere with a significant acquisition, corporate reorganization, or other similar transaction involving the Company; (ii) require premature disclosure of material information that the Company has a bona fide business purpose for preserving as confidential; or (iii) render the Company unable to comply with requirements under the Securities Act or Exchange Act, then the Company shall have the right to defer taking action with respect to such filing, and any time periods with respect to filing or effectiveness thereof shall be tolled correspondingly, for a period of not more than ninety (90) days after the request of the Initiating Holders is given; provided, however, that the Company may not invoke this right more than twice in any twelve (12) month period.

(d) The Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to Section 2.1(a)(i) during the period that is sixty (60) days before the Company’s good faith estimate of the date of filing of, and ending on a date that is one hundred eighty (180) days after the effective date of, a Company-initiated registration, provided that the Company is actively employing in good faith commercially reasonable efforts to cause such registration statement to become effective; (ii) after the Company has effected two registrations pursuant to Section 2.1(a); or (iii) if the Initiating Holders propose to dispose of shares

of Registrable Securities that may be immediately registered on Form S-3 pursuant to a request made pursuant to Section 2.1(b). The Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to Section 2.1(b) (i) during the period that is thirty (30) days before the Company's good faith estimate of the date of filing of, and ending on a date that is ninety (90) days after the effective date of, a Company-initiated registration, provided that the Company is actively employing in good faith commercially reasonable efforts to cause such registration statement to become effective; or (ii) if the Company has effected two registrations pursuant to Section 2.1(b) within the twelve (12) month period immediately preceding the date of such request. A registration shall not be counted as "effected" for purposes of this Section 2.1(d) until such time as the applicable registration statement has been declared effective by the SEC, unless the Initiating Holders withdraw their request for such registration, elect not to pay the registration expenses therefor, and forfeit their right to one demand registration statement pursuant to Section 2.6, in which case such withdrawn registration statement shall be counted as "effected" for purposes of this Section 2.1(d).

**2.2 Company Registration.** If the Company proposes to register (including, for this purpose, a registration effected by the Company for stockholders other than the Holders) any of its securities under the Securities Act in connection with the public offering of such securities solely for cash (other than in an Excluded Registration), the Company shall, at such time, promptly give each Holder notice of such registration. Upon the request of each Holder given within twenty (20) days after such notice is given by the Company, the Company shall, subject to the provisions of Section 2.3, cause to be registered all of the Registrable Securities that each such Holder has requested to be included in such registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 2.2 before the effective date of such registration, whether or not any Holder has elected to include Registrable Securities in such registration. The expenses (other than Selling Expenses) of such withdrawn registration shall be borne by the Company in accordance with Section 2.6.

### **2.3 Underwriting Requirements.**

(a) If, pursuant to Section 2.1, the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to Section 2.1, and the Company shall include such information in the Demand Notice. The underwriter(s) will be selected by the Company and shall be reasonably acceptable to a majority in interest of the Initiating Holders. In such event, the right of any Holder to include such Holder's Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company as provided in Section 2.4(e)) enter into an underwriting agreement in customary form with the underwriter(s) selected for such underwriting. Notwithstanding any other provision of this Section 2.3, if the underwriter(s) advise(s) the Initiating Holders in writing that marketing factors require a limitation on the number of shares to be underwritten, then the Initiating Holders shall so advise all Holders of Registrable Securities that otherwise would be underwritten pursuant hereto, and the number of Registrable Securities that may be included in the underwriting shall be allocated among such Holders of Registrable Securities, including the Initiating Holders, in proportion (as nearly as practicable) to the number of Registrable Securities owned by each Holder or in such other proportion as shall mutually be agreed to by all such selling Holders; provided, however, that the number of Registrable Securities held by the Holders to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting.

(b) In connection with any offering involving an underwriting of shares of the Company's capital stock pursuant to Section 2.2, the Company shall not be required to include any of the Holders' Registrable Securities in such underwriting unless the Holders accept the terms of the underwriting as agreed upon between the Company and its underwriters, and then only in such quantity as the underwriters in their sole discretion determine will not jeopardize the success of the offering by the Company. If the total number of securities, including Registrable Securities, requested by stockholders to be included in such offering exceeds the number of securities to be sold (other than by the Company) that the underwriters in their reasonable discretion determine is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters and the Company in their sole discretion determine will not jeopardize the success of the offering. If the underwriters determine that less than all of the Registrable Securities requested to be registered can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated among the selling Holders in proportion (as nearly as practicable to) the number of Registrable Securities owned by each selling Holder or in such other proportions as shall mutually be agreed to by all such selling Holders. Notwithstanding the foregoing, in no event shall (i) the number of Registrable Securities included in the offering be reduced unless all other securities (other than securities to be sold by the Company) are first entirely excluded from the offering, or (ii) the number of Registrable Securities included in the offering be reduced below thirty percent (30%) of the total number of securities included in such offering, unless such offering is the IPO, in which case the selling Holders may be excluded further if the underwriters make the determination described above and no other stockholder's securities are included in such offering. For purposes of the provision in this Section 2.3(b) concerning apportionment, for any selling Holder that is a partnership, limited liability company, or corporation, the partners, members, retired partners, retired members, stockholders, and Affiliates of such Holder, or the estates and Immediate Family Members of any such partners, retired partners, members, and retired members and any trusts for the benefit of any of the foregoing Persons, shall be deemed to be a single "selling Holder," and any pro rata reduction with respect to such "selling Holder" shall be based upon the aggregate number of Registrable Securities owned by all Persons included in such "selling Holder," as defined in this sentence.

(c) For purposes of Section 2.1, a registration shall not be counted as "effected" if, as a result of an exercise of the underwriter's cutback provisions in Section 2.3(a), fewer than thirty percent (30%) of the total number of Registrable Securities that Holders have requested to be included in such registration statement are actually included.

2.4 Obligations of the Company. Whenever required under this Section 2 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to one hundred twenty (120) days or, if earlier, until the distribution contemplated in the registration statement has been completed; provided, however, that (i) such one hundred twenty (120) day period shall be extended for a period of time equal to the period the Holder refrains, at the request of an underwriter of Common Stock (or other securities) of the Company, from selling any securities included in such registration;

(b) prepare and file with the SEC such amendments and supplements to such registration statement, and the prospectus used in connection with such registration statement, as may be necessary to comply with the Securities Act in order to enable the disposition of all securities covered by such registration statement;

(c) furnish to the selling Holders such numbers of copies of a prospectus, including a preliminary prospectus, as required by the Securities Act, and such other documents as the Holders may reasonably request in order to facilitate their disposition of their Registrable Securities;

(d) use its commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or blue-sky laws of such jurisdictions as shall be reasonably requested by the selling Holders; provided that the Company shall not be required to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(e) in the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the underwriter(s) of such offering;

(f) use its commercially reasonable efforts to cause all such Registrable Securities covered by such registration statement to be listed on a national securities exchange or trading system and each securities exchange and trading system (if any) on which similar securities issued by the Company are then listed;

(g) provide a transfer agent and registrar for all Registrable Securities registered pursuant to this Agreement and provide a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(h) promptly make available for inspection by the selling Holders, any underwriter(s) participating in any disposition pursuant to such registration statement, and any attorney or accountant or other agent retained by any such underwriter or selected by the selling Holders, all financial and other records, pertinent corporate documents, and properties of the Company, and cause the Company's officers, directors, employees, and independent accountants to supply all information reasonably requested by any such seller, underwriter, attorney, accountant, or agent, in each case, as necessary or advisable to verify the accuracy of the information in such registration statement and to conduct appropriate due diligence in connection therewith;

(i) notify each selling Holder, promptly after the Company receives notice thereof, of the time when such registration statement has been declared effective or a supplement to any prospectus forming a part of such registration statement has been filed; and

(j) after such registration statement becomes effective, notify each selling Holder of any request by the SEC that the Company amend or supplement such registration statement or prospectus.

In addition, the Company shall ensure that, at all times after any registration statement covering a public offering of securities of the Company under the Securities Act shall have become effective, its insider trading policy shall provide that the Company's directors may implement a trading program under Rule 10b5-1 of the Exchange Act.

**2.5 Furnish Information.** It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 2 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as is reasonably required to effect the registration of such Holder's Registrable Securities.

**2.6 Expenses of Registration.** All expenses (other than Selling Expenses) incurred in connection with registrations, filings, or qualifications pursuant to Section 2, including all registration, filing, and qualification fees; printers' and accounting fees; fees and disbursements of counsel for the Company; and the reasonable fees and disbursements, not to exceed \$35,000, of one counsel for the selling Holders ("**Selling Holder Counsel**"), shall be borne and paid by the Company; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 2.1 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all selling Holders shall bear such expenses pro rata based upon the number of Registrable Securities that were to be included in the withdrawn registration), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one registration pursuant to Sections 2.1(a) or 2.1(b), as the case may be; provided further that if, at the time of such withdrawal, the Holders shall have learned of a material adverse change in the condition, business, or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness after learning of such information] then the Holders shall not be required to pay any of such expenses and shall not forfeit their right to one registration pursuant to Sections 2.1(a) or 2.1(b). All Selling Expenses relating to Registrable Securities registered pursuant to this Section 2 shall be borne and paid by the Holders pro rata on the basis of the number of Registrable Securities registered on their behalf.

**2.7 Delay of Registration.** No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any registration pursuant to this Agreement as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

2.8 Indemnification. If any Registrable Securities are included in a registration statement under this Section 2:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each selling Holder, and the partners, members, officers, directors, and stockholders of each such Holder; legal counsel and accountants for each such Holder; any underwriter (as defined in the Securities Act) for each such Holder; and each Person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any Damages, and the Company will pay to each such Holder, underwriter, controlling Person, or other aforementioned Person any legal or other expenses reasonably incurred thereby in connection with investigating or defending any claim or proceeding from which Damages may result, as such expenses are incurred; provided, however, that the indemnity agreement contained in this Section 2.8(a) shall not apply to amounts paid in settlement of any such claim or proceeding if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable for any Damages to the extent that they arise out of or are based upon actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of any such Holder, underwriter, controlling Person, or other aforementioned Person expressly for use in connection with such registration.

(b) To the extent permitted by law, each selling Holder, severally and not jointly, will indemnify and hold harmless the Company, and each of its directors, each of its officers who has signed the registration statement, each Person (if any), who controls the Company within the meaning of the Securities Act, legal counsel and accountants for the Company, any underwriter (as defined in the Securities Act), any other Holder selling securities in such registration statement, and any controlling Person of any such underwriter or other Holder, against any Damages, in each case only to the extent that such Damages arise out of or are based upon actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of such selling Holder expressly for use in connection with such registration; and each such selling Holder will pay to the Company and each other aforementioned Person any legal or other expenses reasonably incurred thereby in connection with investigating or defending any claim or proceeding from which Damages may result, as such expenses are incurred; provided, however, that the indemnity agreement contained in this Section 2.8(b) shall not apply to amounts paid in settlement of any such claim or proceeding if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided further that in no event shall the aggregate amounts payable by any Holder by way of indemnity or contribution under Sections 2.8(b) and 2.8(d) exceed the proceeds from the offering received by such Holder (net of any Selling Expenses paid by such Holder), except in the case of fraud or willful misconduct by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.8 of notice of the commencement of any action (including any governmental action) for which a party may be entitled to indemnification hereunder, such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.8, give the indemnifying party notice of the commencement thereof. The indemnifying party shall have the right to participate in such action and, to the extent the indemnifying party so desires, participate jointly with any other indemnifying party to which notice has been given, and to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an

indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such action.

(d) To provide for just and equitable contribution to joint liability under the Securities Act in any case in which either: (i) any party otherwise entitled to indemnification hereunder makes a claim for indemnification pursuant to this Section 2.8 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case, notwithstanding the fact that this Section 2.8 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any party hereto for which indemnification is provided under this Section 2.8, then, and in each such case, such parties will contribute to the aggregate losses, claims, damages, liabilities, or expenses to which they may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of each of the indemnifying party and the indemnified party in connection with the statements, omissions, or other actions that resulted in such loss, claim, damage, liability, or expense, as well as to reflect any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or allegedly untrue statement of a material fact, or the omission or alleged omission of a material fact, relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case (x) no Holder will be required to contribute any amount in excess of the public offering price of all such Registrable Securities offered and sold by such Holder pursuant to such registration statement, and (y) no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation; and provided further that in no event shall a Holder's liability pursuant to this Section 2.8(d), when combined with the amounts paid or payable by such Holder pursuant to Section 2.8(b), exceed the proceeds from the offering received by such Holder (net of any Selling Expenses paid by such Holder), except in the case of willful misconduct or fraud by such Holder.

(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

(f) Unless otherwise superseded by an underwriting agreement entered into in connection with the underwritten public offering, the obligations of the Company and Holders under this Section 2.8 shall survive the completion of any offering of Registrable Securities in a registration under this Section 2, and otherwise shall survive the termination of this Agreement.

2.9 Reports Under Exchange Act. With a view to making available to the Holders the benefits of SEC Rule 144 and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company shall:

(a) make and keep available adequate current public information, as those terms are understood and defined in SEC Rule 144, at all times after the effective date of the registration statement filed by the Company for the IPO;

(b) use commercially reasonable efforts to file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after the Company has become subject to such reporting requirements); and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) to the extent accurate, a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144 (at any time after ninety (90) days after the effective date of the registration statement filed by the Company for the IPO), the Securities Act, and the Exchange Act (at any time after the Company has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after the Company so qualifies); and (ii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC that permits the selling of any such securities without registration (at any time after the Company has become subject to the reporting requirements under the Exchange Act) or pursuant to Form S-3 (at any time after the Company so qualifies to use such form).

2.10 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of a majority of the Registrable Securities then outstanding, enter into any agreement with any holder or prospective holder of any securities of the Company that allow such holder or prospective holder (i) to include such securities in any registration unless, under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of such securities will not reduce the number of the Registrable Securities of the Holders that are included; or (ii) allow such holder or prospective holder to initiate a demand for registration of any securities held by such holder or prospective holder; provided that this limitation shall not apply to any additional Investor who becomes a party to this Agreement in accordance with Section 6.9.

2.11 "Market Stand-off" Agreement. Each Stockholder hereby agrees that it will not, without the prior written consent of the managing underwriter, during the period commencing on the date of the final prospectus relating to the registration by the Company of shares of its Common Stock or any other equity securities under the Securities Act on a registration statement on Form S-1, and ending on the date specified by the Company and the managing underwriter (such period not to exceed one hundred eighty (180) days or such other period as may be requested by the Company or an underwriter to accommodate regulatory restrictions on (1) the publication or other distribution of research reports and (2) analyst recommendations and opinions, including, but not limited to, the restrictions contained in FINRA Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto),



(i) lend; offer; pledge; sell; contract to sell; sell any option or contract to purchase; purchase any option or contract to sell; grant any option, right, or warrant to purchase; or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable (directly or indirectly) for Common Stock held immediately before the effective date of the registration statement for such offering, or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or other securities, in cash, or otherwise.

The foregoing provisions of this Section 2.11 shall apply only to the IPO, shall not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement, or the transfer of any shares to any trust for the direct or indirect benefit of the Stockholder or the Stockholder's Immediate Family Member, provided that the trustee of the trust agrees to be bound in writing by the restrictions set forth herein, and provided further that any such transfer shall not involve a disposition for value. The underwriters in connection with such registration are intended third-party beneficiaries of this Section 2.11 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto. Each Stockholder further agrees to execute such agreements as may be reasonably requested by the underwriters in connection with such registration that are consistent with this Section 2.11 or that are necessary to give further effect thereto.

#### 2.12 Restrictions on Transfer.

(a) Stockholder Shares shall not be sold, pledged, or otherwise transferred, and the Company shall not recognize and shall issue stop-transfer instructions to its transfer agent with respect to any such sale, pledge, or transfer, except upon the conditions specified in this Agreement, which conditions are intended to ensure compliance with the provisions of the Securities Act. A transferring Holder will cause any proposed purchaser, pledgee, or transferee of Stockholder Shares to take and hold such securities subject to the provisions and upon the conditions specified in this Agreement.

(b) Each certificate, instrument, or book entry representing the Stockholder Shares and any other securities issued in respect of the Stockholder Shares or upon any stock split, stock dividend, recapitalization, merger, consolidation, or similar event, shall (unless otherwise permitted by the provisions of Section 2.12(c)) be notated with a legend substantially in the following form:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SHARES MAY NOT BE SOLD, PLEDGED, OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR A VALID EXEMPTION FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

The Holders consent to the Company making a notation in its records and giving instructions to any transfer agent of the Restricted Securities in order to implement the restrictions on transfer set forth in this Section 2.12.

(c) The holder of such Restricted Securities, by acceptance of ownership thereof, agrees to comply in all respects with the provisions of this Section 2. Before any proposed sale, pledge, or transfer of any Restricted Securities, unless there is in effect a registration statement under the Securities Act covering the proposed transaction, the Stockholder thereof shall give notice to the Company of such Stockholder's intention to effect such sale, pledge, or transfer. Each such notice shall describe the manner and circumstances of the proposed sale, pledge, or transfer in sufficient detail and, if reasonably requested by the Company, shall be accompanied at such Stockholder's expense by either (i) a written opinion of legal counsel who shall, and whose legal opinion shall, be reasonably satisfactory to the Company, addressed to the Company, to the effect that the proposed transaction may be effected without registration under the Securities Act; (ii) a "no action" letter from the SEC to the effect that the proposed sale, pledge, or transfer of such Restricted Securities without registration will not result in a recommendation by the staff of the SEC that action be taken with respect thereto; or (iii) any other evidence reasonably satisfactory to counsel to the Company to the effect that the proposed sale, pledge, or transfer of the Restricted Securities may be effected without registration under the Securities Act, whereupon the holder of such Restricted Securities shall be entitled to sell, pledge, or transfer such Restricted Securities in accordance with the terms of the notice given by the Stockholder to the Company. The Company will not require such a legal opinion or "no action" letter (x) in any transaction in compliance with SEC Rule 144; or (y) in any transaction in which such Stockholder distributes Restricted Securities to an Affiliate of such Stockholder for no consideration; provided that each transferee agrees in writing to be subject to the terms of this Section 2.12. Each certificate, instrument, or book entry representing the Restricted Securities transferred as above provided shall be notated with, except if such transfer is made pursuant to SEC Rule 144, the appropriate restrictive legend set forth in Section 2.12(b), except that such certificate instrument, or book entry shall not be notated with such restrictive legend if, in the opinion of counsel for such Stockholder and the Company, such legend is not required in order to establish compliance with any provisions of the Securities Act.

(d) Notwithstanding the provisions of Section 2.12(a) to 2.12(c) above, no such restrictions on transfer shall apply to a transfer by a Stockholder that is (A) a partnership transferring to its partners or former partners in accordance with partnership interests, (B) a venture fund transferring to its affiliated funds or any of their respective directors, officers or partners, (C) a corporation transferring to a wholly-owned subsidiary or a parent corporation that owns all of the capital stock of the Stockholder, (D) a limited liability company transferring to its members or former members in accordance with their interest in the limited liability company, or (E) an individual transferring to the Stockholder's Immediate Family Member or any trust for the benefit of an individual Stockholder or such Stockholder's Immediate Family Member; provided that in each case and prior to any such transfer the transferee will agree in writing to be subject to the terms of this Agreement to the same extent as if he were an original holder hereunder.

2.13 Termination of Registration Rights. The right of any Holder to request registration or inclusion of Registrable Securities in any registration pursuant to Sections 2.1 or 2.2 shall terminate upon the earliest to occur of:

- (a) the closing of a Deemed Liquidation Event, as such term is defined in the Restated Certificate;
- (b) the five year anniversary of the IPO.

### 3. Information Rights and Revenue Shortfall Warrants.

3.1 Delivery of Financial Statements. The Company shall deliver to each Major Investor:

(a) as soon as practicable, but in any event within nine (9) months after the end of each fiscal year of the Company, (i) a balance sheet as of the end of such year, (ii) statements of income and of cash flows for such year, and (iii) a statement of stockholders' equity as of the end of such year, all prepared in accordance with GAAP and audited and certified by independent public accountants of regionally recognized standing selected by the Board; and

(b) as soon as practicable, but in any event at least twenty (20) days before the end of each fiscal year, a budget and business plan for the next fiscal year (collectively, the "**Budget**"), approved by the Board and prepared on a monthly basis and, promptly after prepared, any other budgets or revised budgets prepared by the Company.

If, for any period, the Company has any subsidiary whose accounts are consolidated with those of the Company, then in respect of such period the financial statements delivered pursuant to the foregoing sections shall be the consolidated and consolidating financial statements of the Company and all such consolidated subsidiaries.

Notwithstanding anything else in this Section 3.1 to the contrary, the Company may cease providing the information set forth in this Section 3.1 during the period starting with the date thirty (30) days before the Company's good-faith estimate of the date of filing of a registration statement if it reasonably concludes it must do so to comply with the SEC rules applicable to such registration statement and related offering; provided that the Company's covenants under this Section 3.1 shall be reinstated at such time as the Company is no longer actively employing its commercially reasonable efforts to cause such registration statement to become effective.

3.2 Termination of Information Rights. The covenants set forth in Section 3.1 shall terminate and be of no further force or effect (i) immediately before the consummation of the IPO, (ii) when the Company first becomes subject to the periodic reporting requirements of Section 12(g) or 15(d) of the Exchange Act, or (iii) upon a Deemed Liquidation Event (as defined in the Restated Certificate), whichever event occurs first.

3.3 Confidentiality. Each Investor agrees that such Investor will keep confidential and will not disclose, divulge, or use for any purpose (other than to monitor its investment in the Company) any confidential information obtained from the Company pursuant to the terms of this Agreement (including notice of the Company's intention to file a registration statement), unless such confidential information (a) is known or becomes known to the public in general (other than as a result of a breach of this Section 3.3 by such Investor), (b) is or has been independently developed or conceived by the Investor without use of the Company's confidential information, or (c) is or has been made known or disclosed to the Investor by a third party without a breach by such third party of any obligation of confidentiality; provided, however, that an Investor may disclose confidential information (i) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company, (ii) to any prospective purchaser of any Stockholder Shares from such Investor, if such prospective purchaser agrees to be bound by the provisions of this Section 3, (iii) to any existing or prospective Affiliate, partner, member, stockholder, or wholly owned subsidiary of such Investor in the ordinary course of business, provided that such Investor informs such Person that such information is confidential and directs such Person to maintain the confidentiality of such information, or (iv) as may otherwise be required by law, provided that the Investor promptly notifies the Company of such disclosure and takes reasonable steps to minimize the extent of any such required disclosure.

3.4 Inspection. The Company shall permit each Major Investor, at such Major Investor's expense, to visit and inspect the Company's properties, to examine its books of account and records and to discuss the Company's affairs, finances and accounts with its officers, all at such reasonable times as may be requested by the Major Investor; provided, however, that the Company shall not be obligated pursuant to this Section 3.4 to provide access to any information which it reasonably considers to be a trade secret or similar confidential information.

### 3.5 Revenue Shortfall Warrants.

(a) If the Company's 2016 Revenue (as defined below) is less than \$16,500,000, then the Company shall issue to each Investor a warrant, in the form attached hereto as Exhibit A, exercisable for that number of shares of Series A Preferred Stock equal to the product of (i) such Investor's Series A Pro Rata Percentage (as defined below) and (ii) the Total Series A Warrant Number (as defined below), rounded down to the nearest whole share (collectively, the "**Series A Warrants**").

(b) The Series A Warrants shall be issued to Investors no later than two weeks following completion of the 2016 Financials (as defined below). The Series A Warrants shall have an exercise price of \$0.001 per share of Series A Preferred Stock. The Company shall authorize and duly reserve 525,000 shares of Series A Preferred Stock and 525,000 shares of Common Stock for the potential issuance and exercise of the Series A Warrants. The Series A Warrants shall expire one year after issuance.

(c) Additional Definitions:

(i) “**2016 Revenue**” shall mean the Company’s aggregate consolidated GAAP revenue for fiscal year 2016 as set forth in the Company’s final annual audited financial statements for fiscal year 2016 (the “**2016 Financials**”); provided, however, that if the SAS Acquisition is consummated within 90 days of the date hereof, then “2016 Revenue” shall mean the aggregate consolidated GAAP revenue that the Company would have had in fiscal year 2016 if the SAS Acquisition had occurred on January 1, 2016.

(ii) “**Series A Pro Rata Percentage**” with respect to each Investor shall mean the percentage obtained by dividing (A) the number of shares of Series A Preferred Stock held by such Investor by (B) the aggregate number of shares of Series A Preferred Stock then outstanding.

(iii) “**Total Revenue Shortfall**” shall mean the amount by which the Company’s aggregate consolidated GAAP revenue for fiscal year 2016 falls below \$16,500,000.

(iv) “**Total Series A Warrant Number**” shall mean the aggregate number of shares of Series A Preferred Stock for which the Series A Warrants shall be exercisable for (the “**Warrant Shares**”) which shall equal the product of (A) 0.35 and (B) the Total Revenue Shortfall up to a maximum of 525,000 Warrant Shares, provided that, the minimum Total Series A Warrant Number must equal at least 50,000 or no Series A Warrants shall be issued.

(d) The covenants set forth in this Section 3.5 shall immediately terminate, and be of no further force or effect, and the Company shall have no obligation to issue the Series A Warrants, if the Company consummates a Deemed Liquidation Event (as defined in the Restated Certificate) at anytime prior to December 31, 2016.

#### **4. Rights to Future Stock Issuances.**

4.1 Right of First Offer. Subject to the terms and conditions of this Section 4.1 and applicable securities laws, if the Company proposes to offer or sell any New Securities, then the Company shall first offer such New Securities to each Stockholder.

(a) The Company shall give notice (the “**Offer Notice**”) to each Stockholder, stating (i) its bona fide intention to offer such New Securities, (ii) the number of such New Securities to be offered, and (iii) the price and terms, if any, upon which it proposes to offer such New Securities.

(b) By notification to the Company within ten (10) days after the Offer Notice is given, each Stockholder may elect to purchase or otherwise acquire, at the price and on the terms specified in the Offer Notice, up to that portion of such New Securities which equals the proportion that the Common Stock then held by such Stockholder (including all shares of Common Stock then issuable (directly or indirectly) upon conversion and/or exercise, as applicable, of the Series A Preferred Stock and any other Derivative Securities then held by such Stockholder) bears to the total Common Stock of the Company then outstanding (assuming full conversion and/or exercise, as applicable, of all Series A Preferred Stock but excluding (i) the exercise of any outstanding Derivative Securities, and (ii) any shares reserved for issuance under the Company’s equity incentive plan).

(c) If all New Securities referred to in the Offer Notice are not elected to be purchased or acquired as provided in Section 4.1(b), the Company may, during the ninety (90) day period following the expiration of the periods provided in Section 4.1(b), offer and sell the remaining unsubscribed portion of such New Securities to any Person or Persons at a price not less than, and upon terms no more favorable to the offeree than, those specified in the Offer Notice. If the Company does not enter into an agreement for the sale of the New Securities within such period, or if such agreement is not consummated within thirty (30) days of the execution thereof, the right provided hereunder shall be deemed to be revived and such New Securities shall not be offered unless first reoffered to the Stockholders in accordance with this Section 4.1.

(d) The right of first offer in this Section 4.1 shall not be applicable to:

(i) shares of Common Stock and/or options, warrants or other Common Stock purchase rights and the Common Stock issued pursuant to such options, warrants or other rights issued or to be issued after the date hereof to employees, officers or directors of, or consultants or advisors to the Company or any subsidiary, pursuant to the Company's 2013 Equity Incentive Plan or any other stock purchase or stock option plans or other arrangements that are approved by an 80% majority of the Board (calculated as if all directors were present for the vote);

(ii) stock issued or issuable pursuant to any rights or agreements, options, warrants or convertible securities outstanding as of the date of this Agreement; and stock issued pursuant to any such rights or agreements granted after the date of this Agreement, so long as the rights of first offer established by this Section 4 were complied with, waived, or were inapplicable pursuant to any provision of this Section 4(d) with respect to the initial sale or grant by the Company of such rights or agreements;

(iii) any New Securities issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination approved by an 80% majority of the Board (calculated as if all directors were present for the vote);

(iv) any New Securities issued in connection with any stock split, stock dividend or recapitalization by the Company;

(v) any New Securities issued pursuant to any equipment loan or leasing arrangement, real property leasing arrangement, or debt financing from a bank or similar financial or lending institution approved by an 80% majority of the Board (calculated as if all directors were present for the vote);

(vi) any New Securities that are issued by the Company pursuant to a registration statement filed under the Securities Act;

(vii) any shares of Series A Preferred Stock issued pursuant to the Purchase Agreement; and

(viii) any Series A Warrants issued by the Company pursuant to Section 3.5 of this Agreement.

(e) Notwithstanding any provision hereof to the contrary, in lieu of complying with the provisions of this Section 4.1, the Company may elect to give notice to the Stockholders within thirty (30) days after the issuance of New Securities. Such notice shall describe the type, price, and terms of the New Securities. Each Stockholder shall have twenty (20) days from the date notice is given to elect to purchase up to the number of New Securities that would, if purchased by such Stockholder, maintain such Stockholder's percentage-ownership position, calculated as set forth in Section 4.1(b) before giving effect to the issuance of such New Securities.

4.2 Termination. The covenants set forth in Section 4.1 shall terminate and be of no further force or effect (i) immediately before the consummation of the IPO, or (ii) upon a Deemed Liquidation Event (as defined in the Restated Certificate), whichever event occurs first.

## 5. Additional Covenants.

5.1 Insurance. The Company shall obtain, within forty-five (45) days of the date hereof, from financially sound and reputable insurers Directors and Officers liability insurance in an amount and on terms and conditions satisfactory to the Board, and will cause such insurance policy to be maintained until such time as the Board determines that such insurance should be discontinued.

5.2 Employee Agreements. The Company will cause each person now or hereafter employed by it or by any subsidiary (or engaged by the Company or any subsidiary as a consultant/independent contractor) with access to confidential information and/or trade secrets to enter into a nondisclosure and proprietary rights assignment agreement.

5.3 Employee Stock. Unless otherwise approved by the Board, all future employees and consultants of the Company who purchase, receive options to purchase, or receive awards of shares of the Company's capital stock after the date hereof shall be required to execute restricted stock or option agreements, as applicable, providing for (i) vesting of shares over a four (4) year period, with the first twenty-five percent (25%) of such shares vesting following twelve (12) months of continued employment or service, and the remaining shares vesting in equal monthly installments over the following thirty-six (36) months, and (ii) a market stand-off provision substantially similar to that in Section 2.11.

5.4 Company's Right of First Refusal. The Company's Bylaws shall contain a right of first refusal on all transfers of Common Stock (other than shares of Common Stock issuable upon conversion of Series A Preferred Stock), subject to customary exceptions. The Company's Bylaws shall also contain a provision providing that no shares of Common Stock (other than shares of Common Stock issuable upon conversion of Series A Preferred Stock) may be transferred except as approved by the Board in its discretion, which shall include, without limitation, refusal to allow any transfer to the extent such transfer would increase the number of stockholders of the Company or require it to register, or register any class of equity securities, with the SEC.

5.5 Matters Requiring Supermajority Board Approval. So long as the holders of Series A Preferred Stock are entitled to elect a Preferred Director, the Company hereby covenants and agrees with each of the Investors that it shall not, without approval of an 80% majority of the Board (calculated as if all directors were present for the vote):

(a) adopt, approve or amend any annual budget;

(b) acquire, transfer, dispose of, or pledge, or permit any Subsidiary to acquire, transfer, dispose of, or pledge, any asset worth more than \$250,000 unless provided for in the annual budget;

(c) materially modify its principal business strategy, enter into any new lines of business, exit the current line of business, or materially modify its business plan;

(d) make any expenditure or commitment for an expenditure, guarantee or pledge in excess of \$250,000 unless provided for in the annual budget;

(e) create or hold capital stock in any subsidiary that is not wholly owned (either directly or through one or more other subsidiaries) by the Company, or sell, transfer, pledge or otherwise dispose of, or permit any Subsidiary to sell, transfer, pledge or otherwise dispose of, any capital stock of any direct or indirect subsidiary of the Company or such Subsidiary, as applicable, unless provided for in the annual budget;

(f) grant any option grants or stock awards under its equity incentive plan;

(g) enter into or be a party to any transaction with any stockholder, director, officer, or employee of the Company or any "associate" (as defined in Rule 12b-2 promulgated under the Exchange Act) of any such Person, except for transactions contemplated by this Agreement and the Purchase Agreement;

(h) effect any Asset Sale (as defined in the Restated Certificate) or any merger, consolidation or reorganization of the Company or any Subsidiary with or into another corporation, other than any merger, consolidation or reorganization of a Subsidiary into the Company or the merger, consolidation or reorganization of Subsidiaries into or with one another;

(i) permit any Subsidiary to issue, sell or dispose any shares of its capital stock unless such shares are issued to the Company or another Subsidiary;

(j) enter into any material agreement pursuant to which the Company grants exclusive rights for a fixed term exceeding three (3) years;

(k) hire, terminate, or change the duties or compensation of any Key Executive Officer;

(l) issue or obligate itself to issue shares of capital stock of the Company or any securities convertible into capital stock of the Company;



(m) create any new Subsidiary except as set forth in Section 5.6;

(n) hire any investment bank pursuant to Section 6.1 of that certain Amended and Restated Voting, Right of First Refusal and Co-Sale Agreement, dated as of the date hereof, by and among the Company and the parties listed on the signature pages thereto, as amended from time to time (the “**Amended and Restated Voting, ROFR and Co-Sale Agreement**”);

(o) select independent public accountants to audit the Company’s financial statements;

(p) amend the Restated Certificate to increase the authorized number of shares of Series A Preferred Stock or Common Stock or to effect a stock split or recapitalization;

(q) amend, alter or repeal any provision of the Restated Certificate or Bylaws of the Corporation in a manner that adversely affects the powers, preferences or rights of the Series A Preferred Stock;

(r) purchase or redeem (or permit any Subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of the Company other than (i) redemptions of or dividends or distributions on the Series A Preferred Stock as expressly authorized in the Restated Certificate, (ii) dividends or other distributions payable on the Common Stock solely in the form of additional shares of Common Stock, and (iii) repurchases of stock from former employees, officers, directors, consultants or other persons who performed services for the Company or any subsidiary in connection with the cessation of such employment or service at the lower of the original purchase price or the then-current fair market value thereof; or

(s) make any material change in the nature of the Corporation’s business.

5.6 Commerce Department Compliance. The Company may be required to file reports with the Bureau of Economic Analysis (the “**BEA**”) of the US Commerce Department when a US affiliate of a foreign Investor if such foreign Investor, together with its affiliates, directly or indirectly controls ten percent (10%) or more of the voting securities of the Company. Such foreign Investor that is a foreign individual or entity or a US subsidiary or affiliate of a foreign parent covenants to provide information necessary for the Company to comply with BEA filings required under the International Investment and Trade in Services Act.

5.7 Termination of Covenants. The covenants set forth in this Section 5 shall terminate and be of no further force or effect upon the earlier of (i) immediately before the consummation of the IPO, (ii) when the Company first becomes subject to the periodic reporting requirements of Section 12(g) or 15(d) of the Exchange Act or (ii) upon a Deemed Liquidation Event (as defined in the Restated Certificate), whichever event occurs first.

## 6. Miscellaneous.

6.1 Successors and Assigns. The rights under this Agreement may be assigned (but only with all related obligations) by a Stockholder to a transferee of Stockholder Shares that (i) is an Affiliate of a Stockholder; (ii) is a Stockholder's Immediate Family Member or trust for the benefit of an individual Stockholder or one or more of such Stockholders' Immediate Family Members; or (iii) after such transfer, holds at least 10,000 Stockholder Shares (subject to appropriate adjustment for stock splits, stock dividends, combinations, and other recapitalizations); provided, however, that (x) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee and the Stockholder Shares with respect to which such rights are being transferred; and (y) such transferee agrees in a written instrument delivered to the Company to be bound by and subject to the terms and conditions of this Agreement. For the purposes of determining the number of shares of Stockholder Shares held by a transferee, the holdings of a transferee (1) that is an Affiliate or stockholder of a Stockholder; (2) who is a Stockholders' Immediate Family Member; or (3) that is a trust for the benefit of an individual Stockholder or such Stockholders' Immediate Family Member shall be aggregated together and with those of the transferring Stockholder; provided further that all transferees who would not qualify individually for assignment of rights shall have a single attorney-in-fact for the purpose of exercising any rights, receiving notices, or taking any action under this Agreement. The terms and conditions of this Agreement inure to the benefit of and are binding upon the respective successors and permitted assignees of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and permitted assignees any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein.

6.2 Governing Law. This Agreement shall be governed by the internal law of the State of Delaware.

6.3 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. federal ESIGN Act of 2000, e.g., [www.docuSign.com](http://www.docuSign.com)) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

6.4 Titles and Subtitles. The titles and subtitles used in this Agreement are for convenience only and are not to be considered in construing or interpreting this Agreement.

6.5 Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given upon the earlier of actual receipt or (i) personal delivery to the party to be notified; (ii) when sent, if sent by electronic mail or facsimile during the recipient's normal business hours, and if not sent during normal business hours, then on the recipient's next business day; (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) one (1) business day after the business day of deposit with a nationally recognized overnight courier, freight prepaid, specifying next-day delivery, with written verification of receipt. All communications shall be sent to the respective parties at their addresses as set forth on Schedule A

or **Schedule B** hereto, or to the principal office of the Company and to the attention of the Chief Executive Officer, in the case of the Company, or to such email address, facsimile number, or address as subsequently modified by written notice given in accordance with this Section 6.5. If notice is given to the Company, a copy shall also be sent to Company counsel at the address set forth below:

Company counsel:

Cooley LLP  
Attention: Laura Medina, Esq.  
380 Interlocken Crescent, Suite 900  
Broomfield, CO 80021  
Facsimile: (720) 566-4099

6.6 Amendments and Waivers. Any term of this Agreement may be amended, modified or terminated and the observance of any term of this Agreement may be waived (either generally or in a particular instance, and either retroactively or prospectively) only with the written consent of (i) the Company, (ii) the Investors holding a majority of the Registrable Securities then outstanding and held by all Investors, and (iii) the Requisite Major Common Holders; provided that the Company may in its sole discretion waive compliance with Section 2.12(c) (and the Company's failure to object promptly in writing after notification of a proposed assignment allegedly in violation of Section 2.12(c) shall be deemed to be a waiver); and provided further that any provision hereof may be waived by any waiving party on such party's own behalf, without the consent of any other party. Notwithstanding the foregoing, this Agreement may not be amended or terminated and the observance of any term hereof may not be waived with respect to any Investor or Major Common Holder without the written consent of such Investor or Major Common Holder unless such amendment, or termination or waiver applies to all Investors or Major Common Holders, as the case may be, in the same fashion (it being agreed that a waiver of the provisions of Section 4 with respect to a particular transaction shall be deemed to apply to all Stockholders in the same fashion if such waiver does so by its terms, notwithstanding the fact that certain Stockholders may nonetheless, by agreement with the Company, purchase securities in such transaction). Notwithstanding the foregoing, **Schedule A** and **Schedule B** hereto may be amended by the Company from time to time to add information regarding additional Investors or Major Common Holders who become a party to this Agreement pursuant to Sections 6.1 or 6.9 without the consent of the other parties hereto. The Company shall give prompt notice of any amendment or termination hereof or waiver hereunder to any party hereto that did not consent in writing to such amendment, termination, or waiver. Any amendment, termination, or waiver effected in accordance with this Section 6.6 shall be binding on all parties hereto, regardless of whether any such party has consented thereto. No waivers of or exceptions to any term, condition, or provision of this Agreement, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such term, condition, or provision.

6.7 Severability. In case any one or more of the provisions contained in this Agreement is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, and such invalid, illegal, or unenforceable provision shall be reformed and construed so that it will be valid, legal, and enforceable to the maximum extent permitted by law.

6.8 Aggregation of Stock. All Stockholder Shares held or acquired by Affiliates shall be aggregated together for the purpose of determining the availability of any rights under this Agreement and such Affiliated persons may apportion such rights as among themselves in any manner they deem appropriate.

6.9 Additional Investors. Notwithstanding anything to the contrary contained herein, if the Company issues additional shares of the Company's Series A Preferred Stock after the date hereof, any purchaser of such shares may become a party to this Agreement by executing and delivering an additional counterpart signature page to this Agreement, and thereafter shall be deemed an "Investor" for all purposes hereunder. No action or consent by the Investors shall be required for such joinder to this Agreement by such additional Investor, so long as such additional Investor has agreed in writing to be bound by all of the obligations as an "Investor" hereunder.

6.10 Entire Agreement. This Agreement (including any Schedules and Exhibits hereto) constitutes the full and entire understanding and agreement among the parties with respect to the subject matter hereof, and any other written or oral agreement relating to the subject matter hereof existing between the parties is expressly canceled.

6.11 Dispute Resolution.

(a) Any unresolved controversy or claim arising out of or relating to this Agreement, except as (i) otherwise provided in this Agreement, or (ii) any such controversies or claims for which a provisional remedy or equitable relief is sought, shall be submitted to binding arbitration by one arbitrator mutually agreed upon by the parties, and if no agreement can be reached within thirty (30) days after names of potential arbitrators have been proposed by the American Arbitration Association (the "AAA"), then by one arbitrator having reasonable experience in corporate finance transactions of the type provided for in this Agreement and who is chosen by the AAA. The arbitration shall take place in the State of California in Santa Clara County, in accordance with the AAA rules then in effect, and judgment upon any award rendered in such arbitration will be binding and may be entered in any court having jurisdiction thereof. There shall be limited discovery prior to the arbitration hearing as follows: (a) exchange of witness lists and copies of documentary evidence and documents relating to or arising out of the issues to be arbitrated, (b) depositions of all party witnesses and (c) such other depositions as may be allowed by the arbitrators upon a showing of good cause. Depositions shall be conducted in accordance with the State of California Code of Civil Procedure, the arbitrator shall be required to provide in writing to the parties the basis for the award or order of such arbitrator, and a court reporter shall record all hearings, with such record constituting the official transcript of such proceedings. Each party will bear its own costs in respect of any disputes arising under this Agreement. The language of the arbitration shall be English. The prevailing party shall be entitled to reasonable attorney's fees, costs, and necessary disbursements in addition to any other relief to which such party may be entitled. Notwithstanding anything to the contrary herein, each party shall be entitled, at any time, to seek injunctive or other equitable relief from any court of competent jurisdiction, wherever such party deems appropriate, in order to preserve or enforce such party's rights hereunder. Each of the parties to this Agreement consents to personal jurisdiction for any equitable action sought in the U.S. District Court for the Northern District of California or any court of the State of California having subject matter jurisdiction.

(b) By agreeing to this binding arbitration provision, the parties understand that they are waiving certain rights and protections which may otherwise be available if a dispute between the parties were determined by litigation in court, including, without limitation, the right to seek or obtain certain types of damages precluded by this arbitration provision, the right to a jury trial, certain rights of appeal, and a right to invoke formal rules of procedure and evidence.

(c) Each party acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by such party, that it may be difficult to ascertain the damages which would be suffered by the other parties in such cases, and that the other parties would suffer irreparable harm as a result of any such breach. Accordingly, each party will also be entitled to equitable relief, including injunction and specific performance, as a remedy for any breach or threatened breach of this Agreement by the other party. The equitable remedies referred to above will not be deemed to be the exclusive remedies for a breach of this Agreement, but rather will be in addition to all other remedies available to the parties.

6.12 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party under this Agreement, upon any breach or default of any other party under this Agreement, shall impair any such right, power, or remedy of such non-breaching or non-defaulting party, nor shall it be construed to be a waiver of or acquiescence to any such breach or default, or to any similar breach or default occurring before or thereafter, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default occurring before or thereafter. All remedies, whether under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

**COMPANY:**

**ARTERIS, INC.**

Signature: /s/ K. Charles Janac

Name: K. Charles Janac

Title: President and CEO

Address:

Arteris, Inc.  
Worldwide Headquarters  
591 W Hamilton Ave  
Suite 250  
Campbell, CA 95008  
USA

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**

---

**MAJOR COMMON HOLDER:**

**ARTERIS IP, LLC**

Signature: /s/ K. Charles Janac

Name: K. Charles Janac

Title: President and CEO

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**

---

**INVESTORS:**

**VENTECH CAPITAL F**

Signature: /s/ C. Claussen

Name: C. Claussen

Title: General Partner

---

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**



---

**INVESTORS:**

**GREY CORP GMBH**

Signature: /s/ Robert Wuttke

Name: Robert Wuttke

Title: Managing Director

---

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**

---

**INVESTORS:**

**ARTERIS IP, LLC**

Signature: /s/ K. Charles Janac

Name: K. Charles Janac

Title: President and CEO

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**

---

**INVESTORS:**

**BARRY AND JODY TURKUS TRUST**

Signature: /s/ Barry A. Turkus

Name: Barry A. Turkus

Title: Trustee

---

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**

---

**INVESTORS:**

**CRESCENDO VENTURES 401K PROFIT SHARING PLAN  
FBO WAYNE CANTWELL**

Signature: /s/ Wayne Cantwell

Name: Wayne Cantwell

Title: Trustee

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**

---

**INVESTORS:**

**AMY F MILLER REVOCABLE TRUST**

Signature: /s/ Amy F. Miller

Name: Amy F. Miller

Title: Trustee

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**

---

**INVESTORS:**

**JANAC TRUST**

Signature: /s/ K. Charles Janac

Name: K. Charles Janac

Title: Trustee

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**

---

**INVESTORS:**

/s/ Stéphane Mehat  
STÉPHANE MEHAT

---

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**

---

**INVESTORS:**

/s/ Kurtis Shuler

---

**KURTIS SHULER**

**SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT**



**SCHEDULE A**

**Investors**

**VENTECH CAPITAL F**

###

**GREY CORP GMBH**

###

**BARRY AND JODY TURKUS TRUST**

###

**JANAC TRUST**

###

**ARTERIS IP, LLC**

###

**CRESCENDO VENTURES 401K PROFIT SHARING PLAN FBO WAYNE CANTWELL**

###

**STÉPHANE MEHAT**

###

**KURTIS SHULER**

###

**AMY F MILLER REVOCABLE TRUST**

###

---

**SCHEDULE B**

**Major Common Holders**

**ARTERIS IP, LLC**  
Suite 250  
591 W. Hamilton Ave.  
Campbell CA 95008  
United States

---

**EXHIBIT A**

**FORM OF SERIES A WARRANT**

## AMENDED AND RESTATED BUSINESS FINANCING AGREEMENT

Borrower: ARTERIS, INC.  
595 Millich Drive Suite 200  
Campbell, CA 95008

Lender: WESTERN ALLIANCE BANK, an Arizona corporation  
55 Almaden Boulevard, Suite 100  
San Jose, CA 95113

## RECITALS

A. Lender and Borrower have previously entered into that certain Business Financing Agreement dated as of August 3, 2015, as amended from time to time (the "Original Credit Agreement").

B. From and after the date hereof, the Original Credit Agreement shall be amended and restated in its entirety in accordance with the terms and provisions hereof and any amounts outstanding prior to the restatement of the Original Credit Agreement shall be governed under the terms and provisions hereof.

C. Lender and Borrower desire to amend the terms and conditions of the Original Credit Agreement to, among other things, provide for a revolving facility on the terms and conditions set forth herein (the "Revolver"). The proceeds of the initial Advance under the Revolver will be used to repay in full the total amount outstanding under the Original Credit Agreement.

This AMENDED AND RESTATED BUSINESS FINANCING AGREEMENT, dated as of December 16, 2020, is made and entered into between WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION ("Lender") and ARTERIS, INC., a Delaware corporation ("Borrower") on the following terms and conditions:

## 1. REVOLVING CREDIT LINE.

1.1 Receivables Advances. Subject to the terms and conditions of this Agreement, from the date on which this Agreement becomes effective until the Maturity Date, Lender will make Receivables Advances to Borrower not exceeding the Credit Limit or the Borrowing Base, whichever is less; provided that in no event shall Lender be obligated to make any Receivables Advance that results in an Overadvance or while any Overadvance is outstanding. Amounts borrowed under this Section may be repaid and subject to the terms and conditions hereof reborrowed during the term of this Agreement. It shall be a condition to each Receivables Advance that (a) an Advance Request acceptable to Lender has been received by Lender, (b) all of the representations and warranties set forth in Section 3 are true and correct in all material respects on the date of such Receivables Advance as though made at and as of each such date, and (c) no Default or Event of Default has occurred and is continuing, or would result from such Receivables Advance.

1.2 Advance Requests. Borrower may request that Lender make a Receivables Advance by delivering to Lender an Advance Request therefor and Lender shall be entitled to rely on all the information provided by Borrower to Lender on or with the Advance Request. Lender may honor Advance Requests, instructions or repayments given by any Authorized Person. So long as all of the conditions for a Receivables Advance set forth herein have been satisfied, Lender shall fund such Receivables Advance into Borrower's Account within one business day of Lender's receipt of the applicable Advance Request.

1.3 Due Diligence. Lender may audit Borrower's Receivables and any and all records pertaining to the Collateral, at Lender's sole discretion and at Borrowers expense; provided that so long as no Event Default has occurred and is continuing the expense of such audits shall not exceed \$5,000 per audit. Lender may at any time and from time to time contact Account Debtors and other persons obligated or knowledgeable in respect of Receivables to confirm the Receivable Amount of such Receivables, to determine whether Receivables constitute Eligible Receivables, and for any other purpose in connection with this Agreement. If any of the Collateral or Borrower's books or records pertaining to the Collateral are in the possession of a third party, Borrower authorizes that third party to permit Lender or its agents to have access to perform inspections or audits thereof and to respond to Lender's requests for information concerning such Collateral and records.

#### 1.4 Collections.

At Lender's option, Lender may either (i) transfer all Collections deposited into the Collection Account to Borrower's Account, or (ii) apply the Collections deposited into the Collection Account to the outstanding Account Balance, in either case, within three business days of the date received; provided that upon the occurrence and during the continuance of any Default or Event of Default, Lender may apply all Collections to the Obligations in such order and manner as Lender may determine. Lender has no duty to do any act other than to apply such amounts as required above. If an item of Collections is not honored or Lender does not receive good funds for any reason, any amount previously transferred to Borrower's Account or applied to the Account Balance shall be reversed as of the date transferred or applied, as applicable, and, if applied to the Account Balance, the Finance Charge will accrue as if the Collections had not been so applied. Lender shall have, with respect to any goods related to the Receivables, all the rights and remedies of an unpaid seller under the UCC and other applicable law, including the rights of replevin, claim and delivery, reclamation and stoppage in transit.

1.5 Receivables Activity Report. Within 30 days after the end of each Month End, Lender shall send to Borrower a report covering the transactions for the prior billing period, including the amount of all Advances, Collections, Adjustments, Finance Charges, and other fees and charges. The accounting shall be deemed correct and conclusive unless Borrower makes written objection to Lender within 30 days after Lender sends the accounting to Borrower.

1.6 Adjustments. In the event any Adjustment or dispute is asserted by any Account Debtor, Borrower shall promptly advise Lender and shall, subject to Lender's approval, resolve such disputes and advise Lender of any Adjustments; provided that in no case will the aggregate Adjustments made with respect to any Receivable exceed 2% of its original Receivable Amount unless Borrower has obtained the prior written consent of Lender (such consent not to be unreasonably withheld, conditioned or delayed while no Event of Default has occurred and is continuing). So long as any Obligations are outstanding, Lender shall have the right, at any time, to take possession of any rejected, returned, or recovered personal property. If such possession is not taken by Lender, Borrower is to resell it for Lender's account at Borrower's expense with the proceeds made payable to Lender. While Borrower retains possession of any returned goods, Borrower shall segregate said goods and mark them as property of Lender.

1.7 Recourse; Maturity. Advances and the other Obligations shall be with full recourse against Borrower. On the Maturity Date, Borrower will pay all then outstanding Advances and other Obligations to Lender or such earlier date as shall be herein provided.

#### 1.8 International Sublimit.

1.8(a) Letter of Credit Line. Subject to the terms and conditions of this Agreement and in an amount not to exceed the International Sublimit, Lender hereby agrees to issue or cause an Affiliate to issue letters of credit for the account of Borrower (each, a "Letter of Credit" and collectively, "Letters of Credit") from time to time; provided that (a) the Letter of Credit Obligations will be treated as Advances for purposes of determining availability under the Credit Limit and shall decrease, on a dollar-for-dollar basis, the amount available for other Advances. The form and substance of each Letter of Credit shall be subject to approval by Lender, in its sole discretion. Each Letter of Credit shall be subject to the additional terms of the Letter of Credit agreements, applications and any related documents required by Lender in connection with the issuance thereof (each, a "Letter of Credit Agreement"). Each draft paid under any Letter of Credit shall be repaid by Borrower in accordance with the provisions of the applicable Letter of Credit Agreement. No Letter of Credit shall be issued that results in an Overadvance or while any Overadvance is outstanding.

1.8(b) Foreign Exchange Facility. Borrower may enter into foreign exchange forward contracts with Lender under which Borrower commits to purchase from or sell to Lender a set amount of foreign currency more than one business day after the contract date (the "FX Forward Contract"). The total FX Forward Contracts at any one time may not exceed 10 times the amount of the FX Sublimit. Ten percent (10%) of the amount of each outstanding FX Forward Contract shall be treated as an Advance for purposes of determining availability under the Credit Limit and shall decrease, on a dollar-for-dollar basis, the amount available for other Advances. Lender may terminate the FX Forward Contracts if an Event of Default occurs. Each FX Forward Contract shall be subject to additional terms set forth in the applicable FX Forward Contract or other agreements executed in connection with the foreign exchange facility.

Upon the Maturity Date, all obligations under the International Sublimit shall be secured by unencumbered cash on terms acceptable to Lender if the term of this Business Financing Agreement is not extended by Lender.

1.9 Intentionally Omitted.

1.10 Intentionally omitted.

1.11 Overadvances. Upon any occurrence of an Overadvance, Borrower shall immediately pay down the Receivables Advances such that, after giving effect to such payments, no Overadvance exists.

1.12 Growth Capital Advances.

(a) Subject to the terms and conditions hereof, Lender made a term loan ("Growth Capital Advance") to Borrower on the Growth Capital Advance Closing Date, in an amount equal to the Growth Capital Advances Commitment. As used herein, "Growth Capital Advance Closing Date" means the date when each of the conditions to effectiveness of the Business Financing Modification Agreement dated November 7, 2018, which conditions have been fully incorporated and made a part hereof, have been fulfilled to the satisfaction of Lender, and Lender has deposited the proceeds of the Growth Capital Advance into Borrowers' deposit account maintained with Lender. The Growth Capital Advance may not be re-borrowed after repayment is made by Borrower. The foregoing to the contrary notwithstanding, Lender shall have no further obligation to make any Growth Capital Advance hereunder. It was an additional condition to each Growth Capital Advance that (x) all of the representations and warranties set forth in Section 3 are true and correct on the date of such Growth Capital Advance as though made at and as of each such date, and (y) no Default has occurred and is continuing, or would result from such Growth Capital Advance. On the Growth Capital Advance Closing Date, the Growth Capital Advances Commitment terminates and Lender's obligation to make further Growth Capital Advances to Borrower shall cease.

(b) The Advance Request for a Growth Capital Advance shall be by a duly authorized officer of Borrower. The Advance Request for the Growth Capital Advance was deemed to be a representation by Borrower that (i) all of the representations and warranties set forth in Section 3 are true and correct in all material respects on the date of such Growth Capital Advance as though made at and as of each such date, and (ii) no Default or Event of Default has occurred and is continuing, or would result from such Growth Capital Advance.

(c) The outstanding principal balance of the Growth Capital Advance shall be due and payable as follows: Interest only beginning the tenth calendar day of the first month day until November 7, 2021, and on the tenth calendar day of the first month day thereafter, a principal amount equal to \$50,000.00.

(d) On the Growth Capital Advances Maturity Date, Borrower shall pay in full the outstanding principal balance, and all accrued and unpaid interest under the Growth Capital Advance. Borrower may prepay the Growth Capital Advance at any time, in whole or in part, without penalty or premium. All principal amounts so repaid or prepaid may not be reborrowed. All prepayments shall be applied toward scheduled principal reductions payments owing under this Section 1.12 in inverse order of maturity.

## 2. FEES AND FINANCE CHARGES.

2.1 Finance Charges. Lender may, but is not required to, deduct the amount of accrued Finance Charge from Collections received by Lender. The accrued and unpaid Finance Charge shall be due and payable within 10 calendar days after each Month End during the term hereof.

### 2.2 Fees.

(a) Facility Fee. Borrower shall pay the Facility Fee to Lender promptly upon the execution of this Agreement and annually thereafter.

(b) Letter of Credit Fees. Borrower shall pay to Lender fees upon the issuance of each Letter of Credit, upon the payment or negotiation of each draft under any Letter of Credit and upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Lender's standard fees and charges then in effect for such activity.

(c) Due Diligence Fee. Borrower shall pay the Due Diligence Fee to Lender promptly upon the execution of this Agreement and annually thereafter.

(d) FX Forward Contract Fees. Borrower shall pay to Lender fees in connection with the FX Forward Contracts as determined in accordance with Lender's standard fees and charges then in effect for such activity.

## 3. REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants:

3.1 No representation, warranty or other statement of Borrower in any certificate or written statement given to Lender contains any untrue statement of a material fact or omits to state a material fact necessary to make the statement contained in the certificates or statement not misleading.

3.2 Borrower is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state in which the conduct of its business or its ownership of property requires that it be qualified.

3.3 The execution, delivery and performance of this Agreement has been duly authorized, and does not conflict with Borrower's organizational documents, nor constitute an Event of Default under any material agreement by which Borrower is bound. Borrower is not in default under any material agreement to which or by which it is bound.

3.4 Borrower has good title to the Collateral and all inventory is in all material respects of good and marketable quality, free from material defects.

3.5 Borrower's name, form of organization, chief executive office, and the place where the records concerning all Receivables and Collateral are kept is set forth at the beginning of this Agreement, Borrower is located at its address for notices set forth in this Agreement:

3.6 If Borrower owns, holds or has any interest in, any copyrights (whether registered, or unregistered), patents or trademarks, and licenses of any of the foregoing, such interest has been specifically disclosed and identified to Lender in writing.

## 4. MISCELLANEOUS PROVISIONS. Borrower will:

4.1 Maintain its corporate existence and good standing in its jurisdictions of incorporation and maintain its qualification in each jurisdiction necessary to Borrower's business or operations and not merge or consolidate with or into any other business organization, or acquire all or substantially all of the capital stock or property of a third party, unless (i) any such acquired entity becomes a "borrower" under this Agreement and (ii) Lender has previously consented to the applicable transaction in writing.

4.2 Give Lender at least 20 days prior written notice of changes to its name, organization, chief executive office or location of records.

4.3 Pay all its taxes including gross payroll, withholding and sales taxes when due and will deliver satisfactory evidence of payment to Lender if requested: provided that Borrower shall not be required to pay taxes which are being disputed in good faith with adequate reserves.

4.4 Maintain:

(a) insurance reasonably satisfactory to Lender as to amount, nature and carrier covering property damage (including loss of use and occupancy) to any of Borrower's properties, business interruption insurance, public liability insurance including coverage for contractual liability, product liability and workers' compensation, and any other insurance which is usual for Borrower's business. Each such policy shall provide for at least thirty (30) days prior notice to Lender of any cancellation thereof.

(b) all risk property damage insurance policies (including without limitation windstorm coverage, and hurricane coverage as applicable) covering the tangible property comprising the collateral. Each insurance policy must be for the full replacement cost of the collateral and include a replacement cost endorsement or in an amount reasonably acceptable to Lender. The insurance must be issued by an insurance company reasonably acceptable to Lender and must include a lender's loss payable endorsement in favor of Lender in a form reasonably acceptable to Lender.

Upon the request of Lender, Borrower shall deliver to Lender a copy of each insurance policy, or, if permitted by Lender, a certificate of insurance listing all insurance in force.

4.5 Immediately transfer and deliver to the Collections Account all Collections Borrower receives.

4.6 Not create, incur, assume, or be liable for any indebtedness, other than Permitted Indebtedness.

4.7 Immediately notify Lender if Borrower hereafter obtains any interest in any copyrights, patents, trademarks or licenses that are significant in value or are material to the conduct of its business.

4.8 Provide the following financial information and statements in form and content reasonably acceptable to Lender, and such additional information as reasonably requested by Lender from time to time. Lender has the right to require Borrower to deliver financial information and statements to Lender more frequently than otherwise provided below, and to use such additional information and statements to measure any applicable financial covenants in this Agreement.

(a) No later than 30 days after the end of each month (including the last period in each fiscal year), monthly financial statements of Borrower, certified and dated by an authorized financial officer. The statements shall be prepared on a consolidated basis.

(b) Promptly, upon sending or receipt, copies of any management letters and correspondence relating to management letters, sent or received by Borrower to or from Borrower's auditor. If no management letter is prepared, Borrower shall, upon Lender's request, obtain a letter from such auditor stating that no deficiencies were noted that would otherwise be addressed in a management letter.

(c) If applicable, copies of the Form 10-K Annual Report, Form 10-Q Quarterly Report and Form 8-K Current Report for Borrower concurrent with the date of filing with the Securities and Exchange Commission.

(d) Financial projections, including an operating budget, covering a 12 month period and specifying the assumptions used in creating the projections, no later than 30 days after the beginning of each fiscal year.



(e) Within 30 days of the end of each month, a compliance certificate of Borrower, signed by an authorized financial officer and setting forth (i) the information and computations (in sufficient detail) to establish compliance with all financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action Borrower is taking and proposes to take with respect thereto.

(g) Within 15 days after the end of each calendar month, a borrowing base certificate, in form and substance satisfactory to Lender, setting forth Eligible Receivables and Receivable Amounts thereof as of the last day of the preceding calendar month.

(h) Within 15 days after the end of each, calendar month, a detailed aging of Borrower's Receivables by invoice or a summary aging by account debtor, together with payable aging, cash receipts journal, sales journal, a foreign withholding tax report and such other matters as Lender may reasonably request.

(i) Within 30 days after the end of each calendar month, Borrower's deferred revenue report shall be due to Lender in a form an substance acceptable to Lender, in its sole discretion.

(j) Promptly upon Lender's request, such other books, records, statements, lists of property and accounts, budgets, forecasts or reports as to Borrower and as to each guarantor of Borrower's obligations to Lender as Lender may reasonably request.

(k) Within 180 days of the fiscal year end and only if required by the Borrower's Board of Directors, annual consolidated financial statements of Borrower, certified and dated by an authorized financial officer; provided however, for the fiscal year ended December 31, \_\_\_\_\_, such financial statements shall be provided to Lender no later than June 30, \_\_\_\_\_. These financial statements must be audited by a Certified Public Accountant acceptable to Lender.

(l) Within 15 days after the end of each calendar month, copies of all account statements with respect to all of Borrower's depository, operating and investment accounts maintained outside of Lender.

4.9 Maintain its primary depository and operating accounts with Lender and, in the case of any deposit accounts not maintained with Lender, with the exception of thirty percent (30%) of cash for international banking purposes, grant to Lender a first priority perfected security interest in and "control" (within the meaning of Section 9104 of the UCC) of such deposit account pursuant to documentation acceptable to Lender.

4.10 Promptly provide to Lender such additional information and documents regarding the finances, properties, business or books and records of Borrower or any guarantor as Lender may reasonably request.

4.11 Maintain Borrower's financial condition as follows in accordance with GAAP and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Asset Coverage Ratio, tested as of the end of each month, not at any time less than 1.75 to 1.00.

(b) Unrestricted cash maintained at all times in its accounts with Lender of at least two-thirds (2/3) of the outstanding principal balance under the Growth Capital Advances Commitment, tested as of the end each month.

4.12 Except with respect to liabilities existing as of the date of this Agreement, not make or contract to make, without Lender's prior written consent, capital expenditures, including leasehold improvements, in any fiscal year in excess of an additional \$500,000.00 or incur additional liability for rentals of property (including both real and personal property) in an amount which, together with capital expenditures, shall in any fiscal year exceed such sum.

5. SECURITY INTEREST. To secure the prompt payment and performance to Lender of all of the Obligations, Borrower hereby grants to Lender a continuing security interest in the Collateral. Borrower is not authorized to sell assign, transfer or otherwise convey any Collateral without Lender's prior written consent, except for the sale of finished inventory in Borrower's usual course of business, worn-out or obsolete equipment, non-exclusive licenses and similar arrangement for the use of the property of Borrower in the ordinary course of business, and Permitted Liens. Borrower agrees to sign any instruments and documents reasonably requested by Lender to evidence, perfect, or protect the interests of Lender in the Collateral. Borrower agrees to deliver to Lender the originals of all instruments, chattel paper and documents evidencing or related to Receivables and Collateral. Borrower shall not grant or permit any lien or security in the Collateral or any interest therein other than Permitted Liens.

6. POWER OF ATTORNEY. Borrower irrevocably appoints Lender and its successors and as true and lawful attorney in fact, and authorizes Lender (a) to, whether or not there has been an Event of Default, (i) demand, collect, receive, sue, and give releases to any Account Debtor for the monies due or which may become due upon or with respect to the Receivables and to compromise, prosecute, or defend any action, claim, case or proceeding relating to the Receivables, including the filing of a claim or the voting of such claims in any bankruptcy case, all in Lender's name or Borrower's name, as Lender may choose; (ii) prepare, file and sign Borrower's name on any notice, claim, assignment, demand, draft, or notice of or satisfaction of lien or mechanics' lien or similar document; (iii) notify all Account Debtors with respect to the Receivables to pay Lender directly; (iv) receive and open all mail addressed to Borrower for the purpose of collecting the Receivables; (v) endorse Borrower's name on any checks or other forms of payment on the Receivables; (vi) execute on behalf of Borrower any and all instruments, documents, financing statements and the like to perfect Lender's interests in the Receivables and Collateral; (vii) debit any Borrower's deposit accounts maintained with Lender for any and all Obligations due under this Agreement; and (viii) do all acts and things necessary or expedient, in furtherance of any such purposes, and (b) to, upon the occurrence and during the continuance of an Event of Default, sell, assign, transfer, pledge, compromise, or discharge the whole or any part of the Receivables. Upon the occurrence and continuation of an Event of Default, all of the power of attorney rights granted by Borrower to Lender hereunder shall be applicable with respect to all Receivables and all Collateral.

#### 7. DEFAULT AND REMEDIES.

7.1 Events of Default. The occurrence of any one or more of the following, for which Borrower has not obtained Lender's prior written consent, shall constitute an Event of Default hereunder.

(a) Failure to Pay. Borrower fails to make a payment when due under this Agreement.

(b) Lien Priority. Lender fails to have an enforceable first lien (except for liens described in clause (c) of the definition of Permitted Indebtedness and any other prior liens to which Lender has consented in writing) on or security interest in the Collateral.

(c) False Information. Borrower (or any guarantor) has given Lender any materially false or misleading information or representations or has failed to disclose any material fact relating to the subject matter of this Agreement.

(d) Death. Borrower or any guarantor dies or becomes legally incompetent, or if Borrower is a partnership, any general partner dies or becomes legally incompetent.

(e) Bankruptcy. Borrower (or any guarantor) files a bankruptcy petition, a bankruptcy petition is filed against Borrower (or any guarantor) or Borrower (or any guarantor) makes a general assignment for the benefit of creditors, and in the case of any involuntary petition, such proceeding is not dismissed or stayed within 45 days.

(f) Receivers. A receiver or similar official is appointed for a substantial portion of Borrower's (or any guarantor's) business, or the business is terminated.

(g) Judgments. Any judgments or arbitration awards are entered against Borrower (or any guarantor), or Borrower (or any guarantor) enters into any settlement agreements with respect to any litigation or arbitration and the aggregate amount of all such judgments, awards, and agreements payable by Borrower exceeds \$100,000.

(h) Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in Borrower's (or any guarantor's) business condition (financial or otherwise), operations or, properties, taken as a whole, or ability to repay the Obligations.

(i) Cross-default. Any default occurs under any agreement in connection with any credit in excess of \$100,000 Borrower (or any guarantor) or any of Borrower's Affiliates has obtained from anyone else or which Borrower (or any guarantor) or any of Borrower's Affiliates has guaranteed (other than trade amounts payable incurred in the ordinary course of business and not more than 60 days past due).

(j) Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect (unless released by Lender).

(k) Other Agreements. Borrower (or any guarantor) or any of Borrower's Affiliates fails to meet the conditions of, or fails to perform any material obligation under any other agreement Borrower (or any guarantor) or any of Borrower's Affiliates has with Lender or any Affiliate of Lender, after giving effect to any applicable cure or grace periods.

(l) Change of Control. The holders of the capital ownership of Borrower as of the date hereof cease to own and control, directly and indirectly, at least 70% of the capital ownership of Borrower.

(m) Other Breach Under Agreement. Borrower fails to meet the conditions of, or fails to perform any obligation under, any term of this Agreement not specifically referred to above.

7.2 Remedies. During the occurrence of an Event of Default, (1) without implying any obligation to do so, Lender may cease making Advances or extending any other financial accommodations to Borrower; (2) all or a portion of the Obligations shall be, at the option of and upon demand by Lender, or with respect to an Event of Default described in Section 7.1(e), automatically and without notice or demand, due and payable in full; and (3) Lender shall have and may exercise all the rights and remedies under this Agreement and under applicable law, including the rights and remedies of a secured party under the UCC, all the power of attorney rights described in Section 6 with respect to all Collateral, and the right to collect, dispose of, sell, lease, use, and realize upon all Receivables and all Collateral in any commercially reasonable manner.

8. ACCRUAL OF INTEREST. All interest and finance charges hereunder calculated at an annual rate shall be based on a year of 360 days, which results in a higher effective rate of interest than if a year of 365 or 366 days were used. Lender may charge interest, finance charges and fees based upon the projected amounts thereof as of the due dates therefor, and adjust subsequent charges to account for the actual accrued amounts. If any amount due under Section 2.2, amounts due under Section 9, and any other Obligations not otherwise bearing interest hereunder is not paid when due, such amount shall bear interest at a per annum rate equal to the Finance Charge Percentage until the earlier of (i) payment in good funds or (ii) entry of a trial judgment thereof, at which time the principal amount of any money judgment remaining unsatisfied shall accrue interest at the highest rate allowed by applicable law.

9. FEES, COSTS AND EXPENSES; INDEMNIFICATION. Borrower will pay to Lender upon demand all fees, costs and expenses (including reasonable fees of attorneys and professionals and their out-of-pocket costs and expenses) that Lender incurs or may from time to time impose in connection with any of the following: (a) preparing, negotiating, administering, and enforcing this Agreement or any other agreement executed in connection herewith, including any amendments, waivers or consents in connection with any of the foregoing, (b) any litigation or dispute (whether instituted by Lender, Borrower or any other person) in any way relating to the Receivables, the Collateral, this Agreement or any other agreement executed in connection herewith or therewith, (c) enforcing any rights against Borrower or any

guarantor, or any Account Debtor, (d) protecting or enforcing its interest in the Receivables or the Collateral, (e) collecting the Receivables and the Obligations, or (f) the representation of Lender in connection with any bankruptcy case or insolvency proceeding involving Borrower, any Receivable, the Collateral, any Account Debtor, or any guarantor. Borrower shall indemnify and hold Lender harmless from and against any and all claims, actions, damages, costs, expenses, and liabilities of any nature whatsoever arising in connection with any of the foregoing, except for any of the foregoing to the extent caused by Lender's gross negligence or willful misconduct.

#### 10. INTEGRATION, SEVERABILITY WAIVER, CHOICE OF LAW, FORUM AND VENUE.

10.1 This Agreement and any related security or other agreements required by this Agreement, collectively: (a) represent the sum of the understandings and agreements between Lender and Borrower concerning this credit; (b) replace any prior oral or written agreements between Lender and Borrower concerning this credit; and (c) are intended by Lender and Borrower as the final, complete and exclusive statement of the terms agreed to by them. In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. If any provision of this Agreement is deemed invalid by reason of law, this Agreement will be construed as not containing such provision and the remainder of the Agreement shall remain in full force and effect. Lender retains all of its rights, even if it makes an Advance after a default. If Lender waives an Event of Default, it may enforce a later Event of Default. Any consent or waiver under, or amendment of, this Agreement must be in writing, and no such consent, waiver, or amendment shall imply any obligation by Lender to make any subsequent consent, waiver, or amendment.

10.2 THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF CALIFORNIA. THE PARTIES HERETO AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER RELATED DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF SANTA CLARA, CALIFORNIA, OR, AT THE SOLE OPTION OF LENDER, IN ANY OTHER COURT IN WHICH LENDER SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS JURISDICTION OVER THE SUBJECT MATTER AND PARTIES IN CONTROVERSY. EACH PARTY HERETO WAIVES ANY RIGHT TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION AND STIPULATES THAT THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF SANTA CLARA, CALIFORNIA SHALL HAVE IN PERSONAM JURISDICTION AND VENUE OVER EACH SUCH PARTY FOR THE PURPOSE OF LITIGATING ANY SUCH DISPUTE, CONTROVERSY, OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT, OR ANY OTHER RELATED DOCUMENTS. SERVICE OF PROCESS SUFFICIENT FOR PERSONAL JURISDICTION IN ANY ACTION AGAINST THE BORROWER MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO ITS ADDRESS SPECIFIED FOR NOTICES PURSUANT TO SECTION 11.

11. NOTICES; TELEPHONIC AND TELEFAX AUTHORIZATIONS. All notices shall be given to Lender and Borrower at the addresses or faxes set forth on the signature page of this agreement and shall be deemed to have been delivered and received; (a) if mailed, three (3) calendar days after deposited in the United States mail, first class, postage pre-paid, (b) one (1) calendar day after deposit with an overnight mail or messenger service; or (c) on the same date of confirmed transmission if sent by hand delivery, telecopy, telefax or telex, Lender may honor telephone or telefax instructions for Advances or repayments given, or purported to be given, by any one of the Authorized Persons. Borrower will indemnify and hold Lender harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions Lender reasonably believes are made by any Authorized Person. This paragraph will survive this Agreement's termination, and will benefit Lender and its officers, employees, and agents.

## 12. DEFINITIONS AND CONSTRUCTION.

### 12.1 Definitions. In this Agreement;

“Account Balance” means at any time the aggregate of the Receivables Advances outstanding as reflected on the records maintained by Lender, together with any past due Finance Charges thereon.

“Account Debtor” has the meaning in the UCC and includes any person liable on any Receivable, including without limitation; any guarantor of any Receivable and any issuer of a letter of credit or banker’s acceptance assuring payment thereof.

“Adjustments” means all discounts, allowances, disputes, offsets, defenses, rights of recoupment rights of return, warranty claims, or short payments, asserted by or on behalf of any Account Debtor with respect to any Receivable.

“Advance” means a Receivables Advance or a Growth Capital Advance, as the context requires, and made by Lender to Borrower under this Agreement.

“Advances” means all Receivables Advances and the Growth Capital Advance.

“Advance Rate” means 80% in the case of the Eligible Receivables, or such greater or lesser percentage as Lender may from time to time establish in its sole discretion upon notice to Borrower.

“Advance Request” means a writing in form and substance reasonably satisfactory to Lender and signed by an Authorized Person requesting (1) an Advance or (2) a Growth Capital Advance.

“Agreement” means this Business Financing Agreement.

“Affiliate” means, as to any person or entity, any other person or entity directly or indirectly controlling or controlled by, or under direct or indirect common control with, such person or entity.

“Asset Coverage Ratio” means all unrestricted cash and cash equivalents maintained with Lender, plus Eligible Receivables, divided by the total amount of outstanding principal of all Obligations.

“Authorized Person” means any one of the individuals authorized to sign on behalf of Borrower, and any other individual designated by any one of such authorized signers.

“Borrower’s Account” means Borrower’s general operating account maintained with Lender, into which all Advances will be deposited unless otherwise instructed by Borrower in writing.

“Borrowing Base” means at any time the sum of (i) the Eligible Receivable Amount multiplied by the applicable Advance Rate minus (ii) any amounts outstanding under the International Sublimit minus (iii) such reserves as Lender may deem proper and necessary from time to time.

“Collateral” means all of Borrower’s rights and interest in any and all personal property, whether now existing or hereafter acquired or created and wherever located, and all products and proceeds thereof and accessions thereto, including but not limited to the following (collectively, the “Collateral”): (a) all accounts (including health care insurance receivables,) chattel paper (including tangible and electronic chattel paper), inventory (including all goods held for sale or lease or to be furnished under a contract for service, and including returns and repossessions,) equipment (including all accessions and additions thereto), instruments (including promissory notes), investment property (including securities and securities entitlements), documents (including negotiable documents), deposit accounts, letter of credit rights,

money, any commercial tort claim of Borrower which is now or hereafter identified by Borrower or Lender, general intangibles (including payment intangibles and software), goods (including fixtures) and all of Borrower's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records; and (b) any and all cash proceeds and/or noncash proceeds thereof, including without limitation, insurance proceeds, and all supporting obligations and the security therefore or for any right to payment. Notwithstanding the foregoing, the Collateral shall not include third party financed equipment permitted hereunder, to the extent and for so long as a prohibition exists on the granting to Lender of a security interest in such finance equipment by the applicable third party lender in respect of such financed equipment provided however, that immediately upon termination of any such prohibition, the Collateral shall thereafter be deemed to include such equipment, automatically and without further action by Borrower or Lender.

"Collection Account" means the deposit account maintained with Lender which, pursuant to the Lockbox Agreement, all Collections received in the Lockbox are to be deposited, and as to which Borrower has no right to withdraw funds.

"Collections" means all payments from or on behalf of an Account Debtor with respect to Receivables.

"Compliance Certificate" means a certificate in the form attached as Exhibit A to this Agreement by an Authorized Person that, among other things, the representations and warranties set forth in this Agreement are true and correct in all material respects as of the date such certificate is delivered.

"Credit Limit" means \$2,000,000.00, which is intended to be the maximum amount of Receivables Advances at any time outstanding.

"Default" means any Event of Default or any event that with notice, lapse of time or otherwise would constitute an Event of Default.

"Due Diligence Fee" means a payment of an annual fee equal to \$600 due upon the date of this Agreement and \$600 due upon each anniversary thereof so long as any Advance is outstanding or available hereunder.

"Eligible Receivable" means a Receivable that satisfies all of the following:

- (a) The Receivable has been created by Borrower in the ordinary course of Borrower's business and without any obligation on the part of Borrower to render any further performance with respect to such Receivable.
- (b) There are no conditions which must be satisfied before Borrower is entitled to receive payment of the Receivable, and the Receivable does not arise from COD sales, consignments or guaranteed sales.
- (c) The Account Debtor upon the Receivable does not claim any defense to payment of the Receivable, whether well founded or otherwise.
- (d) The Receivable is not the obligation of an Account Debtor who has asserted or may be reasonably be expected to assert any counterclaims or offsets against Borrower (including offsets for any "contra accounts" owed by Borrower to the Account Debtor for goods purchased by Borrower or for services performed for Borrower).
- (e) The Receivable represents a genuine obligation of the Account Debtor and to the extent any credit balances, including tax withholdings, exist in favor of the Account Debtor, such credit balances shall be deducted in calculating the Receivable Amount.
- (f) Borrower has sent an invoice to the Account Debtor in the amount of the Receivable.
- (g) Borrower is not prohibited by the laws of the state where the Account Debtor is located from bringing an action in the courts of that state to enforce the Account Debtor's obligation to pay the Receivable. Borrower has taken all appropriate actions to ensure access to the courts of the state where Account Debtor is located, including, where necessary; the filing of a Notice of Business Activities Report or other similar filing with the applicable state agency or the qualification by Borrower as a foreign corporation authorized to transact business in such state.

(h) The Receivable is owned by Borrower free of any title defects or any liens or interests of others except the security interest in favor of Lender, and Lender has a perfected, first priority security interest in such Receivable.

(i) The Account Debtor on the Receivable is not any of the following: (1) an employee, Affiliate, parent or subsidiary of Borrower, or an entity which has common officers or directors with Borrower; (2) the U.S. government or any agency or department of the U.S. government unless Borrower complies with the procedures in the Federal Assignment of Claims Act of 1940 (41 U.S.C. §15) with respect to the Receivable, and the underlying contract expressly provides that neither the U.S. government nor any agency or department thereof shall have the right of set-off against Borrower; (3) any person or entity located in a foreign country with the exception of Canada (but not including the province of Quebec) unless (A) the Account Debtor on the Receivable is Samsung, LG Electronics, Renesas, Intel and its Subsidiaries, Panasonic, Canon and Socionext which Lender may consider eligible in its sole discretion; or (B) the Receivable is supported by an irrevocable letter of credit issued by a bank acceptable to Lender, and if requested by Lender, the original of such letter of credit and/or any usance drafts drawn under such letter of credit and accepted by the issuing or confirming bank have been delivered to Lender; or (C) the Receivable is supported by other insurance, bond or assurance acceptable to Lender; or (4) an Account Debtor as to which 30% or more of the aggregate dollar amount of all outstanding Receivables owing from such Account Debtor have not been paid within 90 days from invoice date.

(j) The Receivable is not in default (a Receivable will be considered in default if any of the following occur: (i) the Receivable is not paid within 90 days from its invoice date; (ii) the Account Debtor obligated upon the Receivable suspends business, makes a general assignment for the benefit of creditors, or fails to pay its debts generally as they come due; or (iii) any petition is filed by or against the Account Debtor obligated upon the Receivable under any bankruptcy law or any other law or laws for the relief of debtors).

(k) The Receivable does not arise from the sale of goods which remain in Borrower's possession or under Borrower's control.

(l) The Receivable is not evidenced by a promissory note or chattel paper, nor is the Account Debtor obligated to Borrower under any other obligation which is evidenced by a promissory note.

(m) The Receivable is not that portion of Receivables due from an Account Debtor which is in excess of 30% of Borrower's aggregate dollar amount of all outstanding Receivables or such greater or lesser percentage as determined by Lender in its sole discretion.

(n) The Receivable is not a retention billing, bonded receivable or progress billing.

(o) The Receivable is otherwise acceptable to Lender, in Lender's good faith discretion.

"Eligible Receivable Amount" means at any time the sum of the Receivable Amounts of the Eligible Receivables.

"Event of Default" has the meaning set forth in Section 7.1.

"Facility Fee" means a payment of an annual fee equal to .50 percentage points of the Credit Limit due upon the date of this Agreement and each anniversary thereof so long as any Receivables Advance is outstanding or available hereunder.

"Finance Charge" means for each Monthly Period an interest amount equal to the sum of (a) the Finance Charge Percentage of the average daily Account Balance outstanding during such Monthly Period, plus (b) the Finance Charge Percentage of the average principal balance of the Growth Capital Advance outstanding during such period.

“Finance Charge Percentage” means (a) with respect to Receivables Advances, a rate per year equal to the Prime Rate plus 1.00 percentage point plus an additional 5.00 percentage points during any period that an Event of Default has occurred and is continuing, and (b) with respect to Growth Capital Advances, a rate per year equal to the Prime Rate plus 2.00 percentage points plus an additional 5.00 percentage points during any period that an Event of Default has occurred and is continuing.

“FX Sublimit” means the International Sublimit less any amounts outstanding under the Letter of Credit Sublimit.

“GAAP” means generally accepted accounting principles consistently applied and used consistently with prior practices.

“Growth Capital Advance(s)” has the meaning given to such term in Section 1.12 of this Agreement.

“Growth Capital Advance Closing Date” has the meaning given to such term in Section 1.12 of this Agreement.

“Growth Capital Advances Commitment” means \$1,500,000.00.

“Growth Capital Advances Conversion Date” means May 7, 2019.

“Growth Capital Advances Fee” means \$15,000.00.

“Growth Capital Advances Maturity Date” means November 7, 2021.

“International Sublimit” means a sublimit of \$100,000 under the Credit Limit; which shall be available for Letter of Credit and FX Forward Contract services.

“Inventory” means and includes all of Borrower’s now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any consignment, arrangement, contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in Borrower’s business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

“Lender” means WESTERN ALLIANCE BANK, an Arizona corporation, and its successors and assigns.

“Letter of Credit Sublimit” means the International Sublimit, less any amounts outstanding under the FX Sublimit.

“Maturity Date” means, as applicable, the Receivables Maturity Date or the Growth Capital Advances Maturity Date, or such earlier date as Lender shall have declared the Obligations immediately due and payable pursuant to Section 7.2.

“Month End” means the last calendar day of each month.

“Obligations” means all liabilities and obligations of Borrower to Lender of any kind or nature, present or future, arising under or in connection with this Agreement or under any other document, instrument or agreement, whether or not evidenced by any note, guarantee or other instrument, whether arising on account or by overdraft, whether direct or indirect (including those acquired by assignment) absolute or contingent, primary or secondary, due or to become due, now owing or hereafter arising, and however acquired; including, without limitation, all Advances, Finance Charges, fees, interest, expenses, professional fees and attorneys’ fees.

“Overadvance” means at any time an amount equal to the greater of (a) the amounts (if any) by which the total amount of the outstanding Receivables Advances (including deemed Advances with respect to the FX Sublimit and the Letter of Credit Sublimit) exceeds the lesser of the Credit Limit or the Borrowing Base or (b) the amounts (if any) by which the total amount of the outstanding deemed Advances with respect to the FX Sublimit or the Letter of Credit Sublimit exceeds the International Sublimit.



“Permitted Indebtedness” means:

- (a) Indebtedness under this Agreement or that is otherwise owed to Lender.
- (b) Indebtedness existing on the date hereof and specifically disclosed on a schedule to this Agreement.
- (c) Purchase money indebtedness (including capital leases) incurred to acquire capital assets in ordinary course of business and not exceeding \$100,000 in total principal amount at any time outstanding.
- (d) Other indebtedness in an aggregate amount not to exceed \$100,000 at any time outstanding; provided that such indebtedness is junior in priority (if secured) to the Obligations and provided that the incurrence of such Indebtedness does not otherwise cause an Event of Default hereunder.
- (e) Indebtedness incurred in the refinancing of any indebtedness set forth in (a) through (d) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower.
- (f) Subordinated Debt.

“Permitted Liens” means the following but only with respect to property not consisting of Receivables or Inventory:

- (a) Liens securing any of the indebtedness described in clauses (a) through (d) of the definition of Permitted Indebtedness.
- (b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings, provided the same have no priority over any of Lender’s security interests.
- (c) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness described in clause (e) of the definition of Permitted Indebtedness, provided that any extension, renewal or replacement lien shall be limited to the property encumbered by the existing lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.
- (d) Liens securing Subordinated Debt.

“Prime Rate” means the greater of 3.25% per year or the Prime Rate published in the Money Rates section of the Western Edition of The Wall Street Journal, or such other rate of interest publicly announced from time to time by Lender as its Prime Rate. Lender may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in Lender’s Prime Rate.

“Receivables Advance” means each cash advance made to Borrower by Lender pursuant to Section 1.1 of this Agreement based on Borrower’s Receivables.

“Receivable Amount” means as to any Receivable, the Receivable Amount due from the Account Debtor after deducting all discounts, credits, offsets, payments or other deductions of any nature whatsoever, whether or not claimed by the Account Debtor.

“Receivables” means Borrower’s rights to payment arising in the ordinary course of Borrower’s business, including accounts, chattel paper, instruments, contract rights, documents, general intangibles, letters of credit, drafts, and bankers acceptances.

“Receivables Maturity Date” means November 1, 2022.

“Subordinated Debt” means indebtedness of Borrower that is expressly subordinated to the indebtedness of Borrower owed to Lender pursuant to a subordination agreement satisfactory in form and substance to Lender.

“Termination Fee” means a payment equal to 1.00% of the Credit Limit.

“UCC” means the California Uniform Commercial Code, as amended or supplemented from time to time.

#### 12.2 Construction:

(a) In this Agreement: (i) references to the plural include the singular and to the singular include the plural; (ii) references to any gender include any other gender; (iii) the terms “include” and “including” are not limiting; (iv) the term “or” has the inclusive meaning represented by the phrase “and/or,” (v) unless otherwise specified, section and subsection references are to this Agreement, and (vi) any reference to any statute, law, or regulation shall include all amendments thereto and revisions thereof.

(b) Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved using any presumption against either Borrower or Lender, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each party hereto and their respective counsel. In case of any ambiguity or uncertainty, this Agreement shall be construed and interpreted according to the ordinary meaning of the words used to accomplish fairly the purposes and intentions of all parties hereto.

(c) Titles and section headings used in this Agreement are for convenience only and shall not be used in interpreting this Agreement.

13. JURY TRIAL WAIVER THE UNDERSIGNED ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED UNDER CERTAIN CIRCUMSTANCES. TO THE EXTENT PERMITTED BY LAW, EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION ARISING OUT OF OR RELATED TO THIS AGREEMENT OR ANY OTHER DOCUMENT, INSTRUMENT OR AGREEMENT BETWEEN THE UNDERSIGNED PARTIES.

#### 14. JUDICIAL REFERENCE PROVISION.

14.1 In the event the Jury Trial Waiver set forth above is not enforceable, the parties elect to proceed under this Judicial Reference Provision.

14.2 With the exception of the items specified in Section 14.3, below, any controversy, dispute or claim (each, a “Claim”) between the parties arising out of or relating to this Agreement or any other document, instrument or agreement between the undersigned parties (collectively in this Section, the “Loan Documents”), will be resolved by a reference proceeding in California in accordance with the provisions of Sections 638 et seq. of the California Code of Civil Procedure (“CCP”), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as otherwise provided in the Loan Documents, venue for the reference proceeding will be in the state or federal court in the county or district where the real property involved in the action, if any, is located or in the state or federal court in the county or district where venue is otherwise appropriate under applicable law (the “Court”).

14.3 The matters that shall not be subject to a reference are the following: (i) nonjudicial foreclosure of any security interests in real or personal property, (ii) exercise of self-help remedies (including, without limitation, set-off), (iii) appointment of a receiver and (iv) temporary, provisional or ancillary remedies (including, without limitation, writs of attachment, writs of possession, temporary restraining orders or preliminary injunctions). This reference provision does not limit the right of any party to exercise or oppose any of the rights and remedies described in clauses (i) and (ii) or to seek or oppose from a court of competent jurisdiction any of the items described in clauses (iii) and (iv). The exercise of, or opposition to, any of those items does not waive the right of any party to a reference pursuant to this reference provision as provided herein.

14.4 The referee shall be a retired judge or justice selected by mutual written agreement of the parties. If the parties do not agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an ex parte or expedited basis, and the parties agree that irreparable harm would result if ex parte relief is not granted. Pursuant to CCP § 170.6, each party shall have one peremptory challenge to the referee selected by the Presiding Judge of the Court (or his or her representative).

14.5 The parties agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (i) set the matter for a status and trial-setting conference within fifteen (15) days after the date of selection of the referee, (ii) if practicable, try all issues of law or fact within one hundred twenty (120) days after the date of the conference and (iii) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

14.6 The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party's failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered based upon good cause shown, no party shall be entitled to "priority" in conducting discovery, depositions may be taken by either party upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days after service. All disputes relating to discovery which cannot be resolved by the parties shall be submitted to the referee whose decision shall be final and binding.

14.7 Except as expressly set forth herein, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee's power to award costs to the prevailing party, the parties will equally share the cost of the referee and the court reporter at trial.

14.8 The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a court proceeding; including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision at the close of the reference proceeding which disposes of all claims of the parties that are the subject of the reference. Pursuant to CCP § 644, such decision shall be entered by the Court as a judgment or an order in the same manner as if the action had been tried by the Court and any such decision will be final, binding and conclusive. The parties reserve the right to appeal from the final judgment or order or from any appealable decision or order entered by the referee. The parties reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

14.9 If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted), any dispute between the parties that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired judge or justice, in accordance with the California Arbitration Act §1280 through §1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.

14.10 THE PARTIES RECOGNIZE AND AGREE THAT ALL CONTROVERSIES, DISPUTES AND CLAIMS RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER OWN CHOICE, EACH PARTY KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, AGREES THAT THIS REFERENCE PROVISION WILL APPLY TO ANY CONTROVERSY, DISPUTE OR CLAIM BETWEEN OR AMONG THEM ARISING OUT OF OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS,

15. EXECUTION, EFFECTIVENESS, SURVIVAL. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other documents executed in connection herewith constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement. This Agreement shall become effective upon the execution and delivery hereof by Borrower and Lender and shall continue in full force and effect until the Maturity Date and thereafter so long as any Obligations (other than inchoate indemnity obligations) remain outstanding hereunder.

16. CONFIDENTIALITY. The terms of the Nondisclosure Agreement executed by Bridge Bank N.A. and Borrower dated August 28, 2012 shall govern the disclosure of all Borrower proprietary or confidential information disclosed under this Agreement. Lender reserves the right to issue press releases, advertisements, and other promotional materials describing any successful outcome of services provided on Borrower's behalf, provided that Lender shall not identify Borrower by name in those materials without Borrower's prior written consent.

17. OTHER AGREEMENTS. Any security agreements, liens and/or security interests securing payment of any obligations of Borrower owing to Lender or its Affiliates also secure the Obligations, and are valid and subsisting and are not adversely affected by execution of this Agreement. An Event of Default under this Agreement constitutes a default under other outstanding agreements between Borrower and Lender or its Affiliates.

18. REVIVAL AND REINSTATEMENT OF OBLIGATIONS. If the incurrence or payment of the Obligations by Borrower or any guarantor, or the transfer to Lender of any property should for any reason subsequently be asserted, or declared, to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the United States Bankruptcy Code relating to fraudulent conveyances, preferences, or other voidable or recoverable payments of money or transfers of property (each, a "Voidable Transfer"), and if Lender is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that Lender is required or elects to repay or restore, and as to all reasonable costs, expenses, and reasonable attorneys' fees of Lender related thereto, the liability of Borrower and such guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

19. PATRIOT ACT NOTIFICATION. Lender hereby notifies Borrower that pursuant to the requirements of the USA Patriot Act, Title III of Pub. L. 107-56, signed into law October 26, 2001 ("Patriot Act"), Lender is required to obtain, verify and record information that identifies Borrower, which information includes the names and addresses of Borrower and other information that will allow Lender to identify Borrower in accordance with the Patriot Act.

20. NOTICE OF FINAL AGREEMENT. BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THIS WRITTEN AGREEMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement on the day and year above written.

BORROWER:

ARTERIS, INC., A DELAWARE CORPORATION

By

/s/ K. Charles Janac

Name: K. Charles Janac

Title: President and CEO

Address for Notices:

595 Millich Drive, Suite 200

Campbell, CA 95008

Fax: ###

Email: ###

Attn: Charlie Janac

LENDER:

WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION

By

/s/ Kyle Leyendecker

Name: Kyle Leyendecker

Title: EVP

Address for Notices:

WESTERN ALLIANCE BANK

55 Almaden Blvd.

San Jose CA 95113

Fax: \_\_\_\_\_

Email: \_\_\_\_\_

Attn: \_\_\_\_\_

**COMPLIANCE CERTIFICATE**

TO: WESTERN ALLIANCE BANK, an Arizona corporation (“Lender”)

FROM: ARTERIS, INC. (“Borrower”)

The undersigned authorized officer of Borrower hereby certifies that in accordance with the terms and conditions of the Business Financing Agreement between Borrower and Lender (the “Agreement”), (i) Borrower is in complete compliance for the period ending \_\_\_\_\_ with all required covenants except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true and correct as of the date hereof. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes.

**Please indicate compliance status by circling Yes/No under “Complies” column.**

<u>Reporting Covenant</u>	<u>Required</u>	Yes	<u>Complies</u>
Consolidated monthly financial statements and Compliance Certificate	Within 30 days of the end of each calendar month		No
A/R & A/P Agings and Borrowing Base Certificate	Prior to or concurrent with the initial Formula Advance and monthly within 15 days thereafter	Yes	No
Consolidated annual financial statements (CPA audited)	Within 180 days of each FYE	Yes	No
10K and 10Q reports	Within 5 days of SEC filing dates (where applicable)	Yes	No
Board approved operating projections (including income statements, balance sheets and cash flow statements)	30 days prior the beginning of each FYE	Yes	No

<u>Financial Covenant</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>
Minimum Liquidity	1.75 to 1.00	Yes	No

**Deposits**

Deposits held at Western Alliance Bank \$ \_\_\_\_\_  
 Deposits held outside of Western Alliance Bank: \$ \_\_\_\_\_

**Comments Regarding Exceptions:** See Attached.

Sincerely,

\_\_\_\_\_  
SIGNATURE

\_\_\_\_\_  
TITLE

\_\_\_\_\_  
DATE

**BANK USE ONLY**

Received by: \_\_\_\_\_

AUTHORIZED SIGNER

Date: \_\_\_\_\_

Verified: \_\_\_\_\_

AUTHORIZED SIGNER

Date: \_\_\_\_\_

Compliance Status Yes No

**OFFICE LEASE**

**Millich Commercial, LLC**

**a California limited liability company**

**as “Landlord”**

**and**

**Arteris, Inc.**

**a Delaware corporation**

**as “Tenant”**

OFFICE LEASE

**SUMMARY OF BASIC LEASE TERMS**

SECTION (LEASE REFERENCE)		TERMS
A. (Introduction)	<u>Lease Reference Date:</u>	July 17, 2017
B. (Introduction)	<u>Landlord:</u>	Millich Commercial, LLC, a California limited liability company
C. (Introduction)	<u>Tenant:</u>	Arteris, Inc., a Delaware corporation
D. (Section 1.21)	<u>Premises:</u>	That area consisting of approximately 12,609 rentable square feet, the address of which is 595 Millich Drive, Suite 200, Campbell, California, within the Building as shown on <u>Exhibit B</u> .
E. (Section 1.22)	<u>Project:</u>	The land and improvements shown on Exhibit A consisting of one building the aggregate area of which is approximately 24,281 rentable square feet.
F. (Section 1.7)	<u>Building</u>	The Building and the Project are one and the same.
G. (Section 1.32)	<u>Tenant's Share:</u>	51.93%
H. (Section 4.6)	<u>Tenant's Allocated Parking Stalls:</u>	Forty five (45) unreserved parking stalls
I. (Section 1.28)	<u>Scheduled Commencement Date:</u>	September 1, 2017
J. (Section 1.18)	<u>Lease Term:</u>	Sixty nine (69) full calendar months
K. (Section 3.1)	<u>Base Monthly Rent:</u>	Commencement Date – month 18—\$37,827.00 Month 19 – 30—\$38,961.81* Month 31 – 42—\$40,130.66 Month 43 – 54—\$41,334.58 Month 55 – 66—\$42,574.62 Month 67 – expiration date—\$43,851.86  *Subject to the terms and conditions of <u>Article 2.2(b)</u> below.
L. (Section 3.3)	Prepaid Rent:	\$38,961.81



M. (Section 3.5)	<u>Security Deposit:</u>	\$43,851.86
N. (Section 4.1)	<u>Permitted Use:</u>	General Office
O.	<u>Intentionally Omitted</u>	
P. (Section 8.1)	<u>Operating Expense Base Amount:</u>	Operating Expenses paid or incurred by Landlord during calendar year 2018
Q. (Section 9.1)	<u>Tenant's Liability:</u>	\$2,000,000 per occurrence and \$3,000,000 in the aggregate
	<u>Insurance Minimum:</u>	
R. (Section 1.3)	<u>Landlord's Address:</u>	c/o Briggs Development Corporation Attn: Jeffrey L. Rogers 100 Century Center Court, Suite 210 San Jose, California 95112
S. (Section 1.3)	<u>Tenant's Address:</u>	Before the Commencement Date: 591 West Hamilton Avenue, Suite 250 Campbell, California 95008 Attention: CFO From and after the Commencement Date: At the Premises Attention: CFO
T. (Section 15.13)	<u>Retained Real Estate Brokers:</u>	Landlord's Broker—Nick Whitstone and Mark Christerson, CBRE, Inc. Tenant's Broker – None
U. (Section 1.17)	<u>Lease:</u>	This Office Lease includes the Summary of the Basic Lease Terms, the Lease, and the following exhibits and addenda: <u>Exhibit A</u> (site plan of the Project), <u>Exhibit B</u> (diagram of Premises), <u>Exhibit B-1</u> (diagram of Temporary Space), <u>Exhibit C</u> (Description of Landlord Improvements), and <u>Exhibit D</u> (Rules and Regulations).

The foregoing Summary is hereby incorporated into and made a part of this Lease. Each reference in this Lease to any term of the Summary shall mean the respective information set forth above and shall be construed to incorporate all of the terms provided under the particular paragraph pertaining to such information. In the event of any conflict between the Summary and the Lease, the Summary shall control.

## OFFICE LEASE

This Office Lease ("Lease") is dated, for reference purposes only, as of the Lease Reference Date specified in Section A of the Summary of Basic Lease Terms ("Summary"), and is made by and between the party identified as Landlord in Section B of the Summary and the party identified as Tenant in Section C of the Summary.

### ARTICLE 1

#### DEFINITIONS

1.1 General. Any initially capitalized term that is given a special meaning by this Article 1, the Summary, or by any other provision of this Lease (including the exhibits attached hereto) shall have such meaning when used in this Lease or any addendum or amendment hereto unless otherwise clearly indicated by the context.

1.2 Additional Rent. The term "Additional Rent" is defined in Section 3.2.

1.3 Address for Notices. The term "Address for Notices" shall mean the addresses set forth in Sections R and S of the Summary; provided, however, that after the Commencement Date, Tenant's Address for Notices shall be the address of the Premises.

1.4 Agents. The term "Agents" shall mean the following: (i) with respect to Landlord or Tenant, the agents, employees, contractors and invitees of such party, and (ii) in addition with respect to Tenant, Tenant's subtenants and their respective agents, employees, contractors and invitees.

1.5 Agreed interest Rate. The term "Agreed Interest Rate" shall mean that interest rate determined as of the time it is to be applied that is equal to the lesser of (i) the higher of five percent (5%) in excess of the discount rate established by the Federal Reserve Bank of San Francisco as it may be adjusted from time to time, or ten percent (10%) per annum, or (ii) the maximum interest rate permitted by Law.

1.6 Base Monthly Rent. The term "Base Monthly Rent" shall mean the fixed monthly rent payable by Tenant pursuant to Section 3.1 which is specified in Section K of the Summary.

1.7 Building. The term "Building" shall mean the building in which the Premises are located which Building is identified in Section F of the Summary, the rentable area of which is referred to herein as the "Building Rentable Area."

1.8 Commencement Date. The term "Commencement Date" is the date the Lease Term commences, which term is defined in Section 2.2.

1.9 Common Area. The term "Common Area" shall mean all areas and facilities within the Project that are not designated by Landlord for the exclusive use of Tenant or any other lessee or other occupant of the Project, including, without limitation, the parking areas, access and perimeter roads, pedestrian sidewalks, landscaped areas, trash enclosures, recreation areas and the like.

1.10 Intentionally Omitted

1.11 Effective Date. The term "Effective Date" shall mean the date the last signatory to this Lease whose execution is required to make it binding on the parties hereto shall have executed this Lease.

1.12 Event of Tenant's Default. The term "Event of Tenant's Default" is defined in Section 13.1.

1.13 Hazardous Materials. The terms "Hazardous Materials" and "Hazardous Materials Laws" are defined in Section 7.2E.

- 1.14 Insured and Uninsured Peril. The terms “Insured Peril” and “Uninsured Peril” are defined in Section 11.2E.
- 1.15 Law(s). The term “Law(s)” shall mean any judicial decision, statute, constitution, ordinance, resolution, regulation, rule, administrative order or other requirement of any municipal, county, state, federal or other governmental agency or authority having jurisdiction over the parties to this Lease or the Premises, or both, in effect either at the Effective Date or any time during the Lease Term.
- 1.16 Lease. The term “Lease” shall mean the Summary and all elements of this Lease identified in Section U of the Summary, all of which are attached hereto and incorporated herein by this reference.
- 1.17 Lease Term. The term “Lease Term” shall mean the term of this Lease, which shall commence on the Commencement Date and, unless sooner terminated pursuant to this Lease, shall continue for the period specified in Section J of the Summary.
- 1.18 Lender. The term “Lender” shall mean any beneficiary, mortgagee, secured party, ground or underlying lessor, or other holder of any Security Instrument now or hereafter affecting the Project or any portion thereof.
- 1.19 Operating Expenses. The term “Operating Expenses” is defined in Section 8.2.
- 1.20 Permitted Use. The term “Permitted Use” shall mean the use specified in Section N of the Summary, and no other use shall be permitted.
- 1.21 Premises. The term “Premises” shall mean that space described in Section D of the Summary that is within the Building.
- 1.22 Project. The term “Project” shall mean that real property and the improvements thereon which are specified in Section E of the Summary, the aggregate rentable area of which is referred to herein as the “Project Rentable Area.”
- 1.23 Private Restrictions. The term “Private Restrictions” shall mean all recorded covenants, conditions and restrictions, private agreements, reciprocal easement agreements, and any other recorded instruments affecting the use of the Premises and/or the Project which exist as of the Effective Date or which are recorded after the Effective Date.
- 1.24 Real Property Taxes. The term “Real Property Taxes” is defined in Section 8.3.
- 1.25 Rent. The term “Rent” or “rent” shall mean, collectively, Base Monthly Rent, Additional Rent and all other payments of money payable to Landlord under this Lease, whether or not such payments are specifically denominated as rent hereunder.
- 1.26 Rentable Area. The term “Rentable Area” as used in this Lease shall mean, with respect to the Premises, the rentable square feet set forth in Section D of the Summary, and, with respect to the Project, the rentable square feet set forth in Section E of the Summary (subject to reformulation pursuant to Section 1.32 below). Landlord and Tenant agree that (i) each has had an opportunity to determine to its satisfaction the actual area of the Project, the Building and the Premises, (ii) all measurements of area contained in this Lease are conclusively agreed to be correct and binding upon the parties, even if a subsequent measurement of any one of these areas determines that it is more or less than the amount of area reflected in this Lease, and (iii) any such subsequent determination that the area is more or less than shown in this Lease shall not result in a change in any way of the computations of rent, improvement allowances, or other matters described in this Lease where area is a factor.

1.27 Rules and Regulations. The term “Rules and Regulations” shall mean the rules and regulations attached hereto as Exhibit D and any amendments or supplements thereto and any additional rules and regulations, all as may be adopted and promulgated by Landlord from time to time.

1.28 Scheduled Commencement Date. The term “Scheduled Commencement Date” shall mean the date specified in Section I of the Summary.

1.29 Security Instrument. The term “Security Instrument” shall mean any ground or underlying lease, mortgage or deed of trust which now or hereafter affects the Project (or any portion thereof), and any renewal, modification, consolidation, replacement or extension thereof.

1.30 Summary. The term “Summary” shall mean the Summary of Basic Lease Terms executed by Landlord and Tenant that is part of this Lease.

1.31 Tenant’s Alterations. The term “Tenant’s Alterations” shall mean all improvements, additions, alterations and fixtures installed in the Premises by or for the benefit of Tenant following the Commencement Date which are not Trade Fixtures.

1.32 Tenant’s Share. The term “Tenant’s Share” shall mean the percentage obtained by dividing Tenant’s Rentable Area by the Project Rentable Area, which, as of the Effective Date, is the percentage identified in Section G of the Summary. In the event Landlord constructs other buildings on the Project, Landlord may, in Landlord’s sole discretion, reformulate Tenant’s Share, as to any or all of the items which comprise Operating Expenses, to reflect the rentable square footage of the Premises as a percentage of all rentable square footage of the Project. In the event Tenant’s Share is reformulated in accordance with this Section 1.32, Landlord shall promptly provide Tenant notice of such reformulation, together with a written statement showing in reasonable detail the manner in which Tenant’s Share was reformulated and a list of all items of Operating Expenses which will be accounted for using the reformulated percentage. Any items of Operating Expenses to which the reformulated share is not applied shall be accounted for using the original Tenant’s Share set forth in Section G of the Summary.

1.33 Trade Fixtures. The term “Trade Fixtures” shall mean (i) Tenant’s inventory, furniture, signs, business equipment and other personal property, and (ii) anything affixed to the Premises by Tenant at its expense for purposes of trade (except replacement of similar work or material originally installed by Landlord) which can be removed without material injury to the Premises unless such thing has, by the manner in which it is affixed, become an integral part of the Premises.

## ARTICLE 2

### DEMISE, CONSTRUCTION, AND ACCEPTANCE

#### 2.1 Demise of Premises/Temporary Space.

(a) Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, for the Lease Term upon the terms and conditions of this Lease, the Premises for Tenant’s own use in the conduct of Tenant’s business together with (i) the non-exclusive right to use the number of Tenant’s Allocated Parking Stalls within the Common Area (subject to the limitations set forth in Section 4.6), and (ii) the non-exclusive right to use the Common Area for ingress to and egress from the Premises. Landlord reserves the use of the exterior walls, the roof and the area beneath and above the Premises, together with the right to install, maintain, use and replace ducts, wires, conduits and pipes leading through the Premises in locations which will not materially interfere with Tenant’s use of the Premises. The Premises have not undergone an inspection by a Certified Access Specialist (“CASp”) to determine whether or not the Premises meets all applicable construction-related accessibility standards pursuant to California Civil Code Section 55.51 et. seq. Accordingly, pursuant to California Civil Code § 1938(e), Landlord hereby further states as follows: “A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law.

Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises". Landlord shall have the right (but not the obligation) to obtain a report from a CASp, and, in the event that Landlord does so, and such report provides that the Project is in compliance (or any issues of non-compliance are corrected), then, as between Landlord and Tenant, (regardless of whether the claim is brought by any third party, including a subtenant or invitee of Tenant) such report, upon delivery to Tenant shall be conclusive that Landlord has complied with any obligation relating specifically to matters covered by the CASp as of delivery (and exclusive of any improvements made by Tenant) pursuant to California Civil Code sections 55.52 and 55.53. Landlord and Tenant agree that if Tenant requests or performs a CASp inspection of the Premises, Building or Project, then (i) Tenant shall pay the fee for such inspection, (ii) Tenant shall reimburse Landlord upon demand for the cost of making any repairs necessary to correct violations of construction-related accessibility standards to the Premises, Building and/or Project; and (iii) if Tenant commissions an inspection by a CASp, Tenant (a) will not provide Landlord with a copy of such report unless specifically requested in writing by Landlord; (b) shall be responsible for any and all consequences resulting from the commissioning of such inspection, including, but not limited to, implementing, managing and performing any and all repairs, improvements and/or modifications to the Premises, Building, Project or Common Areas related to addressing and/or correcting any violations disclosed by such inspection; and (c) shall indemnify, defend and hold Landlord harmless from and against any and all losses, liabilities, damages, costs and claims that may be made against Landlord by any party claiming that Landlord had knowledge of a non-compliance of the Premises, Building, Project or Common Areas with applicable laws as a result of such inspection. Notwithstanding clause (ii) of the immediately preceding sentence, Landlord may elect to require Tenant to implement, manage and/or perform such repairs, improvements and/or modifications in lieu of Landlord performing such and requiring reimbursement from Tenant.

(b) In the event the Premises is not ready for occupancy on September 1, 2017 (the "Temporary Space Commencement Date"), Landlord agrees to provide to Tenant and Tenant shall have the right to use, subject to the terms and provisions of this Article 2.1(b), approximately 2,228 rentable square feet commonly known as Suites 105 and 106 and located on the first (1<sup>st</sup>) floor of Building (the "Temporary Space"), as such Temporary Space is shown on Exhibit B-1 attached hereto and incorporated herein, as temporary office space. If applicable, the Temporary Space shall be made available to Tenant commencing on the Temporary Space Commencement Date and shall expire at 11:59 p.m. Pacific Time on the day immediately preceding the Commencement Date (the "Temporary Space Termination Date"). Tenant accepts the Temporary Space in its "**AS IS, WHERE IS**" condition and shall not be entitled to make any alterations, improvements or modifications to the Temporary Space, provided that Tenant may install telephone and data cabling to the Temporary Space upon receipt of Landlord's consent, which consent shall not be unreasonably withheld. Prior to the Commencement Date, Tenant shall remove or cause to be removed from the Premises all telephone, data, and other cabling and wiring (including any cabling, wiring, control panels or sensors associated with any wi-fi network serving the Temporary Space, audio/visual system, electronic communication system or security system, if any) existing in, or serving, the Temporary Space installed by or caused to be installed by Tenant (including any cabling and wiring, installed above the ceiling of the Temporary Space or below the floor of the Temporary Space) and all debris and rubbish related thereto, and such similar articles of any other persons claiming under Tenant, and Tenant shall repair at its own expense all damage to the Temporary Space and Building resulting from such removal. During Tenant's occupancy of the Temporary Space, all terms and provisions of this Lease shall apply to Tenant's use and occupancy of the Temporary Space (excluding, however, Tenant's obligation to pay Base Monthly Rent and Additional Rent with respect to the Temporary Space) as if the Temporary Space was considered part of the Premises; provided, however, Landlord shall have no obligation to make any alterations, improvements or modifications to the Temporary Space, or provide any allowances or rent credits with respect thereto. Tenant agrees to remove all furniture and other personal property from the Temporary Space on or prior to the Temporary Space Termination Date and vacate and surrender same to Landlord in the same condition as received. Should Tenant continue to occupy the Temporary Space past the Temporary Space Termination Date, Tenant shall be in holdover of the Temporary Space,

subjecting Tenant to the terms and provisions of Article 15.3 of this Lease with respect to the Temporary Space; provided, however, such tenancy shall be a tenancy at sufferance and rent payable for any such tenancy shall be (a) Six Thousand Six Hundred Eighty Four Dollars (\$6,684.00) for the first thirty days; and (b) Ten Thousand Twenty Six Dollars (\$10,026.00) per month for each month thereafter.

## 2.2 Commencement Date.

(a) The Scheduled Commencement Date shall be only an estimate of the actual Commencement Date, and the Lease Term shall begin on the first to occur of the following, which shall be the "Commencement Date": (i) the date Landlord offers to deliver possession of the Premises to Tenant following substantial completion of all improvements to be constructed by Landlord pursuant to Section 2.3 except for punchlist items which do not prevent Tenant from using the Premises for the Permitted Use, or (ii) the date Tenant reenters into occupancy of all of the Premises after having vacated pursuant to Section 2.8. Notwithstanding the foregoing, the actual Commencement Date shall not be earlier than September 1, 2017. Promptly following the delivery of possession of the Premises by Landlord to Tenant, Landlord shall deliver Tenant written confirmation of the Commencement Date and such other terms as Landlord shall determine appropriate; provided, however, failure to deliver such written confirmation shall not affect the Commencement Date.

(b) Notwithstanding anything in this Lease to the contrary, Tenant (upon no less than five (5) business days' notice to Landlord) shall have the unilateral right to occupy those certain portions of the Premises (as applicable, instead of the entire Premises) (1) in which Landlord has substantially completed the improvements required pursuant to Article 2.3 below and determined that such portion of the Premises is prepared for occupancy, both as Landlord reasonably determines; and (2) for which Tenant has received a temporary certificate of occupancy, in which event, (i) the Commencement Date shall not be deemed to have occurred until determined pursuant to Section 2.1(a) but such tenancy and occupancy by Tenant shall be subject to all terms and conditions of this Lease notwithstanding that the Commencement Date has not yet occurred, and (ii) Tenant's Base Monthly Rent due and owing under this Lease shall be pro-rated on a per square footage basis until the Commencement Date occurs.

(c) Reference is herein made to those certain improvements, additions and/or alterations being constructed by Landlord to the Common Area (the "Common Area Improvements"). A list of all Common Area Improvements planned as of the Lease Reference Date is attached hereto as Exhibit E. Notwithstanding anything in this Lease to the contrary, in the event the Common Area Improvements are not substantially completed by September 1, 2017, and the remaining Common Area Improvements to be performed directly and materially adversely impact Tenant's use and enjoyment of the Premises, the Base Monthly Rent otherwise due and owing under this Lease shall be \$23,995.10 until the earlier of the date on which the Common Area Improvements are substantially completed or the remaining Common Area Improvements to be completed no longer directly and materially adversely impact Tenant's use and enjoyment of the Premises.

2.3 Construction of Improvements. Landlord shall construct certain improvements that shall constitute or become part of the Premises if required by, and then in accordance with, the attached Exhibit C. Except as specifically provided in Exhibit C and this Section 2.3, Landlord shall have no obligation whatsoever to in any way alter or improve the Premises. Tenant acknowledges that it has had an opportunity to conduct, and has conducted, such inspections of the Premises as it deems necessary to evaluate its condition. In addition, Landlord shall deliver the Premises to Tenant with all building systems in good working order. Except as otherwise specifically provided herein, Tenant agrees to accept possession of the Premises in its then existing condition "as-is", including all patent and latent defects. Tenant's taking possession of any part of the Premises shall be deemed to be an acceptance by Tenant of any work of improvement done by Landlord in such part as complete and in accordance with the terms of this Lease, subject to Landlord's obligations, if any, under Exhibit C.

2.4 Delay in Delivery of Possession. If for any reason Landlord cannot deliver possession of the Premises to Tenant on or before the Scheduled Commencement Date, Landlord shall not be subject to any liability therefore, and such failure shall not affect the validity of this Lease or the obligations of Tenant

hereunder, but, in such case, Tenant shall not be obligated to pay Base Monthly Rent or Tenant's Share of Operating Expenses until the Commencement Date has occurred; provided, however, if Landlord cannot deliver possession of the Premises to Tenant on or before the date ("Outside Commencement Date") that is ninety (90) days following the Scheduled Commencement Date, Tenant shall have the right, as its sole and exclusive remedy, to terminate this Lease by providing Landlord with written notice thereof within five (5) days following the Outside Commencement Date (provided, however, in the event that Landlord's failure to deliver possession of the Premises to Tenant on or before the Outside Commencement Date is attributable, in whole or in part, to any action or inaction by Tenant or Tenant's Agents or by reason of any causes beyond the reasonable control of Landlord ("Force Majeure Delay"), the Outside Commencement Date shall be extended for the period of delay attributable to the action or inaction by Tenant or Tenant's Agents in question and/or the Force Majeure Delay in question, as applicable). In the event Tenant provides Landlord with written notice of termination within such five (5) day period, this Lease shall terminate upon such notice and Landlord shall promptly return to Tenant any deposits made by Tenant to Landlord under this Lease. In the event Tenant fails to provide Landlord with written notice of termination within such five (5) day period, this Lease shall continue in full force and effect.

2.5 Early Occupancy. If Tenant enters or permits its Agents to enter the Premises prior to the Commencement Date with the written permission of Landlord, it shall do so upon all of the terms of this Lease (including its obligations regarding indemnity and insurance), and, except as provided below, Tenant shall pay Base Monthly Rent and all other charges provided for in this Lease during the period of such occupancy. Provided that Tenant does not interfere with or delay the completion by Landlord or its agents or contractors of the construction of any tenant improvements, and provided that Landlord has possession of the Premises, Tenant shall have the right to enter the Premises up to fourteen (14) days prior to the anticipated Commencement Date for the sole purpose of installing furniture, trade fixtures, equipment, and similar items, and Tenant shall have no obligation to begin paying Base Monthly Rent or other charges based solely on its installation of these items. Tenant shall be liable for any damages or delays caused by Tenant's activities at the Premises, and Section 10.3 shall apply to Tenant's activities. Prior to entering the Premises Tenant shall obtain all insurance it is required to obtain by the Lease and shall provide certificates of said insurance to Landlord. Tenant shall coordinate such entry with Landlord's building manager, and such entry shall be made in compliance with all terms and conditions of this Lease and the Rules and Regulations attached hereto.

2.6 No Roof Rights. In no event shall Tenant have any rights whatsoever to use all or any portion of the roof of the Building, it being understood and agreed that Landlord expressly reserves the right to use (and/or permit others to use) the roof of the Building in its sole and absolute discretion.

2.7 Delays Caused by Tenant. There shall be no abatement of rent, and the ninety (90) day period specified in Section 2.4 shall be deemed extended, to the extent of any delays caused by acts or omissions of Tenant, Tenant's agents, employees and contractors, or for Tenant delays as defined in any work letter agreement attached to this Lease, if any (hereinafter "Tenant Delays"). Tenant shall pay to Landlord an amount equal to one thirtieth (1/30th) of the Base Monthly Rent due for the first full calendar month of the Lease term for each day of Tenant Delay. For purposes of the foregoing calculation, the Base Monthly Rent payable for the first full calendar month of the term of this Lease shall not be reduced by any abated rent, conditionally waived rent, free rent or similar rental concessions, if any. Landlord and Tenant agree that the foregoing payment constitutes a fair and reasonable estimate of the damages Landlord will incur as the result of a Tenant Delay. Within thirty (30) days after Landlord tenders possession of the Premises to Tenant, Landlord shall notify Tenant of Landlord's reasonable estimate of the date Landlord could have delivered possession of the Premises to Tenant but for the Tenant Delays. After delivery of said notice, Tenant shall immediately pay to Landlord the amount described above for the period of Tenant Delay.

2.8 Termination of Existing Lease. Landlord and Tenant are party to that certain Standard Office Lease dated November 23, 2015 ("Suite 206 Lease"), for certain premises located in the Building commonly known as Suite 206 ("Suite 206"). Tenant shall vacate and surrender possession of Suite 206 in the condition required by the Suite 206 Lease no later than 11:59 pm, Pacific Time, three (3) days following receipt of written notice from Landlord to do so (the "Surrender Date"), provided that Tenant shall not be

required to vacate and surrender Suite 206 prior to 11:59 p.m. Pacific Standard Time on July 7, 2017. The Suite 206 Lease shall terminate as of the earlier of (a) Tenant's vacation and surrender of possession of Suite 206; and (b) the Surrender Date. Tenant's failure to timely surrender possession and vacate Suite 206 pursuant to this Section shall be (i) deemed a holdover in possession of Suite 206 pursuant to Section 25 of the Suite 206 Lease; provided, however, such shall be a tenancy at sufferance and not a month-to-month tenancy; and (ii) a Tenant Delay.

## 2.9 Option to Expand.

(a) During the initial sixty nine (69) month term of this Lease (but not during any extension of the term), Tenant shall have the one time right of offer ("Right of Offer") to lease any space which becomes vacant on the first floor of the Building or which Landlord determines will become vacant on the first floor of the Building, after Tenant occupies the Premises (the "Additional Premises"). Tenant's rights with respect to any portion of the Additional Premises that is vacant as of the date of this Lease shall not apply until after Landlord has entered into a final and binding lease agreement for such portion of the Additional Premises. Prior to leasing any portion of the Additional Premises, Landlord shall give Tenant written notice of its intent to lease such portion the Additional Premises (a "Landlord Notice"). Tenant shall have thirty (30) days after Landlord has given a Landlord Notice in which to provide Landlord with written notice (an "Election Notice") of its election to exercise its right to lease all of the offered portion of the Additional Premises (Tenant shall not have the right to elect to lease part of the offered portion of the Additional Premises). Tenant shall pay Base Rent for the Additional Premises at the "Market Rate" (as defined below). If Tenant timely and properly delivers and Election Notice (a) the commencement date of Tenant's lease of such portion of the Additional Premises shall be the date on which Landlord offers to tender possession to Tenant; (b) possession shall be delivered in "as is" condition, without representation or warranty, and Landlord shall not be required to make any modifications or alterations to the Additional Premises or provide Tenant with a tenant improvement allowance; (c) such portion of the Additional Premises shall be automatically added to the "Premises" and be a part thereof for all purposes under this Lease other than Landlord's obligation to make improvements pursuant to Exhibit C; (d) the term of the Lease (i) for the Additional Premises shall be coterminous with the Term for the Premises if no tenant improvement allowance for the Additional Premises is provided by Landlord and if Landlord is not required to perform any tenant improvements to the Additional Premises; or (ii) shall be extended such that the expiration date of the Lease is the last day of the sixtieth (60<sup>th</sup>) full calendar month after the Additional Premises commencement date if Landlord provides a tenant improvement allowance for the Additional Premises or is required to perform any tenant improvements to the Additional Premises; (e) as of the Additional Premises commencement date, Tenant's Share and Tenant's Allocated Parking Stalls shall be appropriately adjusted to reflect the addition of the Additional Premises; and (f) concurrently with Tenant's delivery of the Election Notice Tenant shall pay Landlord (i) prepaid rent for the first month of its lease of the Additional Premises; plus (ii) an additional security deposit, which shall be added to the Security Deposit (as defined below), such that the total Security Deposit held by Landlord is an amount equal to one hundred percent (100%) of the last calendar month of the Lease term (as extended pursuant to this Section). All of the other terms and conditions pertaining to the lease of the Additional Premises shall be agreed to by Landlord and Tenant within ten (10) business days after Landlord receives Tenant's written notice. If Landlord and Tenant are unable to agree on such terms and conditions within the ten (10) business day period, Tenant's right to lease the Additional Premises shall automatically expire and Tenant shall have no further right to lease the Additional Premises. All of the terms and conditions for the lease of the Additional Premises shall be satisfactory to Landlord, in Landlord's sole discretion. If Tenant does not give Landlord written notice of its election to lease such portion of the Additional Premises within thirty (30) days after delivery of a Landlord Notice, Landlord shall thereafter be free to lease such portion of the Additional Premises to a third party on any terms and conditions that Landlord shall select, with no further obligation (except for notice as provided below) to Tenant related to such portion of the Additional Premises. In the event that Landlord offers any space to Tenant pursuant to this right of offer and Tenant does not lease the space, the space so offered shall no longer be subject to this right of offer and thereafter Landlord shall not be obligated to offer said space to Tenant. Landlord shall attempt to provide Tenant with courtesy notice upon obtaining a third party offer for such Additional Premises that is acceptable to Landlord. Notwithstanding the foregoing, Landlord's failure to provide such notice shall not provide Tenant with any rights or recourse and Tenant shall not have any right to the Additional Premises resulting from such courtesy notice. Tenant shall not have the right to exercise the



right of offer granted in this section, at any time that Tenant has subleased all or any portion of the Premises or at any time Tenant is in default (beyond any applicable notice and cure period) as defined in the Lease. This right of offer shall be subject to the prior and existing rights of the other tenants in the Project to lease any portion of the Additional Premises, including, but not limited to, any tenant who has the legal right or option to renew or extend its lease.

(b) The term "Market Rate" shall mean the annual amount per rentable square foot that a willing, comparable tenant would pay and a willing, comparable landlord of a similar office building would accept at arm's length for similar space, giving appropriate consideration to the following matters: (i) annual rental rates per rentable square foot; (ii) the type of escalation clauses (including, but without limitation, operating expense, real estate taxes, and CPI) and the extent of liability under the escalation clauses (i.e., whether determined on a "net lease" basis or by increases over a particular base year or base dollar amount); (iii) rent abatement provisions reflecting free rent and/or no rent during the lease term; (iv) length of lease term (to be determined by Landlord in accordance with (a) above, in Landlord's sole discretion); (v) size and location of premises being leased; (vi) the amount of any tenant improvement allowance; and (vii) other generally applicable terms and conditions of tenancy for similar space.

(c) If Tenant exercises the Right of Offer, Landlord shall determine the Market Rate by using its good faith judgment. Landlord shall provide Tenant with written notice of such amount within ten (10) business days after Tenant delivers its Election Notice to Landlord. Tenant shall have five (5) business days ("Tenant's Review Period") after receipt of Landlord's notice of the rental rate within which to accept such rental. In the event Tenant fails to accept in writing such rental proposal by Landlord, then such proposal shall be deemed rejected, and Landlord and Tenant shall attempt to agree upon such Market Rate, using their best good faith efforts. If Landlord and Tenant fail to reach agreement within five (5) business days following Tenant's Review Period ("Outside Agreement Date"), then each party shall place in a separate sealed envelope their final proposal as to the Market Rate, and such determination shall be submitted to arbitration in accordance with subsections (i) through (v) below.

(i) Landlord and Tenant shall meet with each other within three (3) business days after the Outside Agreement Date and exchange their sealed envelopes and then open such envelopes in each other's presence. If Landlord and Tenant do not mutually agree upon the Market Rate within one (1) business day of the exchange and opening of envelopes, then, within three (3) business days of the exchange and opening of envelopes, Landlord and Tenant shall agree upon and jointly appoint a single arbitrator who shall by profession be a real estate broker or agent who shall have been active over the five (5) year period ending on the date of such appointment in the leasing of commercial buildings similar to the Premises in the geographical area of the Premises. Neither Landlord nor Tenant shall consult with such broker or agent as to his or her opinion as to the Market Rate prior to the appointment. The determination of the arbitrator shall be limited solely to the issue of whether Landlord's or Tenant's submitted Market Rate for the Additional Premises is the closest to the actual Market Rate for the Additional Premises as determined by the arbitrator, taking into account the requirements for determining Market Rate set forth herein. In addition, Landlord or Tenant may submit to the arbitrator with a copy to the other party within three (3) business days after the appointment of the arbitrator any market data and additional information such party deems relevant to the determination of the Market Rate ("RR Data"), and the other party may submit a reply in writing within two (2) business days after receipt of such RR Data.

(ii) The arbitrator shall, within three (3) business days of his or her appointment, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Market Rate and shall notify Landlord and Tenant of such determination.

(iii) The decision of the arbitrator shall be final and binding upon Landlord and Tenant.

(iv) If Landlord and Tenant fail to agree upon and appoint an arbitrator, then the appointment of the arbitrator shall be made by the presiding judge of the Superior Court for the County in which the Premises is located, or, if he or she refuses to act, by any judge having jurisdiction over the parties.

(v) The cost of the arbitration shall be paid by Landlord and Tenant equally.

(d) Such portion of the Additional Premises shall be leased to Tenant pursuant to an amendment to this Lease, which Landlord and Tenant shall execute promptly once all business terms for the Additional Premises have been agreed to. The consequence of Landlord and Tenant not being able to agree on the terms and conditions of the lease amendment shall be that Landlord shall have no further obligation to lease such portion of the Additional Premises to Tenant and Tenant shall have no further obligation or right to lease such portion of the Additional Premises from Landlord pursuant to this section.

### ARTICLE 3

#### RENT

3.1 Base Monthly Rent. Commencing on the Commencement Date and continuing throughout the Lease Term, Tenant shall pay to Landlord the Base Monthly Rent set forth in Section K of the Summary.

3.2 Additional Rent. Commencing on the Commencement Date and continuing throughout the Lease Term, Tenant shall pay the following as additional rent (the "Additional Rent"): (i) any late charges or interest due Landlord pursuant to Section 3.4; (ii) Tenant's Share of Operating Expenses as provided in Section 8.1; (iii) Landlord's share of any Transfer Consideration received by Tenant upon certain assignments and sublettings as required by Section 14.1; (iv) any legal fees and costs due Landlord pursuant to Section 15.9; and (v) any other sums or charges payable by Tenant pursuant to this Lease.

3.3 Payment of Rent. Concurrently with Tenant's execution of this Lease, Tenant shall pay to Landlord the amount set forth in Section L of the Summary as prepayment of rent for credit against the first installment(s) of Base Monthly Rent. All rent required to be paid in monthly installments shall be paid in advance on the first day of each calendar month during the Lease Term. If Section K of the Summary provides that the Base Monthly Rent is to be increased during the Lease Term and if the date of such increase does not fall on the first day of a calendar month, such increase shall become effective on the first day of the next calendar month. All rent shall be paid in lawful money of the United States, without any abatement, deduction or offset whatsoever (except as specifically provided in Sections 11.4 and 12.3), and without any prior demand therefore. Rent shall be paid to Landlord at its address set forth in Section R of the Summary, or at such other place as Landlord may designate from time to time. Tenant's obligation to pay Base Monthly Rent and Tenant's Share of Operating Expenses shall be prorated at the commencement and expiration of the Lease Term.

3.4 Late Charge and Interest. Tenant acknowledges that late payment by Tenant to Landlord of Rent under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which is extremely difficult or impracticable to determine. Such costs include, but are not limited to, processing and accounting charges, late charges that may be imposed on Landlord by the terms of any Security Instrument, and late charges and penalties that may be imposed due to late payment of Real Property Taxes. Therefore, if any installment of Base Monthly Rent or any payment of Additional Rent or other rent due from Tenant is not received by Landlord in good funds by the date that is three (3) business days after its due date, Tenant shall pay to Landlord an additional sum equal to five percent (5%) of the amount overdue as a late charge; provided, however, such late charge shall be waived for the first late payment of Rent in any calendar year provided Tenant makes such payment within three (3) business days after receipt of written notice. The parties acknowledge that this late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of late payment by Tenant. In no event shall this provision for a late charge be deemed to grant to Tenant a grace period or extension of time within which to pay any rent or prevent Landlord from exercising any right or remedy available to Landlord upon Tenant's failure to pay any rent due under this Lease in a timely fashion, including any right to terminate this Lease pursuant to Section 13.2C. If any rent remains delinquent for a period in excess of thirty (30) days then, in addition to such late charge, Tenant shall pay to Landlord interest on any rent that is not paid when due at the Agreed Interest Rate following the date such amount became due until paid.

3.5 Security Deposit. Concurrently with its execution of this Lease, Tenant shall deposit with Landlord the amount set forth in Section M of the Summary as security for the performance by Tenant of its obligations under this Lease, and not as prepayment of rent (the "Security Deposit"). Landlord may from time to time apply such portion of the Security Deposit as is necessary for the following purposes: (i) to remedy any default by Tenant in the payment of rent; (ii) to repair damage to the Premises caused by Tenant; (iii) to clean the Premises upon the expiration or sooner termination of the Lease; and/or (iv) to remedy any other default of Tenant to the extent permitted by Law, including, without limitation, on account of damages owing to Landlord under Section 13.2, and, in this regard, Tenant hereby waives any restriction on the uses to which the Security Deposit may be put contained in California Civil Code Section 1950.7. In the event the Security Deposit or any portion thereof is so used, Tenant agrees to pay to Landlord promptly upon demand an amount in cash sufficient to restore the Security Deposit to the full original amount. Landlord shall not be deemed a trustee of the Security Deposit, may use the Security Deposit in business, and shall not be required to segregate it from its general accounts. Tenant shall not be entitled to any interest on the Security Deposit. If Landlord transfers the Premises during the Lease Term, Landlord may pay the Security Deposit to any transferee of Landlord's interest in conformity with the provisions of California Civil Code Section 1950.7 and/or any successor statute, in which event the transferring Landlord will be released from all liability for the return of the Security Deposit. If Tenant performs every provision of this Lease to be performed by Tenant, the unused portion of the Security Deposit shall be returned to Tenant (or the last assignee of Tenant's interest under this Lease) within fifteen (15) days following the expiration or sooner termination of this Lease and the surrender of the Premises by Tenant to Landlord in accordance with the terms of this Lease. If this Lease is terminated following an Event of Tenant's Default, the unpaid portion of the Security Deposit, if any, shall be returned to Tenant two (2) weeks after final determination of all damages due Landlord, and, in this respect, the provisions of California Civil Code Section 1950.7 are hereby waived by Tenant.

#### ARTICLE 4

##### USE OF PREMISES

4.1 Limitation on Use. Tenant shall use the Premises solely for the Permitted Use specified in Section N of the Summary and for no other purpose whatsoever without the prior written consent of Landlord, which consent may be withheld and/or conditioned by Landlord in its sole and absolute discretion. Tenant shall not do anything in or about the Premises which will (i) cause structural injury to the Building, or (ii) cause damage to any part of the Building except to the extent reasonably necessary for the installation of Tenant's Trade Fixtures and Tenant's Alterations, and then only in a manner which has been first approved by Landlord in writing. Tenant shall not operate any equipment within the Premises which will (i) materially damage the Building or the Common Area, (ii) overload existing electrical systems or other mechanical equipment servicing the Building, (iii) impair the efficient operation of the sprinkler system or the heating ventilating or air conditioning ("HVAC") equipment within or servicing the Building, or (iv) damage, overload or corrode the sanitary sewer system. Tenant shall not attach, hang or suspend anything from the ceiling, roof, walls or columns of the Building other than photographs, projectors, whiteboards, and the like typically hung in similar office environments or set any load on the floor in excess of the load limits for which such items are designed nor operate hard wheel forklifts within the Premises. Any dust, fumes, or waste products generated by Tenant's use of the Premises shall be contained and disposed so that they do not (i) create an unreasonable fire or health hazard, (ii) damage the Premises, or (iii) result in the violation of any Laws. Tenant shall not change the exterior of the Building or install any equipment or antennas on or make any penetrations of the exterior or roof of the Building. Tenant shall not commit any waste in or about the Premises, and Tenant shall keep the Premises in a neat, clean, attractive and orderly condition, free of any nuisances. If Landlord designates a standard window covering for use throughout the Building, Tenant shall use this standard window covering to cover all windows in the Premises. Tenant shall not conduct on any portion of the Premises or the Project any sale of any kind, including, without limitation, any public or private auction, fire sale, going-out-of-business sale, distress sale or other liquidation sale.

4.2 Compliance with Regulations. Tenant shall not use the Premises in any manner which violates any Laws or Private Restrictions which affect the Premises. Tenant shall abide by and promptly observe and comply with all Laws and Private Restrictions. Tenant shall not use the Premises in any manner which will cause a cancellation of any insurance policy covering the Premises, the Building, Tenant's Alterations or any improvements installed by Landlord at its expense or which poses an unreasonable risk of damage or injury to the Premises. Tenant shall not sell, or permit to be kept, used, or sold in or about the Premises any article which may be prohibited by the standard form of fire insurance policy. Tenant shall comply with all reasonable requirements of any insurance company, insurance underwriter or Board of Fire Underwriters which are necessary to maintain the insurance coverage earned by either Landlord or Tenant pursuant to this Lease.

4.3 Outside Areas. No materials, supplies, tanks or containers, equipment, finished products or semi-finished products, raw materials, inoperable vehicles or articles of any nature shall be stored upon or permitted to remain outside of the Premises.

4.4 Signs. Tenant shall not place on any portion of the Premises any sign, placard, lettering in or on windows, banner, displays or other advertising or communicative material which is visible from the exterior of the Building without the prior written approval of Landlord. All such approved signs shall strictly conform to all Laws, Private Restrictions, and any sign criteria established by Landlord for the Building from time to time, and shall be installed at the expense of Tenant. Tenant shall maintain such signs in good condition and repair, and, upon the expiration or sooner termination of this Lease, remove the same and repair any damage caused thereby, all at its sole cost and expense and to the reasonable satisfaction of Landlord. Landlord shall place Tenant's name adjacent to the door to the Premises using Building standard suite signage at Landlord's sole cost and expense. Landlord shall also place Tenant's name in the Building's lobby directory and suite signage, at Landlord's sole cost and expense. Any changes to Tenant's name shall be paid for by Tenant, at Tenant's sole cost and expense. Subject to Tenant obtaining any required governmental permits, Tenant shall be entitled to place its name on the exterior of the Building ("Exterior Signage"), at Tenant's sole cost and expense. Landlord shall have the right to approve the size, design, location and color of Tenant's name on the Exterior Signage, in Landlord's reasonable discretion. Tenant shall maintain its name in good condition, at Tenant's sole cost and expense. Prior to the termination of the Lease, Tenant shall remove its name from the Exterior Signage and repair any damages caused by such removal. Except with respect to a Permitted Transfer, if at any time Tenant has assigned this Lease or has subleased fifty percent (50%) or more of the usable square feet in the Premises, Landlord shall have the right, at Landlord's option, at any time, upon not less than ninety (90) days advance written notice to Tenant, to require Tenant to permanently remove its name from the Exterior Signage and to repair any damage to the Exterior Signage caused by such removal, at Tenant's sole cost and expense. From and after the date of such removal, Tenant shall no longer have the right to the Exterior Signage. Tenant shall reimburse Landlord for all costs and expenses associated with modification of any signage within ten (10) days after demand from Landlord.

4.5 No Light, Air or View Easement. Any diminution or shutting off of light, air or view by any structure which may be erected on the Project or any lands adjacent to the Project shall in no way affect this Lease or impose any liability on Landlord.

4.6 Parking. Tenant is allocated and shall have the non-exclusive right to use the non-exclusive parking spaces located within the Project from time to time, for its use and the use of Tenant's Agents, in common with other tenants of the Project, the number of allocated parking spaces set forth in Section H of the Summary, the location of which parking spaces may be designated from time to time by Landlord. Tenant shall not at any time use more parking spaces than the number so allocated to Tenant or park its vehicles or the vehicles of others in any portion of the Project not designated by Landlord as a non-exclusive parking area. Tenant shall not have the exclusive right to use any specific parking space. If Landlord grants to any other tenant the exclusive right to use any particular parking space(s), Tenant shall not use such spaces, provided that Tenant's parking allocation under this Lease is not reduced. Tenant shall not park or store vehicles at the Project for more than (24) hours without the Landlord's written consent in Landlord's sole and absolute discretion. Such unauthorized vehicles may be towed at Tenant's expense. Landlord reserves the right, after having given Tenant reasonable notice, to have any vehicles owned by Tenant or Tenant's Agents utilizing parking spaces in excess of the parking spaces allowed for Tenant's use to be towed away at Tenant's cost. All trucks and delivery vehicles shall be (i) parked in such areas as Landlord may designate from time to time, (ii) loaded and unloaded in a manner which does not interfere with the

businesses of other occupants of the Project, and (iii) permitted to remain on the Project only so long as is reasonably necessary to complete loading and unloading. In the event Landlord elects or is required by any Law to limit or control parking in the Project, whether by validation of parking tickets or any other method of assessment, Tenant agrees to participate in such validation or assessment program under such rules and regulations as are from time to time established by Landlord.

4.7 Rules and Regulations. Landlord may from time to time promulgate such Rules and Regulations applicable to the Project and/or the Building as Landlord may, in its sole discretion, deem necessary or appropriate for the care and orderly management of the Project and the safety of its tenants and invitees. Such Rules and Regulations shall be binding upon Tenant upon delivery of a copy thereof to Tenant, and Tenant agrees to abide by such Rules and Regulations. If there is a conflict between the Rules and Regulations and any of the provisions of this Lease, the provisions of this Lease shall prevail. Landlord shall have the right, from time to time, to modify, amend and enforce the Rules and Regulations in a non-discriminatory manner, provided that such modification and revisions are uniformly applied to all tenants within the Building. Landlord shall not be responsible for the violation by any other tenant of the Project of any such Rules and Regulations.

4.8 Telecommunications. The use of the Premises by Tenant for the Permitted Use specified in Section N of the Summary shall not include using the Premises to provide telecommunications services (including, without limitation, Internet connections) to third parties, it being intended that Tenant's telecommunications activities within the Premises be strictly limited to such activities as are incidental to general office use.

4.9 Occupant Density. Tenant shall maintain a ratio of not more than one Occupant (as defined below) for each one hundred ninety (190) square feet of rentable area in the Premises (hereinafter, the "Occupant Density"). If Landlord has a reasonable basis to believe that Tenant is exceeding the Occupant Density, upon request by Landlord, Tenant shall maintain on a daily basis an accurate record of the number of employees and contractors that are present in the Premises (collectively "Occupants"). Landlord shall have the right to audit Tenant's Occupant record and, at Landlord's option, Landlord shall have the right to periodically visit the Premises without advance notice to Tenant in order to track the number of Occupants working at the Premises. For purposes of this section, "Occupants" shall not include people not employed by Tenant that deliver or pick up mail or other packages at the Premises, employees of Landlord or employees of Landlord's agents or contractors. Tenant acknowledges that increased numbers of Occupants causes additional wear and tear on the Premises and the Common Areas, additional use of HVAC, electricity, water and other utilities, and additional demand for other Building services. Tenant's failure to comply with the requirements of this section shall constitute an Event of Tenant's Default and Landlord shall have the right, in addition to any other remedies it may have at law or equity, to specifically enforce Tenant's obligations under this section. Nothing contained in this section shall be interpreted to entitle Tenant to use more parking spaces than the number permitted by this Lease.

4.10 Landlord Charging Stations. Landlord may have previously installed or may elect to install in the future electric vehicle charging stations at the Project for the use of persons working at the Project who drive electric vehicles ("Landlord Charging Stations"). Landlord may elect in its sole discretion to permit only certain persons working at the Project to use the Landlord Charging Stations, and Landlord reserves the right, in its sole discretion, to determine, who will have the right to use the Landlord Charging Stations. If Landlord permits Tenant to use the Landlord Charging Stations, neither Tenant nor any employee, agent, contractor or invitee shall have the right to use the Landlord Charging Stations prior to the execution by such party of a written agreement prepared by Landlord governing such person's right to use the Landlord Charging Stations (the "Electric Vehicle Charging Agreement"). The terms and conditions of the Electric Vehicle Charging Agreement shall be acceptable to Landlord, in Landlord's sole discretion. Landlord and Tenant acknowledge that for purposes of Tenant's indemnity of Landlord set forth in this Lease, the use of the Landlord Charging Stations by Tenant Parties shall constitute a use of the Project by Tenant. The cost of installing, operating, maintaining and repairing the Landlord Charging Stations may be included in Operating Expenses. Tenant acknowledges that the provisions of this Section shall not be deemed to be a representation by Landlord that Landlord will install or continuously maintain during the term of this Lease Landlord Charging Stations, and Landlord shall have the right without liability to Tenant, in Landlord's sole

discretion, not to install Landlord Charging Stations (if none now exist), to increase or decrease the number, type or location of Landlord Charging Stations from time to time or, at any time, to eliminate all of the Landlord Charging Stations. Tenant's obligations under this Lease are not contingent or conditioned upon the ability of Tenant Parties to use the Landlord Charging Stations or upon the existence of Landlord Charging Stations.

4.11 Storage. Tenant may use, in common with other tenants of the Project, a reasonable amount of the storage space located in the basement of the Building. There shall be no charge for such storage space during the initial sixty nine (69) month Lease term. Tenant acknowledges that the storage space is not secure, is used in common with other tenants of the Project and such other tenants shall have access to Tenant's property when accessing the storage space. Landlord shall have no liability for loss or damage to Tenant's personal property located or stored in the storage space.

## ARTICLE 5

### TRADE FIXTURES AND ALTERATIONS

5.1 Trade Fixtures. Throughout the Lease Term, Tenant may provide and install, and shall maintain in good condition, any Trade Fixtures required in the conduct of its business in the Premises; provided, however, if the installation of any Trade Fixtures will necessitate the making of any Tenant's Alterations, then Tenant shall not be permitted to make such installation unless and until the applicable Tenant's Alterations have been approved by Landlord pursuant to Section 5.2. All Trade Fixtures shall remain Tenant's property.

5.2 Tenant's Alterations. Construction by Tenant of Tenant's Alterations shall be governed by the following:

A. Tenant shall not construct any Tenant's Alterations or otherwise alter the Premises without Landlord's prior written approval, which approval may be withheld and/or conditioned by Landlord in its sole and absolute discretion. Notwithstanding the foregoing, Tenant may make non structural alterations to the inside of the Premises (e.g., paint and carpet, communication systems, telephone and computer system wiring) without Landlord's consent, but upon at least ten (10) days prior written notice to Landlord, that do not (i) involve the expenditure of more than \$10,000 in the aggregate in any calendar year or more than \$40,000 over the Lease Term, (ii) affect the exterior appearance of the Building, (iii) affect the Building's electrical, plumbing, HVAC, life, fire, safety or security systems, (iv) affect the structural elements of the Building or (v) adversely affect any other tenant of the Project. In the event Landlord's approval for any Tenant's Alterations is required, Tenant shall not construct the Tenant's Alterations until Landlord has approved in writing the plans and specifications therefore, and such Tenant's Alterations shall be constructed substantially in compliance with such approved plans and specifications by a licensed contractor first approved by Landlord. All Tenant's Alterations constructed by Tenant shall be constructed by a reputable licensed contractor (approved in writing by Landlord) in accordance with all Laws using new materials of good quality.

B. Tenant shall not commence construction of any Tenant's Alterations until, as applicable, (i) all required governmental approvals and permits have been obtained, (ii) all requirements regarding insurance imposed by this Lease have been satisfied, (iii) Tenant has given Landlord at least five (5) days' prior written notice of its intention to commence such construction, and (iv) if requested by Landlord, Tenant has obtained contingent liability and broad form builders\* risk insurance in an amount reasonably satisfactory to Landlord if there are any perils relating to the proposed construction not covered by insurance earned pursuant to Article 9.

C. All Tenant's Alterations shall remain the property of Tenant during the Lease Term but shall not be altered or removed from the Premises. At the expiration or sooner termination of the Lease Term, all Tenant's Alterations shall be surrendered to Landlord as part of the realty and shall then become Landlord's property, and Landlord shall have no obligation to reimburse Tenant for all or any portion of the value or cost thereof; provided, however, Landlord expressly reserves the right to require Tenant to remove

any Tenant's Alterations requiring Landlord's consent hereunder, prior to the expiration or sooner termination of the Lease Term by providing Tenant with written notice thereof prior to or upon such expiration or sooner termination. Notwithstanding the foregoing, if Tenant requests in writing a determination from Landlord at the time it requests Landlord's consent to a Tenant Alteration whether or not Landlord will require removal of such Tenant Alteration, Landlord shall so notify Tenant in writing concurrently with its granting of consent to such Tenant Alteration (if Landlord so consents thereto). Landlord's failure to so notify Tenant shall be deemed Landlord's election to require removal of such Tenant Alteration and restoration of the Premises to its prior condition.

5.3 Alterations Required by Law. Tenant shall, at its sole cost and expense, make any alteration, addition or change of any sort to the Premises, the Building and the Project, that is required by any Law because of (i) Tenant's particular use or change of use of the Premises; (ii) Tenant's application for any permit or governmental approval; (iii) Tenant's construction or installation of any Tenant's Alterations or Trade Fixtures; or (iv) an Event of Tenant's Default. Any such alterations, additions or changes shall be made by Tenant in accordance with and subject to the provisions of Section 5.2. Any other alteration, addition, or change required by Law which is not the responsibility of Tenant pursuant to the foregoing shall be made by Landlord (subject to Landlord's right to reimbursement from Tenant specified in Section 5.4).

5.4 Amortization of Certain Capital Improvements. Tenant shall pay as part of Operating Expenses in the event Landlord reasonably elects or is required to make any of the following kinds of capital improvements to the Project and the cost thereof is not the responsibility of Tenant pursuant to Section 5.3: (i) capital improvements required to be constructed in order to comply with any Laws (including compliance with any Hazardous Materials Laws, other than where such compliance is necessitated by reason of the particular use of Hazardous Materials by any tenant or related party or in connection with the remediation of any contamination caused by any tenant or related party, which matters are governed by Section 7.2 below) not in effect or applicable to the Project as of the Effective Date; (ii) modification of existing or construction of additional capital improvements or building service equipment for the purpose of reducing the consumption of utility services or Operating Expenses; (iii) replacement of capital improvements or building service equipment existing as of the Effective Date when required because of normal wear and tear; and (iv) restoration of any part of the Project that has been damaged by any peril to the extent the cost thereof is not covered by insurance proceeds actually recovered by Landlord up to a maximum amount per occurrence of ten percent (10%) of the then replacement cost of the Project. The amount included in Operating Expenses with respect to each such capital improvement shall be determined as follows:

A. All costs paid by Landlord to construct such improvements (including financing costs) shall be amortized over the useful life of such improvement (as reasonably determined by Landlord in accordance with generally accepted accounting principles) with interest on the unamortized balance at the then prevailing market rate Landlord would pay if it borrowed funds to construct such improvements from an institutional lender; and

B. The annual amount included in Operating Expenses shall be amortized once such improvements are completed until the first to occur of (i) the expiration of the Lease Term (as it may be extended), or (ii) the end of the term over which such costs were amortized.

5.5 Mechanic's Liens. Tenant shall keep the Project free from any liens and shall pay when due all bills arising out of any work performed, materials furnished, or obligations incurred by or at the direction of Tenant or Tenant's Agents relating to the Project. If Tenant fails to cause the release of record of any lien(s) filed against the Project (or any portion thereof) or its leasehold interest therein by payment or posting of a proper bond within ten (10) days from the date of the lien filing(s), then Landlord may, at Tenant's expense, cause such lien(s) to be released by any means Landlord deems proper, including, but not limited to, payment of or defense against the claim giving rise to the lien(s). All sums disbursed, deposited or incurred by Landlord in connection with the release of the lien(s) shall be due and payable by Tenant to Landlord on demand by Landlord, together with interest at the Agreed Interest Rate from the date of demand until paid by Tenant.

5.6 Taxes on Tenant's Property. Tenant shall pay before delinquency any and all taxes, assessments, license fees and public charges levied, assessed or imposed against Tenant or Tenant's estate in this Lease or the property of Tenant situated within the Premises which become due during the Lease Term, including, without limitation, Tenant's Alterations and Trade Fixtures. If any tax or other charge is assessed by any governmental agency because of the execution of this Lease, such tax shall be paid by Tenant. On demand by Landlord, Tenant shall furnish Landlord with satisfactory evidence of these payments.

5.7 Wi-Fi Network. In the event Tenant desires to install wireless intranet, Internet and communications network ("Wi Fi Network") in the Premises for the use by Tenant and its employees, then the same shall be subject to the provisions of this Section (in addition to the other provisions of this Article 5). In the event Landlord consents to Tenant's installation of such Wi-Fi Network, Tenant shall, in accordance with Section 5.8 below, remove the Wi Fi Network from the Premises prior to the termination of the Lease. Tenant shall use the Wi Fi Network so as not to cause any interference to other tenants in the Project or with any other tenant's communication equipment, and not to damage the Project or interfere with the normal operation of the Project and Tenant hereby agrees to indemnify, defend and hold Landlord harmless from and against any and all claims, costs, damages, expenses and liabilities (including attorneys' fees) arising out of Tenant's failure to comply with the provisions of this Section, except to the extent same is caused by the negligence or willful misconduct of Landlord and which is not covered by the insurance carried by Tenant under this Lease (or which would not be covered by the insurance required to be carried by Tenant under this Lease). Should any interference occur, Tenant shall take all necessary steps as soon as reasonably possible and no later than three (3) calendar days following such occurrence to correct such interference. If such interference continues after such three (3) day period, Tenant shall immediately cease operating such Wi Fi Network until such interference is corrected or remedied to Landlord's satisfaction. Tenant acknowledges that Landlord has granted and/or may grant telecommunication rights to other tenants and occupants of the Project and to telecommunication service providers and in no event shall Landlord be liable to Tenant for any interference of the same with such Wi Fi Network. Landlord makes no representation that the Wi Fi Network will be able to receive or transmit communication signals without interference or disturbance. Tenant shall (i) be solely responsible for any damage caused as a result of the Wi Fi Network, (ii) promptly pay any tax, license or permit fees charged pursuant to any laws or regulations in connection with the installation, maintenance or use of the Wi Fi Network and comply with all precautions and safeguards recommended by all governmental authorities, and (iii) pay for all necessary repairs, replacements to or maintenance of the Wi Fi Network.

5.8 Removal of Cabling, Wiring and Wi-Fi Network. Upon expiration or termination of this Lease, Tenant shall, if requested by Landlord and without expense to Landlord, remove or cause to be removed from the Premises all telephone, data, and other cabling and wiring (including any cabling, wiring, control panels or sensors associated with the Wi Fi Network, audio/visual system, electronic communication system or security system, if any) existing in or serving the Premises installed for, by or caused to be installed by or for Tenant (including any cabling and wiring, installed above the ceiling of the Premises or below the floor of the Premises) and all debris and rubbish related thereto, and such similar articles of any other persons claiming under Tenant, as Landlord may, in its sole discretion, require to be removed, and Tenant shall repair at its own expense all damage to the Premises and Building resulting from such removal.

5.9 Electrical Vehicle Charging Stations Installed by Tenant. Under certain circumstances Section 1952.7 of the California Civil Code ("Section 1952.7") may permit Tenant to install electric vehicle charging stations ("Tenant Charging Stations") in the Project's parking area. In the event Section 1952.7 does permit Tenant to install Tenant Charging Stations and Tenant elects to install Tenant Charging Stations, the Section of the Rules and Regulations attached hereto that is entitled "Electric Vehicle Charging Stations" shall apply to the Tenant Charging Stations.



## ARTICLE 6

### REPAIR AND MAINTENANCE

6.1 Tenant's Obligation to Maintain. By taking possession of the Premises, Tenant shall be deemed to have accepted the Premises as being in good, sanitary order, condition and repair. Tenant shall, at Tenant's sole cost and expense, keep the Premises and every part thereof in good condition and repair, damage thereto from causes beyond the control of Tenant and ordinary wear and tear excepted. Tenant shall upon the expiration or sooner termination of this Lease hereof surrender the Premises in the condition described in Section 15.2. Except as specifically provided in an addendum, if any, to this Lease, Landlord shall have no obligation whatsoever to alter, remodel, improve, decorate or paint the Premises or any part thereof and the parties hereto affirm that Landlord has made no representations to Tenant respecting the condition of the Premises or the Building except as expressly herein set forth.

6.2 Landlord's Obligation to Maintain. Landlord shall repair and maintain, in reasonably good condition, except as provided in Sections 11.2 and 12.3, the following: (i) the structural components of the Building, (ii) the Common Area of the Building, and (iii) the electrical, life safety, plumbing, sewage and HVAC systems serving the Building, installed or furnished by Landlord. It is an express condition precedent to all Landlord's obligations to repair and maintain that Tenant shall have first notified Landlord in writing of the need for such repairs and maintenance. The cost of such maintenance, repair and services shall be included as part of Operating Expenses unless such maintenance, repairs or services are necessitated, in whole or in part, by the act, neglect, fault or omission of Tenant or Tenant's Agents, in which case Tenant shall pay to Landlord the cost of such maintenance, repairs and services within ten (10) days following Landlord's written demand therefore. Tenant hereby waives all rights provided for by the provisions of Sections 1941 and 1942 of the California Civil Code and any present or future Laws regarding Tenant's right to make repairs at the expense of Landlord and/or to terminate this Lease because of the condition of the Premises.

6.3 Control of Common Area. Landlord shall at all times have exclusive control of the Common Area. Landlord shall have the right, exercisable in its sole and absolute discretion and without the same constituting an actual or constructive eviction and without entitling Tenant to any abatement of rent, to: (i) close any part of the Common Area to whatever extent required in the opinion of Landlord's counsel to prevent a dedication thereof or the accrual of any prescriptive rights therein; (ii) temporarily close the Common Area to perform maintenance or for any other reason deemed sufficient by Landlord; (iii) change the shape, size, location and extent of the Common Area; (iv) eliminate from or add to the Project any land or improvement, including multi-deck parking structures; (v) make changes to the Common Area, including, without limitation, changes in the location of driveways, entrances, passageways, doors and doorways, elevators, stairs, restrooms, exits, parking spaces, parking areas, sidewalks or the direction of the flow of traffic and the site of the Common Area; (vi) remove unauthorized persons from the Project; and/or (vii) change the name or address of the Building or Project. Tenant shall keep the Common Area clear of all obstructions created or permitted by Tenant. If, in the opinion of Landlord, unauthorized persons are using any of the Common Area by reason of the presence of Tenant in the Building, Tenant, upon demand of Landlord, shall restrain such unauthorized use by appropriate proceedings. In exercising any such rights regarding the Common Area, (i) Landlord shall make a reasonable effort to minimize any disruption to Tenant's business, and (ii) Landlord shall not exercise its rights to control the Common Area in a manner that would materially interfere with Tenant's use of the Premises without first obtaining Tenant's consent, which consent shall not be unreasonably withheld, conditioned or delayed.

## ARTICLE 7

### WASTE DISPOSAL AND UTILITIES

7.1 Waste Disposal. Tenant shall store its waste either inside the Premises or within outside trash enclosures provided by Landlord

7.2 Hazardous Materials. Landlord and Tenant agree as follows with respect to the existence or use of Hazardous Materials in, on or about the Project:

A. Except as otherwise permitted pursuant to Section 7.2C below, any handling, transportation, storage, treatment, disposal or use of Hazardous Materials by Tenant and Tenant's Agents after the Effective Date in or about the Project is strictly prohibited. Tenant shall indemnify, defend upon demand with counsel reasonably acceptable to Landlord and hold harmless Landlord from and against any liabilities, losses, claims, damages, lost profits, consequential damages, interest, penalties, fines, monetary sanctions, attorneys' fees, experts' fees, court costs, remediation costs, investigation costs, and other expenses which result from or arise in any manner whatsoever out of the use, storage, treatment, transportation, release, or disposal of any Hazardous Materials on or about the Project caused or permitted by Tenant or Tenant's Agents.

B. If the presence of Hazardous Materials in, on or about the Project caused or permitted by Tenant or Tenant's Agents results in contamination or deterioration of water or soil resulting in a level of contamination greater than the levels established as acceptable by any governmental agency having jurisdiction over such contamination, then Tenant shall promptly take any and all action necessary to investigate and remediate such contamination if required by Law or as a condition to the issuance or continuing effectiveness of any governmental approval which relates to the use of the Project or any part thereof. Tenant shall further be solely responsible for, and shall defend indemnify and hold Landlord and its Agents harmless from and against, all claims, costs and liabilities, including, without limitation, attorneys' fees and costs, arising out of or in connection with any investigation and remediation required hereunder to return the Project to its condition existing prior to the appearance of such Hazardous Materials.

C. Tenant shall give written notice to Landlord as soon as reasonably practicable of (i) any communication received from any governmental authority concerning Hazardous Materials which relates to the Project, and (ii) any contamination of the Project by Hazardous Materials which constitutes a violation of any Hazardous Materials Laws. Tenant may use small quantities of household chemicals such as adhesives, lubricants and cleaning fluids in order to conduct its business at the Premises and such other Hazardous Materials as are reasonably necessary for the operation of Tenant's business of which Landlord receives notice prior to such Hazardous Materials being brought onto the Premises and which Landlord consents in writing may be brought onto the Premises. Any such permitted use of Hazardous Materials shall be undertaken by Tenant, at its sole cost and expense, in strict compliance with all Laws (including, without limitation, Hazardous Materials Laws), including, without limitation, the construction of any capital improvements that may be required by reason of such use of Hazardous Materials. At any time during the Lease Term, Tenant shall within five (5) days after written request therefore received from Landlord, disclose in writing all Hazardous Materials that are being used by Tenant in, on or about the Project, the nature of such use, and the manner of storage and disposal.

D. Landlord may cause testing wells to be installed on the Project, and may cause the ground water to be tested to detect the presence of Hazardous Materials by the use of such tests as are then customarily used for such purposes. If Tenant so requests, Landlord shall supply Tenant with copies of such test results. The cost of such tests and of the installation, maintenance, repair and replacement of such wells shall be paid by Tenant if such tests disclose the existence of facts which give rise to liability of Tenant pursuant to its indemnity given in Section 7.2A and/or Section 7.2B.

E. As used herein, the term "Hazardous Materials" means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States government. The term "Hazardous Materials" includes, without limitation, petroleum products, asbestos, PCB's, and any material or substance which is (i) listed under Article 9 or defined as hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (ii) deemed as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq. (42 U.S.C. 6903), or (iii) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et seq. (42 U.S.C. 9601). As used herein, the term "Hazardous Material Law(s)" shall mean any statute, law, ordinance, or regulation of any governmental body or agency (including the U.S. Environmental Protection Agency, the California Regional Water Quality Control Board, and the California Department of Health Services) which regulates the use, storage, release or disposal of any Hazardous Materials.

F. Tenant shall have no liability or responsibility with respect to the Hazardous Materials existing at the Premises as of the Commencement Date, nor with respect to any Hazardous Materials which Tenant proves were neither released, caused or permitted by Tenant, its agents, employees, contractors, licensees or invitees. Landlord shall take responsibility, at its sole cost and expense, for any governmentally-ordered clean-up, remediation, removal, disposal, neutralization or other treatment of Hazardous Materials conditions described in this Section 7.2(f). The foregoing obligation on the part of Landlord shall include the reasonable costs (including, without limitation, reasonable attorney's fees) of defending Tenant from and against any legal action or proceeding instituted by any governmental agency in connection with such clean-up, remediation, removal, disposal, neutralization or other treatment of such conditions, provided that Tenant promptly tenders such defense to Landlord. Tenant agrees to notify its agents, employees, contractors, licensees, and invitees of any exposure or potential exposure to Hazardous Materials at the Premises that Landlord brings to Tenant's attention.

G. The obligations of Landlord and Tenant under this Section 7.2 shall survive the expiration or earlier termination of the Lease Term. Except as otherwise provided in Section 5.4(i) above, the rights and obligations of Landlord and Tenant with respect to issues relating to Hazardous Materials are exclusively established by this Section 7.2. In the event of any inconsistency between any other part of this Lease and this Section 7.2, the terms of this Section 7.2 shall control.

7.3 Utilities. Except as otherwise provided in this Section 7.3, all charges for water, gas, electricity, sewer service, waste pick-up and other utilities shall be included as part of Operating Expenses. Notwithstanding the foregoing, (i) Tenant shall be responsible for the payment of all telecommunications services provided to the Premises, and (ii) if Landlord determines that Tenant is using a disproportionate amount of any utility service, then Landlord at its election may (a) periodically charge Tenant, as Additional Rent, a sum equal to Landlord's reasonable estimate of the cost of Tenant's excess use of such utility service, or (b) install a separate meter (at Tenant's expense) to measure the utility service supplied to the Premises and periodically charge Tenant, as Additional Rent, a sum equal to the cost of Tenant's excess use of such utility service as measured by such separate meter.

#### 7.4 Utilities and Services.

(a) Provided that there are no uncured Events of Tenant's Default, Landlord agrees to furnish or cause to be furnished to the Premises (i) the utilities and services described in Section 7.3 above; and (ii) janitorial services five days per week as reasonably determined by Landlord, subject to the conditions and in accordance with the standards set forth therein. Landlord shall not be in default hereunder or be liable for any damages directly or indirectly resulting from, nor shall rent be abated by reason of failure to furnish any of the foregoing items as a result of (a) accident, breakage or repairs; (b) strikes, lockouts or other labor disturbance or labor dispute of any character; (c) governmental regulation, moratorium or other governmental action; (d) inability, despite the exercise of reasonable diligence, to obtain any of the foregoing utilities or services; (e) interruption necessary to install or repair facilities in the Building, or (f) any other causes beyond Landlord's reasonable control. In the event of any failure, stoppage or interruption of such utilities or services, Landlord shall diligently attempt to promptly resume the utilities or service in question. Landlord shall furnish space heating and cooling as normal seasonal changes may require to provide reasonably comfortable space temperature and ventilation for occupants of the Premises under normal business operation, Monday through Friday from 7:00 a.m. to 7:00 p.m., and Saturdays from 10:00 a.m. to 2:00 p.m., excepting legal holidays. After hours heating, venting and air conditioning will be billed Tenant at market rates as reasonably determined by Landlord. Cold water at temperatures supplied by the local utility water mains for drinking, lavatory, and toilet purposes and water for lavatory purposes only from regular building supply at prevailing temperatures; provided however, that Landlord may at Tenant's expense, install a meter or meters to measure the water supply to any kitchen (including dishwashing) and restaurant areas in Premises, in which case Tenant shall upon Landlord's request reimburse Landlord for the cost of the water consumed in such areas and the sewer use charge results therefrom. Landlord, at its

option, may require separate meter and bill to Tenant for the electric power required for any special equipment (such as computers and reproduction equipment) that require either 3-phase electric power or any voltage other than 120. Landlord will furnish and install as an Operating Expense all replacement lighting tubes, lamps, and ballasts required by Tenant. Landlord will clean lighting fixtures on a regularly scheduled basis as an Operating Expense.

(b) Notwithstanding anything to the contrary contained in this Lease, in the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, for five (5) consecutive business days (the "Eligibility Period") as a result of any repair, maintenance or alteration performed by Landlord to the Premises or failure to repair or maintain the Premises after the Commencement Date and caused by the Landlord's negligence or willful misconduct, which substantially interferes with Tenant's use of the Premises, or any failure to provide services or access to the Premises due to Landlord's default, then Tenant's rent shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises. However, in the event that Tenant is prevented from conducting, and does not conduct, its business in any portion of the Premises for a period of time in excess of the Eligibility Period, and the remaining portion of the Premises is not sufficient to allow Tenant to effectively conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the rent for the entire Premises shall be abated; provided, however, if Tenant reoccupies and conducts its business from any portion of the Premises during such period, the rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date such business operations commence.

7.5 Compliance with Regulations. Tenant shall comply with all rules, regulations and requirements promulgated by national, state or local governmental agencies or utility suppliers concerning the use of utility services, including, without limitation, any rationing, limitation or other control, together with all rules, regulations and requirements promulgated by Landlord from time to time to conserve utilities and/or reduce utilities costs. Except as set forth in Article 7.4(b) above, Tenant shall not be entitled to terminate this Lease nor to any abatement in rent by reason of such compliance.

7.6 Window Treatments: Landlord reserves the right, exercisable in its sole and absolute discretion, to install and/or apply any treatments to the interior and/or exterior surfaces of any windows of the Premises as Landlord may from time to time desire.

7.7 Supplemental HVAC. If the Premises contains a computer room, telecommunications room or other area that is solely serviced by a separate HVAC unit on a continuous basis (a "Separate HVAC Unit"), Tenant shall pay at Tenant's sole expense the entire cost of all electricity used by the Separate HVAC Unit (the "Separate HVAC Unit Electrical Cost"). No portion of the Separate HVAC Unit Electrical Cost shall be paid by Landlord, and Tenant shall not be entitled to receive any credit towards Separate HVAC Unit Electrical Costs for electricity used by the Separate HVAC Unit during Business Hours. Landlord may determine the Separate HVAC Unit Electrical Cost by installing, at Landlord's expense, a separate metering device or by estimating the cost of such usage. The Separate HVAC Unit Electrical Cost shall be paid by Tenant within ten (10) days after Landlord provides to Tenant a bill for such usage. In addition, if there is an existing Separate HVAC Unit in the Premises when Tenant leases the Premises, Tenant accepts such existing Separate HVAC Unit in its "as is" condition. Tenant shall pay, at Tenant's sole cost and expense, the entire cost of maintaining, repairing and, when necessary, replacing any Separate HVAC Unit. Tenant shall continuously maintain, at Tenant's sole cost and expense, maintenance contracts for all Separate HVAC Units, using maintenance contract forms and with companies approved by Landlord, in Landlord's sole discretion (the "Maintenance Contracts"). Tenant shall provide copies of the Maintenance Contracts to Landlord within ten (10) days after the Commencement Date, and within ten (10) days after such contracts are modified or renewed, and at other times upon Landlord's request.

ARTICLE 8

OPERATING EXPENSES

8.1 Tenant's Obligation to Reimburse. As Additional Rent, Tenant shall pay Tenant's Share (specified in Section G of the Summary) of the amount (if any) by which Operating Expenses paid or incurred in any calendar year during the Lease Term exceeds the Operating Expense Base Amount identified in Section P of the Summary (which excess is referred to herein as the "Excess Expenses") for any annual period or portion hereof. The following provision shall apply to the foregoing obligation of Tenant:

A. Payment shall be made by whichever of the following methods is from time to time designated by Landlord, and Landlord reserves the right to change the method of payment at any time in its sole and absolute discretion. After each calendar year during the Lease Term, Landlord may invoice Tenant for Tenant's Share of the Excess Expenses for such calendar year, and Tenant shall pay such amounts so invoiced within thirty (30) days after receipt of such notice. Alternatively, (i) Landlord shall deliver to Tenant Landlord's reasonable estimate of the Excess Expenses it anticipates will be paid or incurred for the calendar year in question; (ii) during such calendar year, Tenant shall pay such Tenant's Share of the estimated Excess Expenses in advance in equal monthly installments due with each installment of Base Monthly Rent; and (iii) within one hundred twenty (120) days after the end of such calendar year (or as soon thereafter as is reasonably practical), Landlord shall furnish to Tenant a statement in reasonable detail of the actual Excess Expenses paid or incurred by Landlord in accordance with this paragraph during the just ending calendar year. If Tenant's estimated payments are less than Tenant's Share of actual Excess Expenses as shown by the applicable statement, Tenant shall pay the difference to Landlord within fifteen (15) days after delivery of such statement. If Tenant shall have overpaid Tenant's Share of actual Excess Expenses, then Landlord shall credit such overpayment toward Tenant's next installment payment of Tenant's Share of estimated Excess Expenses. When the final determination is made of Tenant's Share of actual Excess Expenses for the calendar year in which this Lease expires or sooner terminates, Tenant shall, even though this Lease has terminated, pay the difference to Landlord within fifteen (15) days after delivery of the final statement. Conversely, any overpayment by Tenant shall be rebated by Landlord to Tenant concurrently with the delivery of such final statement.

B. Within sixty (60) days after the date of Tenant's receipt of Landlord's statement of actual Excess Expenses for any calendar year, Tenant may give Landlord written notice of its intent to review records, invoices and receipts relating to the actual Excess Expenses for such calendar year. Tenant shall provide Landlord with at least ten (10) days prior written notice of the date upon which it intends to review such records, invoices and receipts. The review shall be performed during normal business hours at Landlord's principal place of business or such other location as may be designated by Landlord, and shall be performed at Tenant's sole cost and expense. Promptly following Tenant's review of such records, invoices and receipts, Tenant shall provide Landlord with a copy of the results of such review and Tenant's conclusions regarding any overstatement or understatement by Landlord of actual Excess Expenses for such calendar year. If Landlord disputes Tenant's conclusions regarding any such overstatement or understatement, Landlord shall select a certified public accountant (which accountant may be Landlord's accountant) ("Auditor") to review the accuracy of Tenant's determination. During such Auditor's review, Tenant shall continue to pay, without abatement or offset, all Base Monthly Rent and Additional Rent (as calculated by Landlord) payable by Tenant under this Lease. Tenant shall be responsible for the cost and expense of such audit unless the Auditor finds greater than an overall five percent (5%) discrepancy resulting in overpayment by Tenant. In the event that the Auditor finds greater than an overall five percent (5%) discrepancy resulting in overpayment by Tenant then Landlord shall reimburse Tenant for the reasonable, third party, out of pocket cost and expense of the Audit in an amount not to exceed One Thousand Five Hundred Dollars (\$1,500.00), which reimbursement shall be made by Landlord to Tenant within thirty (30) days following Landlord's receipt of Tenant's written demand therefor, together with satisfactory evidence of the sums paid by Tenant for such Audit. The Auditor's decision shall be final and binding on the parties. In the event Tenant fails to object in writing to Landlord's determination of actual Excess Expenses within sixty (60) days following delivery of Landlord's statement, Landlord's determination of actual Excess Expenses for the applicable calendar year shall be conclusive and binding on Tenant and any future claims to the contrary shall be barred.

**8.2 Operating Expenses Defined.** The term “Operating Expenses” shall be determined as if the Project were at least ninety five percent (95%) occupied, with the Operating Expenses based on actual Operating Expenses if ninety five percent (95%) or greater occupancy, and shall mean the following:

A. All costs and expenses paid or incurred by Landlord in doing the following (including payments to independent contractors providing services related to the performance of the following): (i) maintaining, cleaning, repairing and resurfacing the roof (including repair of leaks) and the exterior surfaces (including painting) of all buildings located on the Project and maintaining and repairing the structural components of the Building; (ii) maintenance of the liability, fire, property damage and any other insurance covering the Project carried by Landlord pursuant to Section 9.2 or otherwise (including the prepayment of premiums for coverage of up to one year); (iii) maintaining, repairing, operating and replacing when necessary HVAC equipment, utility facilities and other building service equipment; (iv) providing utilities to the Project (including lighting, trash removal and water for landscaping irrigation); (v) complying with all applicable Laws and Private Restrictions; (vi) operating, maintaining, repairing, cleaning, painting, restriping and resurfacing the Common Area; (vii) replacement or installation of lighting fixtures, directional or other signs and signals, irrigation systems, trees, shrubs, ground cover and other plant materials, and all landscaping in the Common Area; (viii) providing the utilities and services described in this Lease other than those which are described as being separately chargeable to Tenant; (ix) providing security, if any; and (x) to the extent Landlord elects to include such in Operating Expenses, costs incurred pursuant to Section 5.4;

B. The following costs: (i) Real Property Taxes as defined in Section 8.3; (ii) the amount of any deductible paid by Landlord under any insurance maintained by Landlord; (iii) the cost to repair damage caused by an Uninsured Peril up to a maximum amount in any twelve (12) month period equal to four percent (4%) of the replacement cost of the Project; and (iv) that portion of all compensation (including benefits and premiums for workers\* compensation and other insurance) paid to or on behalf of employees (at or below the level of property manager) of Landlord but only to the extent they are involved in the performance of the work described by Sections 8.2A or 8.2D that is fairly allocable to the Project;

C. Fees for management services rendered by either Landlord or a third party manager engaged by Landlord (which may be a party affiliated with Landlord), including the fair market rental value of any management office associated with the Project. Notwithstanding the foregoing, the property management fee charged by Landlord shall not exceed that charged by similarly situated landlords as determined by competitive bids sought by Landlord not less frequently than every twenty four (24) months; and

D. All additional costs and expenses incurred by Landlord with respect to the operation, protection, maintenance, repair and replacement of the Project which would be considered a current expense (and not a capital expenditure but subject to Tenant’s obligations under Section 5.4) pursuant to generally accepted accounting principles; provided, however, that Operating Expenses shall not include any of the following: (i) debt payments on any loans affecting the Project; (ii) depreciation of any buildings or any major systems of building service equipment within the Project; (iii) leasing commissions; and (iv) the cost of tenant improvements installed for the exclusive use of other tenants of the Project.

**8.3 Real Property Taxes.** The term “Real Property Taxes” shall mean all taxes, assessments, levies, and other charges of any kind or nature whatsoever, general and special, foreseen and unforeseen (including all installments of principal and interest required to pay any existing or future general or special assessments for public improvements, services or benefits, and any increases resulting from reassessments resulting from a change in ownership, new construction, or any other cause), now or hereafter imposed by any governmental or quasi-governmental authority or special district having the direct or indirect power to tax or levy assessments, which are levied or assessed against, or with respect to the value, occupancy or use of all or any portion of the Project (as now constructed or as may at any time hereafter be constructed, altered or otherwise changed) or Landlord’s interest therein, the fixtures, equipment and other property of Landlord, real or personal, that are an integral part of and located on the Project, the gross receipts, income, or rentals from the Project, or the use of parking areas, public utilities, or energy within the Project, or Landlord’s business of leasing the Project. If at any time during the Lease

Term the method of taxation or assessment of the Project prevailing as of the Effective Date shall be altered so that in lieu of or in addition to any Real Property Taxes described above there shall be levied, assessed or imposed (whether by reason of a change in the method of taxation or assessment, creation of a new tax or charge, or any other cause) an alternate or additional tax or charge (i) on the value, use or occupancy of the Project or Landlord's interest therein, or (ii) on or measured by the gross receipts, income or rentals from the Project, on Landlord's business of leasing the Project, or computed in any manner with respect to the operation of the Project, then any such tax or charge, however designated, shall be included within the meaning of the term "Real Property Taxes" for purposes of this Lease. If any Real Property Tax is based upon property or rents unrelated to the Project, then only that part of such Real Property Taxes that is fairly allocable to the Project shall be included within the meaning of the term "Real Property Taxes." Notwithstanding the foregoing the term "Real Property Taxes" shall not include estate, inheritance, transfer, gift or franchise taxes of Landlord or the federal or state net income tax imposed on Landlord's income from all sources. "Real Property Taxes" shall also include any costs and expenses incurred by Landlord in connection with appealing and/or contesting any Real Property Taxes.

## ARTICLE 9

### INSURANCE

9.1 Tenant's Insurance. Tenant shall maintain insurance complying with all of the following:

A. Tenant shall procure, pay for and keep in full force and effect the following:

(1) Commercial general liability insurance, including property damage, against liability for personal injury, bodily injury, death and damage to property occurring in or about, or resulting from an occurrence in or about, the Premises with combined single limit coverage of not less than the amount of Tenant's Liability Insurance Minimum specified in Section Q of the Summary, which insurance shall contain a "contractual liability" endorsement insuring Tenant's performance of Tenant's obligation to indemnify Landlord contained in Section 10.3, and which may be procured through a combination of commercial general liability insurance and so called "umbrella coverage";

(2) Fire and property damage insurance in so-called "all risk" form insuring Tenant's Trade Fixtures and Tenant's Alterations for the full actual replacement cost thereof; and

(3) Such other insurance that from time to time is either (i) required by any Lender, or (ii) reasonably required by Landlord and customarily carried by tenants of similar property in similar businesses in the vicinity of the Project.

B. Each policy of insurance required to be carried by Tenant pursuant to this Section 9.1: (i) shall name Landlord and such other parties in interest as Landlord reasonably designates as additional insured; (ii) shall be primary insurance which provides that the insurer shall be liable for the full amount of the loss up to and including the total amount of liability set forth in the declarations without the right of contribution from any other insurance coverage of Landlord; (iii) shall be in a form satisfactory to Landlord; (iv) shall be carried with companies reasonably acceptable to Landlord and having a rating of A+, AAA or better in "Best's Insurance Guide;" (v) shall provide that such policy shall not be subject to cancellation, lapse or change except after at least thirty (30) days prior written notice to Landlord so long as such provision of thirty (30) days notice is reasonably obtainable, but in any event not less than ten (10) days prior written notice; (vi) shall not have a "deductible" in excess of such amount as is approved by Landlord; (vii) shall contain a cross liability endorsement; (viii) shall contain a "severability" clause; and (ix) shall be in such form and include such endorsements as may be required by any Lender or insurance advisor of Landlord. If Tenant has in full force and effect a blanket policy of liability insurance with the same coverage for the Premises as described above, as well as other coverage of other premises and properties of Tenant, or in which Tenant has some interest, such blanket insurance shall satisfy the requirements of this Section 9.1 provided such blanket insurance shall have a Landlord's protective liability endorsement attached thereto in a form acceptable to Landlord.

C. A copy of each paid-up policy evidencing the insurance required to be carried by Tenant pursuant to this Section 9.1 (appropriately authenticated by the insurer) or a certificate of the insurer, certifying that such policy has been issued, providing the coverage required by this Section 9.1, and containing the provisions specified herein, shall be delivered to Landlord prior to the time Tenant or any of its Agents enters the Premises and upon renewal of such policies, but not less than five (5) days prior to the expiration of the term of such coverage. Landlord may, at any time, and from time to time, inspect and/or copy any and all insurance policies required to be procured by Tenant pursuant to this Section 9.1. If any Lender or insurance advisor reasonably determines at any time that the amount of coverage required for any policy of insurance Tenant is to obtain pursuant to this Section 9.1 is not adequate, then Tenant shall increase such coverage for such insurance to such amount as such Lender or insurance advisor reasonably deems adequate.

#### 9.2 Landlord's Insurance.

A. Landlord shall maintain a policy or policies of fire and property damage insurance in so-called "all risk" form insuring Landlord (and such others as Landlord may designate) against loss of rents for a period of not less than twelve (12) months and from physical damage to the Project with coverage of not less than the full replacement cost thereof. Landlord may so insure the Project separately, or may insure the Project with other property owned by Landlord which Landlord elects to insure together under the same policy or policies. Such fire and property damage insurance (i) may be endorsed to cover loss caused by such additional perils against which Landlord may elect to insure, including, without limitation, earthquake and/or flood, and to provide such additional coverage as Landlord reasonably requires, and (ii) shall contain reasonable "deductibles" which, in the case of earthquake and flood insurance, may be up to fifteen percent (15%) of the replacement value of the property insured or such higher amount as is then commercially reasonable. Landlord shall not be required to cause such insurance to cover any Trade Fixtures or Tenant's Alterations.

B. Landlord may (but shall not be obligated to) maintain a policy or policies of commercial general liability insurance insuring Landlord (and such others as are designated by Landlord) against liability for personal injury, bodily injury, death and damage to property occurring or resulting from an occurrence in, on or about the Project, with combined single limit coverage in such amount as Landlord from time to time determines is reasonably necessary for its protection, and/or such other insurance as Landlord may desire to maintain from time to time or as may be required under any Security Instrument.

9.3 Tenant's Obligation to Reimburse. If Landlord's insurance rates for the Project are increased at any time during the Lease Term as a result of the nature of Tenant's use of the Premises, Tenant shall reimburse Landlord for the full amount of such increase within fifteen (15) days following receipt of a bill from Landlord therefore.

9.4 Release and Waiver of Subrogation. Landlord and Tenant each hereby waives all rights of recovery against the other and the other's Agents on account of loss and damage occasioned to the property of such waiving party to the extent only that such loss or damage is required to be insured against under any "all risk" property insurance policies required by this Article 9; provided, however, that (i) the foregoing waiver shall not apply to the extent of Tenant's obligations to pay deductibles under any such policies and this Lease, and (ii) if any loss is due to the act, omission or negligence or willful misconduct of Tenant or its agents, employees, contractors, guests or invitees, Tenant's liability insurance shall be primary and shall cover all losses and damages prior to any other insurance hereunder. By this waiver it is the intent of the parties that neither Landlord nor Tenant shall be liable to any insurance company (by way of subrogation or otherwise) insuring the other party for any loss or damage insured against under any "all-risk" property insurance policies required by this Article 9, even though such loss or damage might be occasioned by the negligence of such party or its Agents. The provisions of this Section 9.4 shall not limit the indemnification, hold harmless and/or defense provisions elsewhere contained in this Lease.



LIMITATION ON LANDLORD'S LIABILITY AND INDEMNITY

10.1 Limitation on Landlord's Liability. Landlord shall not be liable to Tenant, nor shall Tenant be entitled to terminate this Lease or to any abatement of rent (except as expressly provided otherwise herein), for any injury to Tenant or Tenant's Agents, damage to the property of Tenant or Tenant's Agents, or loss to Tenant's business resulting from any cause, including, without limitation, any of the following: (i) failure, interruption or installation of any HVAC or other utility system or service; (ii) failure to furnish or delay in furnishing any utilities or services when such failure or delay is caused by fire or other peril, the elements, labor disturbances of any character, or any other accidents or any other conditions; (iii) limitation, curtailment, rationing or restriction on the use of water or electricity, gas or any other form of energy or any services or utility serving the Project; (iv) vandalism or forcible entry by unauthorized persons or the criminal act of any person; or (v) penetration of water into or onto any portion of the Premises or the Building through roof leaks or otherwise. Notwithstanding the foregoing but subject to Section 9.4 and Section 10.2, Landlord shall be liable for any such injury, damage or loss which is caused solely by Landlord's willful misconduct or negligence of which Landlord has actual notice and a reasonable opportunity to cure but which it fails to so cure; provided, however, notwithstanding anything contained in this Lease to the contrary, in no event shall Landlord be liable to Tenant for lost profits, consequential damages and/or incidental damages of any kind or nature.

10.2 Limitation on Tenant's Recourse. If Landlord is a corporation, trust, partnership, limited liability company, joint venture, unincorporated association or other form of business entity: (i) the obligations of Landlord shall not constitute personal obligations of the officers, directors, trustees, partners, joint venturers, members, managers, owners, stockholders, or other principals or representatives of such business entity, and (ii) Tenant shall not have recourse to the assets of such of officers, directors, trustees, partners, joint venturers, members, managers, owners, stockholders, principals or representatives except to the extent of their interest in the Project (and the proceeds therefrom). Tenant hereby waives and releases the officers, directors, trustees, partners, joint venturers, members, managers, owners, stockholders, principals or representative from personal liability for the obligations of Landlord under this Lease, and Tenant shall have recourse only to the interest of Landlord in the Project (and the proceeds therefrom) for the satisfaction of the obligations of Landlord hereunder and shall not have recourse to any other assets of Landlord for the satisfaction of such obligations.

10.3 Indemnification of Landlord. To the fullest extent permitted by law, Tenant shall hold harmless, indemnify and defend Landlord, and its Agents, with competent counsel reasonably satisfactory to Landlord (and Landlord agrees to accept counsel that any insurer requires be used), from all liability, penalties, losses, damages, costs, expenses, causes of action, claims and/or judgments arising by reason of any death, bodily injury, personal injury or property damage resulting from (i) any cause or causes whatsoever (other than solely by the willful misconduct or negligence of Landlord of which Landlord has had notice and a reasonable time to cure, but which Landlord has failed to cure) occurring in or about or resulting from an occurrence in or about the Premises during the Lease Term, (ii) the negligence or willful misconduct of Tenant or its Agents, wherever the same may occur, (iii) an Event of Tenant's Default, Tenant's or its employee's, agent's, contractor's, sublessee's, assignee's or invitee's use of Landlord Charging Stations. The provisions of this Section 10.3 shall survive the expiration or sooner termination of this Lease.

10.4 Indemnification of Tenant. Notwithstanding the provisions of the Lease to the contrary, Tenant shall not be required to indemnify and hold Landlord harmless from any loss, cost, liability, damage or expense (collectively "Claims"), to any person, property or entity resulting from the negligence or willful misconduct of Landlord or its agents or employees, in connection with Landlord's activities at the Project, and Landlord hereby indemnifies and saves Tenant harmless from any Claims resulting from Landlord's negligence or willful misconduct. Tenant's agreement to indemnify and hold Landlord harmless pursuant to the Lease, the exclusion from Tenant's indemnity set forth above, and the agreement by Landlord to indemnify and hold Tenant harmless set forth above are not intended to, and shall not relieve any insurance carrier of its obligations under policies required to be carried by Landlord or Tenant pursuant to the provisions of the Lease to the extent that such policies cover the results of such acts or conduct. Notwithstanding the forgoing, in no event shall Landlord be liable to Tenant for consequential damages, lost profits or punitive damages.

ARTICLE 11

DAMAGE TO PREMISES

11.1 Landlord's Duty to Restore. If the Premises are damaged by any peril after the Effective Date, Landlord shall restore the Premises unless the Lease is terminated by Landlord pursuant to Section 11.2 or by Tenant pursuant to Section 11.3. All insurance proceeds available from the fire and property damage insurance carried by Landlord pursuant to Section 9.2 shall be paid to and become the property of Landlord. If this Lease is terminated pursuant to either Section 11.2 or Section 11.3, then all insurance proceeds available from insurance carried by Tenant which covers loss to property that is Landlord's property or would become Landlord's property on expiration or termination of this Lease shall be paid to and become the property of Landlord. If this Lease is not so terminated then upon receipt of the insurance proceeds (if the loss is covered by insurance) and the issuance of all necessary governmental permits, Landlord shall commence and diligently prosecute to completion the restoration of the Premises, to the extent then allowed by Law, to substantially the same condition in which the Premises were immediately prior to such damage. Landlord's obligation to restore shall be limited to the Premises and interior improvements constructed by Landlord as they existed as of the Commencement Date, excluding any Tenant's Alterations, Trade Fixtures and/or personal property constructed or installed by Tenant in the Premises. Tenant shall forthwith replace or fully repair all Tenant's Alterations and Trade Fixtures installed by Tenant and existing at the time of such damage or destruction, and all insurance proceeds received by Tenant from the insurance earned by it pursuant to Section 9.1 A(2) shall be used for such purpose.

11.2 Landlord's Right to Terminate. Landlord shall have the right to terminate this Lease in the event any of the following occurs, which right may be exercised by delivery to Tenant of a written notice of election to terminate within forty-five (45) days after the date of such damage:

A. The Project is damaged by an Insured Peril to such an extent that the estimated cost to restore exceeds ten percent (10%) of the then actual replacement cost thereof, or the Building in which the Premises is located is damaged to such an extent that the estimated cost to restore exceeds twenty-five percent (25%) of the then actual replacement cost thereof;

B. Either the Project or the Building is damaged by an Uninsured Peril to such an extent that the estimated cost to restore exceeds two percent (2%) of the then actual replacement cost of the Building;

C. The Premises are damaged by any peril within twelve (12) months of the last day of the Lease Term to such an extent that the estimated cost to restore equals or exceeds an amount equal to six (6) times the Base Monthly Rent then due; or

D. Either the Project or the Building is damaged by any peril and, because of the Laws then in force, (i) cannot be restored at reasonable cost to substantially the same condition in which it was prior to such damage, or (ii) cannot be used for the same use being made thereof before such damage if restored as required by this Article.

E. As used herein, the following terms shall have the following meanings: (i) the term "Insured Peril" shall mean a peril actually insured against for which the insurance proceeds actually received by Landlord (and which are not required to be paid to any Lender) are sufficient (except for any "deductible" amount specified by such insurance) to restore the Project under then existing Laws to the condition existing immediately prior to the damage; and (ii) the term "Uninsured Peril" shall mean any peril which is not an Insured Peril. Notwithstanding the foregoing, if the "deductible" for earthquake or flood insurance exceeds two percent (2%) of the replacement cost of the improvements insured, such peril shall, at Landlord's election, be deemed an "Uninsured Peril" for purposes of this Lease.

11.3 Tenant's Right to Terminate. If the Premises are damaged by any peril and Landlord does not elect to terminate this Lease or is not entitled to terminate this Lease pursuant to Section 11.2, then as soon as reasonably practicable, Landlord shall furnish Tenant with the written opinion of Landlord's architect or construction consultant as to when the restoration work required of Landlord may be completed. Tenant shall have the right to terminate this Lease in the event any of the following occurs, which right may be exercised only by delivery to Landlord of a written notice of election to terminate within seven (7) days after Tenant receives from Landlord the estimate of the time needed to complete such restoration.

A. The Premises are damaged by any peril and, in the reasonable opinion of Landlord's architect or construction consultant, the restoration of the Premises cannot be substantially completed within two hundred seventy (270) days after the date of such damage; or

B. The Premises are damaged by any peril within twelve (12) months of the last day of the Lease Term and, in the reasonable opinion of Landlord's architect or construction consultant, the restoration of the Premises cannot be substantially completed within ninety (90) days after the date of such damage and such damage renders unusable more than thirty percent (30%) of the Premises.

11.4 Abatement of Rent. In the event of damage to the Premises which does not result in the termination of this Lease, the Base Monthly Rent and Tenant's Share of Excess Expenses shall be temporarily abated during the period of restoration in proportion to the degree to which Tenant's use of the Premises is impaired by such damage. Tenant shall not be entitled to any compensation or damages from Landlord for loss of Tenant's business or property or for any inconvenience or annoyance caused by such damage or restoration. Tenant hereby waives the provisions of California Civil Code Sections 1932(2) and 1933(4) and the provisions of any similar law hereinafter enacted.

## ARTICLE 12

### CONDEMNATION

12.1 Total Taking—Premises. If title to the Premises or so much thereof is taken for any public or quasi-public use under any statute or by right of eminent domain so that reconstruction of the Premises will not result in the Premises being reasonably suitable for Tenant's continued occupancy for the uses and purposes permitted by this Lease, this Lease shall terminate as of the date possession of the Premises or part thereof is so taken.

12.2 Partial Taking—Project. If title to ten percent (10%) or more of the Project is taken for any public or quasi-public use under any statute or by right of eminent domain, Landlord shall have the right to terminate this Lease as of the date possession of such portion of the Project is so taken by providing Tenant with written notice thereof no less than sixty (60) days prior to possession being so taken.

12.3 Partial Taking—Premises. If any part of the Premises is taken for any public or quasi-public use under any statute or by right of eminent domain and the remaining part is reasonably suitable for Tenant's continued occupancy for the uses permitted by this Lease, this Lease shall, as to the part so taken, terminate as of the date possession of such part of the Premises is taken and Base Monthly Rent shall be reduced in the same proportion that the floor area of the portion of the Premises so taken (less any addition thereto by reason of any reconstruction) bears to the original floor area of the Premises, as reasonably determined by Landlord. Landlord shall, at its own cost and expense, make all necessary repairs and alterations to the Premises so as to make the portion of the Premises not taken a complete architectural unit. Such work shall not, however, exceed the scope of the work done by Landlord in originally constructing the Premises. If severance damages from the condemning authority are not available to Landlord in sufficient amounts to permit such restoration, Landlord may terminate this Lease upon written notice to Tenant. Base Monthly Rent due and payable hereunder shall be temporarily abated during such restoration period in proportion to the degree to which Tenant's use of the Premises is impaired. Each party hereby waives the provisions of Sections 1265.130 of the California Code of Civil Procedure and any present or future law allowing either party to petition the Superior Court to terminate this Lease in the event of a partial taking of the Building or the Premises.

12.4 No Apportionment of Award. No award for any partial or total taking shall be apportioned, it being agreed and understood that Landlord shall be entitled to the entire award for any partial or entire taking. Tenant assigns to Landlord its interest in any award which may be made in such taking or condemnation, together with any and all rights of Tenant arising in or to the same or any part thereof. Nothing contained herein shall be deemed to give Landlord any interest in or require Tenant to assign to Landlord any separate award made to Tenant for the taking of Tenant's Trade Fixtures, for the interruption of Tenant's business or its moving costs, or for the loss of goodwill.

12.5 Temporary Taking. No temporary taking of the Premises (which for purposes hereof shall mean a taking of all or any part of the Premises for one hundred eighty (180) days or less) shall terminate this Lease; provided, however, Base Monthly Rent due and payable hereunder shall be temporarily abated during such period in proportion to the degree to which Tenant's use of the Premises is impaired or suspended. Any award made to Tenant by reason of such temporary taking shall belong entirely to Tenant and Landlord shall not be entitled to share therein. Each party agrees to execute and deliver to the other all instruments that may be required to effectuate the provisions of this Section 12.5.

12.6 Sale Under Threat of Condemnation. A sale made in good faith to any authority having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking under the power of eminent domain for all purposes of this Article 12.

## ARTICLE 13

### DEFAULT AND REMEDIES

13.1 Events of Tenant's Default. Tenant shall be in default of its obligations under this Lease if any of the following events occurs (an "Event of Tenant's Default"):

A. Tenant shall have failed to pay any Rent when due, and such failure is not cured within three (3) business days after delivery of written notice from Landlord or Landlord's counsel specifying such failure to pay; or

B. Tenant shall have failed to perform any term, covenant, or condition of this Lease except those requiring the payment of Rent, and Tenant shall have failed to cure such breach within twenty (20) days after written notice from Landlord specifying the nature of such breach where such breach could reasonably be cured within said twenty (20) day period, or if such breach could not be reasonably cured within said twenty (20) day period, Tenant shall have failed to commence such cure within said twenty (20) day period and thereafter continue with due diligence to prosecute such cure to completion within such time period as is reasonably needed but not to exceed sixty (60) days from the date of Landlord's notice; or

C. Tenant shall have sublet the Premises or assigned its interest in the Lease in violation of the provisions contained in Article 14; or

D. Tenant shall have abandoned the Premises; or

E. The occurrence of the following: (i) the making by Tenant of any general arrangements or assignments for the benefit of creditors; (ii) Tenant becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this Section 13.1E is contrary to any applicable Law, such provision shall be of no force or effect;

F. Tenant shall have failed to deliver documents required of it pursuant to Section 15.4 or Section 15.6 within the time periods specified therein and not cured such failure within three (3) business days after delivery of written notice from Landlord or Landlord's counsel specifying such failure; or

G. Chronic delinquency by Tenant in the payment of any Rent. For purposes of this Lease, "Chronic delinquency" shall mean failure by Tenant to pay within five (5) days of the due date any Rent for any four (4) months (consecutive or non-consecutive) during any twelve (12) month period during the Lease Term. This section shall in no way limit, nor be construed as a waiver of the rights and remedies of Landlord provided hereunder or by law in the event of even one (1) instance of delinquency in the payment of Rent by Tenant. In the event of chronic delinquency, at Landlord's option, Landlord shall have the right, in addition to all other rights under this Lease and at law, to require that all Rent be paid by Tenant on a quarterly basis, in advance. In addition, the occurrence of a chronic delinquency shall automatically void any options granted to Tenant under this Lease.

13.2 Landlord's Remedies. If an Event of Tenant's Default occurs, Landlord shall have the following remedies, in addition to all other rights and remedies provided by any Law or otherwise provided in this Lease, to which Landlord may resort to cumulatively or in the alternative:

A. Landlord may keep this Lease in effect and enforce by an action at law or in equity all of its rights and remedies under this Lease, including (i) the right to recover the rent and other sums as they become due by appropriate legal action, (ii) the right to make payments required of Tenant or perform Tenant's obligations and be reimbursed by Tenant for the cost thereof with interest at the Agreed Interest Rate from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant, and (iii) the remedies of injunctive relief and specific performance to compel Tenant to perform its obligations under this Lease. Notwithstanding anything contained in this Lease, in the event of a breach of an obligation by Tenant which results in a condition which poses an imminent danger to safety of persons or damage to property, an unsightly condition visible from the exterior of the Building, or a threat to insurance coverage, then if Tenant does not cure such breach within three (3) days after delivery to it of written notice from Landlord identifying the breach, Landlord may cure the breach of Tenant and be reimbursed by Tenant for the cost thereof with interest at the Agreed Interest Rate from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant.

B. Landlord may enter the Premises and re-lease them to third parties for Tenant's account for any period, whether shorter or longer than the remaining Lease Term. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in releasing the Premises, including, without limitation, brokers' commissions, expenses of altering and preparing the Premises required by the releasing. Tenant shall pay to Landlord the rent and other sums due under this Lease on the date the rent is due, less the rent and other sums Landlord received from any releasing. No act by Landlord allowed by this subparagraph shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease. Notwithstanding any releasing without termination, Landlord may later elect to terminate this Lease because of the default by Tenant.

C. Landlord may terminate this Lease by giving Tenant written notice of termination, in which event this Lease shall terminate on the date set forth for termination in such notice. Any termination under this Section 13.2C shall not relieve Tenant from its obligation to pay sums then due Landlord or from any claim against Tenant for damages or rent previously accrued or then accruing. In no event shall any one or more of the following actions by Landlord, in the absence of a written election by Landlord to terminate this Lease, constitute a termination of this Lease: (i) appointment of a receiver or keeper in order to protect Landlord's interest hereunder; (ii) consent to any subletting of the Premises or assignment of this Lease by Tenant, whether pursuant to the provisions hereof or otherwise; or (iii) any other action by Landlord or Landlord's Agents intended to mitigate the adverse effects of any breach of this Lease by Tenant, including, without limitation, any action taken to maintain and preserve the Premises or any action taken to relet the Premises or any portions thereof to the event such actions do not affect a termination of Tenant's right to possession of the Premises.

D. In the event Tenant breaches this Lease and abandons the Premises, this Lease shall not terminate unless Landlord gives Tenant written notice of its election to so terminate this Lease. No act by or on behalf of Landlord intended to mitigate the adverse effect of such breach, including those described by Section 13.2C, shall constitute a termination of Tenant's right to possession unless Landlord gives Tenant written notice of termination. Should Landlord not terminate this Lease by giving Tenant written notice, Landlord may enforce all its rights and remedies under this Lease and/or any Laws, including, without limitation, the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations). Tenant acknowledges and agrees that the express standards and conditions set forth in Article 14 below relating to assignments of this Lease and sublettings of the Premises are reasonable at the time this Lease is executed by Tenant.

E. In the event Landlord terminates this Lease, Landlord shall be entitled, at Landlord's election, to damages in an amount as set forth in California Civil Code Section 1951.2 as in effect on the Effective Date. For purposes of computing damages pursuant to California Civil Code Section 1951.2, (i) an interest rate equal to the Agreed Interest Rate shall be used where permitted, and (iii) the term "rent" includes Base Monthly Rent and Additional Rent. Such damages shall include, without limitation:

(1) The worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided, computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1 %); and

(2) Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom, including the following: (i) expenses for cleaning, repairing or restoring the Premises; (ii) expenses for altering, remodeling or otherwise improving the Premises for the purpose of reletting, including installation of leasehold improvements (whether such installation be funded by a reduction of rent, direct payment or allowance to a new tenant, or otherwise); (iii) broker's fees, advertising costs and other expenses of reletting the Premises; (iv) costs of carrying the Premises, such as taxes, insurance premiums, utilities and security precautions; (v) expenses in retaking possession of the Premises; and (vi) attorneys' fees and court costs incurred by Landlord in retaking possession of the Premises and in releasing the Premises or otherwise incurred as a result of Tenant's default.

F. Nothing in this Section 13.2 shall limit Landlord's right to indemnification from Tenant as provided in Section 7.2 and Section 10.3. Any notice given by Landlord in order to satisfy the requirements of Section 13.1 A or 13.1B above shall also satisfy the notice requirements of California Code of Civil Procedure Section 1161 regarding unlawful detainer proceedings.

G. Any agreement for free or abated rent or other charges, or for the giving or paying by Landlord to or for Tenant of any cash or other bonus, inducement or consideration for Tenant's entering into this Lease ("Inducement Provisions") shall be deemed conditioned upon Tenant's full and faithful performance of the terms, covenants and conditions of this Lease. Upon an Event of Tenant's Default, any such Inducement Provisions shall automatically be deemed deleted from this Lease and of no further force or effect and the amount of any rent reduction or abatement or other bonus or consideration already given by Landlord or received by Tenant as an Inducement shall be immediately due and payable by Tenant to Landlord, notwithstanding any subsequent cure of said Event of Tenant's Default. The acceptance by Landlord of rent or the cure of the Event of Tenant's Default which initiated the operation of this Section 13.1 shall not be deemed a waiver by Landlord of the provisions of this Section 13.2(g). For purposes of this Section, any period of Base Monthly Rent identified as \$00.00 shall be deemed to have been in a monthly amount equal to that payable during the first full calendar month of this Lease when Tenant is paying full, unabated Base Monthly Rent for each day in such calendar month.

13.3 Waiver. One party's consent to or approval of any act by the other party requiring the first party's consent or approval shall not be deemed to waive or render unnecessary the first party's consent to or approval of any subsequent similar act by the other party. The receipt by Landlord of any rent or payment with or without knowledge of the breach of any other provision hereof shall not be deemed a waiver of any such breach unless such waiver is in writing and signed by Landlord. No delay or omission in the exercise of any right or remedy accruing to either party upon any breach by the other party under this Lease shall impair such right or remedy or be construed as a waiver of any such breach theretofore or thereafter occurring. The waiver by either party of any breach of any provision of this Lease shall not be deemed to be a waiver of any subsequent breach of the same or of any other provisions herein contained. Notwithstanding any of the terms and provisions herein contained to the contrary, but to the extent required by applicable law, Landlord shall have the duty and obligation to use reasonable good faith efforts to mitigate any and all damages that may or shall be caused or suffered by virtue of an Event of Tenant's Default.

13.4 Limitation On Exercise of Rights. At any time that an Event of Tenant's Default has occurred and remains uncured, (i) it shall not be unreasonable for Landlord to deny or withhold any consent or approval requested of it by Tenant which Landlord would otherwise be obligated to give, and (ii) Tenant may not exercise any option to extend, right to terminate this Lease, or other right granted to it by this Lease which would otherwise be available to it.

13.5 Waiver by Tenant of Certain Remedies. Tenant waives the provisions of Sections 1932(1), 1941 and 1942 of the California Civil Code and any similar or successor law regarding Tenant's right to terminate this Lease or to make repairs and deduct the expenses of such repairs from the rent due under this Lease. Tenant hereby waives any right of redemption or relief from forfeiture under the laws of the State of California, or under any other present or future law, including, without limitation, the provisions of Sections 1174 and 1179 of the California Code of Civil Procedure.

13.6 Landlord's Default. Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within thirty (30) days after receipt of written notice from Tenant to Landlord (and any Lender who have provided Tenant with notice) specifying the nature of such default; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are reasonably required for its performance, then Landlord shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. Tenant expressly waives any right to terminate this Lease or to claim a constructive eviction by reason of any default by Landlord hereunder.

13.7 Limitation of Actions Against Landlord. Any claim, demand or right of any kind by Tenant which is based upon or arises in connection with this Lease shall be barred unless Tenant commences an action thereon within six (6) months of Tenant becoming aware of the act, omission, event or default upon which the claim, demand or right in question arises, has occurred.

13.8 Landlord's Liability. Tenant acknowledges that Landlord shall have the right to transfer all or any portion of its interest in the Project and to assign this Lease to the transferee. Tenant agrees that in the event of such a transfer Landlord shall automatically be released from all liability under this Lease; and Tenant hereby agrees to look solely to Landlord's transferee for the performance of Landlord's obligations hereunder after the date of the transfer. Upon such a transfer, Landlord shall, at its option, return Tenant's security deposit to Tenant or transfer Tenant's security deposit to Landlord's transferee and, in either event, Landlord shall have no further liability to Tenant for the return of its security deposit. Subject to the rights of any lender holding a mortgage or deed of trust encumbering all or part of the Project, Tenant agrees to look solely to Landlord's equity interest in the Project for the collection of any judgment requiring the payment of money by Landlord arising out of (a) Landlord's failure to perform its obligations under this Lease or (b) the negligence or willful misconduct of Landlord, its partners, employees and agents. No other property or assets of Landlord shall be subject to levy, execution or other enforcement procedure for the satisfaction of any judgment or writ obtained by Tenant against Landlord. No partner, employee, officer, director, member or agent of Landlord shall be personally liable for the performance of Landlord's obligations

hereunder or be named as a party in any lawsuit arising out of or related to, directly or indirectly, this Lease and the obligations of Landlord hereunder. The obligations under this Lease do not constitute personal obligations of the individual partners of Landlord, if any, and Tenant shall not seek recourse against the individual partners of Landlord or their assets.

#### ARTICLE 14

##### ASSIGNMENT AND SUBLETTING,

14.1 Transfer By Tenant. The following provisions shall apply to any assignment, subletting or other transfer by Tenant or any subtenant or assignee or other successor in interest of the original Tenant (collectively referred to in this Section 14.1 as "Tenant"):

A. Tenant shall not do any of the following (collectively referred to herein as a "Transfer\*"), whether voluntarily, involuntarily or by operation of law, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed (subject to Section 14.1 B and Section 14.1 C below): (i) sublet all or any part of the Premises or allow it to be sublet, occupied or used by any person or entity other than Tenant; or (ii) assign its interest in this Lease. In no event shall Tenant mortgage or encumber the Lease (or otherwise use the Lease as a security device) in any manner, or materially amend or modify an assignment, sublease or other transfer that has been previously approved by Landlord. Tenant shall reimburse Landlord for all reasonable costs and attorneys' fees incurred by Landlord in connection with the evaluation, processing and/or documentation of any requested Transfer, plus an amount equal to \$1,000.00 as a fee for Landlord's review whether or not Landlord's consent is granted. Landlord's reasonable costs shall include the cost of any review or investigation performed by Landlord or consultant acting on Landlord's behalf of (i) Hazardous Materials (as defined in Section 7.2E of this Lease) used, stored, released, or disposed of by the potential subtenant or assignee, and/or (ii) violations of Hazardous Materials Law (as defined in Section 7.2E of this lease) by Tenant or the proposed subtenant or assignee. Any Transfer so approved by Landlord shall not be effective until Tenant has delivered to Landlord an executed counterpart of the document evidencing the Transfer which (i) is in a form reasonably approved by Landlord, (ii) contains the same terms and conditions as stated in Tenant's notice given to Landlord pursuant to Section 14.1 B, and (iii) in the case of an assignment of the Lease, contains the agreement of the proposed transferee to assume all obligations of Tenant under this Lease arising after the effective date of such Transfer and to remain jointly and severally liable therefore with Tenant. Any attempted Transfer without Landlord's consent shall constitute an Event of Tenant's Default and shall be voidable at Landlord's option. Landlord's consent to any one Transfer shall not constitute a waiver of the provisions of this Section 14.1 as to any subsequent Transfer or a consent to any subsequent Transfer. No Transfer, even with the consent of Landlord, shall relieve Tenant of its personal and primary obligation to pay the rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of rent by Landlord from any person shall not be deemed to be a waiver by Landlord of any provision of this Lease nor to be a consent to any Transfer.

B. At least thirty (30) days before a proposed Transfer is to become effective, Tenant shall give Landlord written notice of the proposed terms of such Transfer and request Landlord's approval, which notice shall include the following: (i) the name and legal composition of the proposed transferee; (ii) a current financial statement of the transferee, financial statements of the transferee covering the preceding three (3) years if the same exist, and (if available) an audited financial statement of the transferee for a period ending not more than one year prior to the proposed effective date of the Transfer, all of which statements are prepared in accordance with generally accepted accounting principles; (iii) the nature of the proposed transferee's business to be carried out in the Premises; (iv) all consideration to be given on account of the Transfer, (v) a current financial statement of Tenant; and (vi) an accurately filled out response to Landlord's then-standard Hazardous Materials Questionnaire, if any. Tenant shall provide to Landlord such other information as may be reasonably requested by Landlord within seven (7) days after Landlord's receipt of such notice from Tenant. Landlord shall respond in writing to Tenant's request for Landlord's consent to a Transfer within the later of (i) fifteen (15) business days of receipt of such request together with the required accompanying documentation, or (ii) seven (7) days after Landlord's receipt of all information which Landlord reasonably requests within seven (7) days after it receives Tenant's first notice



regarding the Transfer in question. If Landlord fails to respond in writing within said period, Landlord will be deemed to have withheld its consent to such Transfer, provided that if Tenant specifically requests from Landlord, within five (5) days following the expiration of said period a statement of reasons for withholding consent, Landlord shall have ten (10) business days following such request within which to provide Tenant with a written statement of its reasonable objections to the Transfer in question (and, if Landlord fails to provide such statement to Tenant within such ten (10) business day, then Landlord shall be deemed to have consented to the Transfer in question). Tenant shall immediately notify Landlord of any material modification to the proposed terms of such Transfer.

Tenant agrees, by way of example and without limitation, that its shall not be unreasonable for Landlord to withhold its consent to a proposed Transfer if any of the following situations exist or may exist:

- (1) Landlord determines that the proposed assignee's or sublessee's use of the Premises conflicts with Article 4 above, presents an unacceptable risk, as determined by Landlord, under Section 7.2 above, or conflicts with any other provision under this Lease;
- (2) Landlord determines that the proposed assignee or sublessee has a net worth (as determined in accordance with generally accepted accounting principles) less than Tenant's as of the date of this Lease;
- (3) Landlord determines that the proposed assignment or subletting would breach a covenant, condition or restriction in some other lease, financing agreement or other agreement relating to the Project, the Building, the Premises or this Lease;
- (4) An Event of Tenant's Default (or any material act or omission which, with the giving of notice or the passage of time, or both, would constitute an Event of Tenant's Default) has occurred and is continuing at the time of Tenant's request for Landlord's consent, or as of the effective date of such assignment or subletting;
- (5) Landlord is not then negotiating, and has not negotiated during the nine (9) month period prior to receipt of Tenant's request for consent to such sublease or assignment, with the proposed assignee or sublessee for the lease of space at the Project; or
- (6) The proposed assignee's or sublessee's use of the Premises would place additional burdens on the Project and/or its operation, including, without limitation, the Common Area and the utilities.

C. Notwithstanding anything contained in this Article 14 to the contrary, in the event that Tenant seeks to assign this Lease or sublease all or substantially all of the Premises, Landlord shall have the right to terminate this Lease, either (i) on the condition that the proposed transferee immediately enter into a direct lease of the Premises with Landlord on the same terms and conditions contained in Tenant's notice, or (ii) so that Landlord is thereafter free to lease the Premises to whomever (including, without limitation, the proposed transferee) it pleases on whatever terms are acceptable to Landlord. In the event Landlord elects to so terminate this Lease, then (i) if such termination is conditioned upon the execution of a lease between Landlord and the proposed transferee, Tenant's obligations under this Lease shall not be terminated until such transferee executes a new lease with Landlord, enters into possession and commences the payment of rent, and (ii) if Landlord elects simply to terminate this Lease, the Lease shall so terminate in its entirety Fifteen (15) days after Landlord has notified Tenant in writing of such election. Upon such termination, Tenant shall be released from any further obligation under this Lease, except that the foregoing release shall not apply to, and Tenant shall not be released from, (i) any obligations under this Lease accruing prior to such termination, (ii) any obligations under Section 15.2 below relating to the surrender of the Premises or such space proposed to be sublet, as applicable, and (iii) any obligations which, by their terms, are to survive the expiration or sooner termination of this Lease. Upon Landlord's request, Tenant shall execute a separate termination agreement evidencing any termination of

this Lease pursuant to this Section 14.1 C. Landlord's rights under this Section 14.1 C shall not apply to a Permitted Transfer.

D. If Landlord consents to a Transfer proposed by Tenant, Tenant may enter into such Transfer, and if Tenant does so, the following shall apply:

(1) Tenant shall not be released of its liability for the performance of all of its obligations under this Lease.

(2) Except with respect to a Permitted Transfer, if Tenant assigns its interest in this Lease, then Tenant shall pay to Landlord fifty percent (50%) of all Transfer Consideration (as defined in Section 14.1 D(5)) received by Tenant over and above (i) the assignee's agreement to assume the obligations of Tenant under this Lease, and (ii) all Permitted Transfer Costs related to such assignment. In the case of assignment, the amount of Transfer Consideration owed to Landlord shall be paid to Landlord on the same basis, whether periodic or in lump sum, that such Transfer Consideration is paid to Tenant by the assignee.

(3) If Tenant sublets any part of the Premises, then with respect to the space so subleased, Tenant shall pay to Landlord fifty percent (50%) of the positive difference, if any, between (i) all Transfer Consideration paid by the subtenant to Tenant, less (ii) the sum of all Base Monthly Rent and Tenant's Share of Excess Expenses allocable to the space sublet and all Permitted Transfer Costs related to such sublease. Such amount shall be paid to Landlord on the same basis, whether periodic or in lump sum, that such Transfer Consideration is paid to Tenant by its subtenant. In calculating Landlord's share of any periodic payments, all Permitted Transfer Costs shall be first recovered by Tenant.

(4) Tenant's obligations under this Section 14.1 D shall survive any Transfer, and Tenant's failure to perform its obligations hereunder shall be an Event of Tenant's Default. At the time Tenant makes any payment to Landlord required by this Section 14.1 D, Tenant shall deliver to Landlord an itemized statement of the method by which the amount to which Landlord is entitled was calculated, certified by Tenant as true and correct. Upon request therefore, Tenant shall deliver to Landlord copies of all bills, invoices or other documents upon which its calculations are based. Landlord may condition its approval of any Transfer upon obtaining a certification from both Tenant and the proposed transferee of all Transfer Consideration and other amounts that are to be paid to Tenant in connection with such Transfer.

(5) As used in this Section 14.1 D, the term "Transfer Consideration" shall mean any consideration of any kind received, or to be received, by Tenant as a result of the Transfer, if such sums are related to Tenant's interest in this Lease or in the Premises, including payments from or on behalf of the transferee (in excess of the book value thereof) for Tenant's assets, fixtures, leasehold improvements, inventory, accounts, goodwill, equipment, furniture, and general intangibles. As used in this Section 14.1 D, the term "Permitted Transfer Costs" shall mean (i) all reasonable leasing commissions paid to third parties not affiliated with Tenant in order to obtain the Transfer in question, (ii) reasonable costs of finishing out or renovating the space affected and reasonable cash rental concessions, which costs and expenses are to be amortized over the term of the assignment or sublease and (iii) all reasonable attorneys' fees incurred by Tenant with respect to negotiating the Transfer in question. The purpose of this section is to avoid a subterfuge regarding the transfer of the Lease and is not intended to give Landlord any rights to Tenant's assets, fixtures, leasehold improvements, inventory, accounts, goodwill, equipment, furniture, and general intangibles other than what would be equitably determined to be associated with the transfer of the Lease.

E. The sale of all or substantially all of Tenant's assets (other than bulk sales in the ordinary course of business), any dissolution of Tenant, or, if Tenant is a corporation, an unincorporated association, a partnership or a limited liability company, any transaction or multiple transactions taken together in which fifty percent (50%) or more of the voting power in aggregate is transferred during the Term (except for publicly traded shares of stock constituting a transfer of fifty percent (50%) or more in the aggregate, so long as no change in the controlling interests of Tenant occurs as a result thereof) shall be deemed an assignment within the meaning and provisions of this Article 14. Notwithstanding the foregoing, if Tenant is a corporation, the transfer, assignment, issuance or hypothecation of stock or other interest in Tenant shall not be deemed an assignment if (i) the purpose of the transfer is principally for bona fide equity financing purposes in which cash is received by the Tenant or indebtedness of the Tenant is cancelled or converted or a combination thereof and Tenant's net worth (as determined in accordance with generally accepted accounting principles) after such transaction is at least equal to Tenant's as of the date of this Lease, (ii) the sole purpose of the transfer is for Tenant to become a corporation whereby the equity holders of Tenant before the reorganization will maintain identical ownership positions in the surviving corporation, or (iii) if the sale of shares of Tenant is in the form of a public offering of securities based on a corporate value of at least One Hundred Million Dollars (\$100,000,000.00). As used in the Section 14.1 E, the term "Tenant" shall mean Tenant and/or any person or entity that owns, directly or indirectly, in whole or in part, Tenant (e.g., a parent corporation of Tenant).

F. Notwithstanding anything to the contrary contained in this Section 14.1, an assignment of the Lease or sublease of all or any portion of the Premises to any entity which controls or is controlled by Tenant or which acquires all or substantially all of the assets of Tenant or which is the surviving entity resulting from a merger or consolidation of Tenant (in each such case, a "Permitted Transfer"), shall not require Landlord's consent, provided that at least thirty (30) days prior to such assignment or sublease (i) Tenant provides Landlord with reasonable evidence, which evidence must be reasonably acceptable to Landlord, that such entity has a net worth (as determined in accordance with generally accepted accounting principles) at least equal to Tenant's before the date of such Transfer; (ii) Tenant notifies Landlord in writing of any such assignment or sublease and provides Landlord with evidence that such assignment or sublease is a Transfer permitted by this section; (iii) prior to the date an assignment or sublease will take effect, the assignee or sublessee and Tenant shall enter into Landlord's standard consent to sublease agreement or consent to assignment agreement (the "Transfer Agreements"), and (iv) Tenant shall pay the reasonable costs and expenses (including legal fees) incurred by Landlord in confirming that the assignment or sublease meets the requirements of this section and in preparing any Transfer Agreement. Whether or not a Permitted Transfer is made pursuant to the terms of this section, Tenant shall not be relieved of its obligations under this Lease.

14.2 Transfer By Landlord. Landlord and its successors in interest shall have the right to transfer their interest in this Lease, the Building and the Project at any time and to any person or entity. In the event of any such transfer, the Landlord originally named herein (and, in the case of any subsequent transfer, the transferor) from the date of such transfer, shall be automatically relieved, without any further act by any person or entity, of all liability for the performance of the obligations of the Landlord hereunder which may accrue after the date of such transfer. After the date of any such transfer, the term "Landlord" as used herein shall mean the applicable transferee of such interest in the Premises.

## ARTICLE 15

### GENERAL PROVISIONS

15.1 Landlord's Right to Enter. Landlord and its Agents may enter the Premises at any reasonable time after giving no less than twenty-four hours\* notice (except in the event of an emergency, in which case no notice shall be required), email or verbal notice to Tenant (except in the case of any emergency or regularly scheduled services, in which case no prior notice shall be required) for the purpose of: (i) inspecting the same; (ii) posting notices of non-responsibility; (iii) supplying any service to be provided by Landlord to Tenant; (iv) showing the Premises to prospective purchasers, Lenders or tenants (but with respect to tenants, only during the last six [6] months of the Lease Term); (v) making necessary alterations, additions or repairs; (vi) performing Tenant's obligations when Tenant has failed to do so after written notice

from Landlord; (vii) placing upon the Premises ordinary “for lease” signs or “for sale” signs; and (viii) responding to an emergency. Landlord shall have the right to use any and all means Landlord may deem necessary and proper to enter the Premises in an emergency. Any entry into the Premises obtained by Landlord in accordance with this Section 15.1 shall not be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction, actual or constructive, of Tenant from the Premises. Tenant hereby waives any claims for damages for any injury or temporary inconvenience to or interference with Tenant’s business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby.

15.2 Surrender of the Premises. Upon the expiration or sooner termination of this Lease, Tenant shall vacate and surrender the Premises to Landlord in the same condition as existed on the Commencement Date, except for (i) reasonable wear and tear, (ii) damage caused by any casualty not caused by Tenant or Tenant’s Agents or condemnation, and (iii) contamination by Hazardous Materials for which Tenant is not responsible pursuant to Section 7.2A or Section 7.2B. In this regard, normal wear and tear shall be construed to mean wear and tear caused to the Premises by the natural aging process which occurs in spite of prudent application of the best standards for maintenance, repair and janitorial practices, and does not include items of neglected or deferred maintenance. If Landlord so requests, Tenant shall, prior to the expiration or sooner termination of this Lease, (i) remove any Tenant’s Alterations which Tenant is required to remove pursuant to Section 5.2 and repair all damage caused by such removal, and (ii) return the Premises or any part thereof to its original configuration existing as of the time the Premises were delivered to Tenant, excluding the Landlord Improvements shown on Exhibit C. If the Premises are not so surrendered upon the expiration or sooner termination of this Lease, Tenant shall be liable to Landlord for all costs incurred by Landlord in returning the Premises to the required condition, plus interest on all costs incurred at the Agreed Interest Rate. Tenant shall indemnify Landlord against loss or liability resulting from delay by Tenant in so surrendering the Premises, including, without limitation, any claims made by any succeeding tenant or losses to Landlord due to lost opportunities to lease to succeeding tenants.

15.3 Holding Over. This Lease shall terminate without further notice at the expiration of the Lease Term. Any holding over by Tenant after expiration of the Lease Term or any earlier termination of this Lease shall not constitute a renewal or extension of this Lease or give Tenant any rights in or to the Premises except as expressly provided in this Lease. Any holding over after such expiration or earlier termination with the written consent of Landlord shall be construed to be a tenancy from month to month on the same terms and conditions herein specified insofar as applicable except that Base Monthly Rent shall be increased to an amount equal to one hundred fifty percent (150%) of the full unabated Base Monthly Rent payable during the last full calendar month of the Lease Term.

15.4 Subordination. The following provisions shall govern the relationship of this Lease to any Security Instrument:

A. The Lease is subject and subordinate to all Security Instruments existing as of the Effective Date. However, if any Lender so requires, this Lease shall become prior and superior to any such Security Instrument.

B. At Landlord’s election, this Lease shall become subject and subordinate to any Security Instrument created after the Effective Date. Notwithstanding such subordination, Tenant’s right to quiet possession of the Premises shall not be disturbed so long as Tenant is not in default and performs all of its obligations under this Lease, unless this Lease is otherwise terminated pursuant to its terms.

C. Tenant shall upon request execute and acknowledge any document or instrument reasonably required by any Lender to make this Lease either prior or subordinate to a Security Instrument, which may include such other matters as the Lender customarily requires in connection with such agreements, including provisions that the Lender not be liable for (i) the return of any security deposit unless the Lender receives it from Landlord, (ii) any defaults on the part of Landlord occurring prior to the time the Lender takes possession of the Project in connection with the enforcement of its Security Instrument, and/or (iii) completion of any improvements to the Premises or the Project agreed to or undertaken by Landlord. Tenant’s failure to execute any such document or instrument within ten (10) days after written demand therefore shall constitute an Event of Tenant’s Default.

D. Upon Tenant's written request, Landlord shall, at no cost to Landlord, use commercially reasonable efforts to obtain a subordination, non-disturbance and attornment agreement ("SNDA") for Tenant's benefit from any holder of a Security Instrument; provided, however, the failure to so obtain such SNDA shall not be deemed a default by Landlord nor permit Tenant any rights or remedies.

15.5 Mortgage Protection and Attornment. In the event of any default on the part of the Landlord, Tenant will use reasonable efforts to give notice by registered mail to any Lender whose name has been provided to Tenant and shall offer such Lender a reasonable opportunity to cure the default, including time to obtain possession of the Premises by power of sale or judicial foreclosure or other appropriate legal proceedings, if such should prove necessary to effect a cure. Tenant shall attorn to any purchaser of the Premises at any foreclosure sale or private sale conducted pursuant to any Security Instrument encumbering the Premises, or to any grantee or transferee designated in any deed given in lieu of foreclosure. Notwithstanding the foregoing, in the event of conflict between the terms of this Article 15.5 and the SNDA, the terms of the SNDA shall govern as between any such Lender and Tenant

15.6 Estoppel Certificates and Financial Statements. At all times during the Lease Term, Tenant agrees, following any request by Landlord, to execute and deliver to Landlord within ten (10) days following delivery of such request an estoppel certificate: (i) certifying that this Lease is unmodified and in full force and effect or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect, (ii) stating the date to which the Rent and other charges are paid in advance, if any, (iii) acknowledging that there are not any uncured defaults on the part of any party hereunder or, if there are uncured defaults, specifying the nature of such defaults, and (iv) certifying such other information about the status of the Lease and the Premises as may be required by Landlord. A failure to deliver an estoppel certificate within ten (10) days after delivery of a request therefore shall be a conclusive admission that, as of the date of the request for such statement: (i) this Lease is unmodified except as may be represented by Landlord in said request and is in full force and effect, (ii) there are no uncured defaults in Landlord's performance, (iii) no rent has been paid more than thirty (30) days in advance, and (iv) the information regarding the status of this Lease, as represented by Landlord in said request, is true and correct. No more than twice during the Lease Term (except in connection with a proposed sale or financing of the Building) Tenant shall, upon ten (10) days' prior written notice from landlord, provide Tenant's most recent financial statement and financial statements covering the twenty-four (24) month period prior to the date of such most recent financial statement to any existing Lender or to any potential Lender or buyer of the Premises. Such statements shall be prepared in accordance with generally accepted accounting principles and shall be certified by Tenant's chief financial officer as true and correct in all material respects and at Landlord's request, supported with copies of Tenant's bank statements or, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant.

15.7 Landlord's Consent. Wherever Landlord's approval or consent is required under this Lease before any action may be taken by Tenant, such approval or consent may be withheld or conditioned in Landlord's sole and absolute discretion unless a different standard is specifically provided for with respect to the required approval or consent in question.

15.8 Notices. Any notice required or desired to be given regarding this Lease shall be in writing and may be given by personal delivery, by facsimile telecopy, by courier service, or by mail. A notice shall be deemed to have been given (i) on the third business day after mailing if such notice was deposited in the United States mail, certified or registered, postage prepaid, addressed to the party to be served at its Address for Notices specified in Section R or Section S of the Summary (as applicable), (ii) when delivered if given by personal delivery, and (iii) in all other cases when actually received at the party's Address for Notices. Either party may change its address by giving notice of the same in accordance with this Section 15.8, provided however, that any address to which notices may be sent must be a California address.

15.9 Attorneys' Fees. If Landlord or Tenant brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, or appeal thereon, shall be entitled to its reasonable attorneys' fees and court costs to be paid by the losing party as fixed by the court in the same or separate suit, and whether or not such action is pursued to decision or judgment. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees and court costs reasonably incurred in good faith. Landlord shall be entitled to reasonable attorneys' fees and all other costs and expenses incurred in the preparation and service of notices of default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such default. Landlord and Tenant agree that attorneys' fees incurred with respect to defaults and bankruptcy are actual pecuniary losses within the meaning of Section 365(b)(1)(B) of the Bankruptcy Code or any successor statute.

15.10 Authority. If Tenant is a corporation (or partnership or limited liability company), each individual executing this Lease on behalf of Tenant represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of such corporation in accordance with the by-laws of such corporation (or partnership in accordance with the partnership agreement of such partnership or limited liability company in accordance with the operating agreement of such limited liability company) and that this Lease is binding upon such corporation (or partnership or limited liability company) in accordance with its terms. Each of the persons executing this Lease on behalf of a corporation, partnership or limited liability company does hereby covenant and warrant that the party for whom it is executing this Lease is a duly authorized and existing corporation, partnership or limited liability company, that such entity is qualified to do business in California, and that such entity has full right and authority to enter into this Lease.

15.11 Miscellaneous. Should any provision of this Lease prove to be invalid or illegal, such invalidity or illegality shall in no way affect, impair or invalidate any other provision hereof, and such remaining provisions shall remain in full force and effect. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor. The captions used in this Lease are for convenience only and shall not be considered in the construction or interpretation of any provision hereof. Any executed copy of this Lease shall be deemed an original for all purposes. This Lease shall, subject to the provisions regarding assignment, apply to and bind the respective heirs, successors, executors, administrators and assigns of Landlord and Tenant. "Party" shall mean Landlord or Tenant, as the context implies. If Tenant consists of more than one person or entity, then all persons or entities so comprising Tenant shall be jointly and severally liable hereunder. This Lease shall be construed and enforced in accordance with the laws of the State of California. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning, and not strictly for or against either Landlord or Tenant. When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership or corporation or joint venture, and the singular includes the plural. The terms "shall", "will" and "agree" are mandatory. The term "may" is permissive. When a party is required to do something by this Lease, it shall do so at its sole cost and expense without right of reimbursement from the other party unless a provision of this Lease expressly requires reimbursement. Landlord and Tenant agree that (i) the gross leasable area of the Premises includes any atriums, depressed loading docks, covered entrances or egresses, and covered loading areas, (ii) each has had an opportunity to determine to its satisfaction the actual area of the Project and the Premises, (iii) all measurements of area contained in this Lease are conclusively agreed to be correct and binding upon the parties, even if a subsequent measurement of any one of these areas determines that it is more or less than the amount of area reflected in this Lease, determination that the area is more or less than shown in this Lease shall not result in a change in any of the computations of rent, improvement allowances, or other matters described in this Lease where area is a factor. Where a party hereto is obligated not to perform any act, such party is also obligated to restrain any others within its control from performing said act, including the Agents of such party. Landlord shall not become or be deemed a partner or a joint venturer with Tenant by reason of the provisions of this Lease.

15.12 Termination by Exercise Right. If this Lease is terminated pursuant to its terms by the proper exercise of a right to terminate specifically granted to Landlord or Tenant by this Lease, then this Lease shall terminate thirty (30) days after the date the right to terminate is properly exercised (unless another date is specified in that part of the Lease creating the right, in which event the date so specified for

termination shall prevail), the rent and all other charges due hereunder shall be prorated as of the date of termination, and neither Landlord nor Tenant shall have any further rights or obligations under this Lease except for those that have accrued prior to the date of termination or those obligations which this Lease specifically provides are to survive the expiration or sooner termination of this Lease. This Section 15.12 does not apply to a termination of this Lease by Landlord as a result of an Event of Tenant's Default.

15.13 Brokerage Commissions. Each party hereto (i) represents and warrants to the other that it has not had any dealings with any real estate brokers, leasing agents or salesmen, or incurred any obligations for the payment of real estate brokerage commissions or finder's fees which would be earned or due and payable by reason of the execution of this Lease, other than to the Retained Real Estate Brokers described in Section T of the Summary (and then only to the extent set forth in such separate agreement), and (ii) agrees to indemnify, defend, and hold harmless the other party from any claim for any such commission or fees which allegedly result from the actions of the indemnifying party. Landlord shall be responsible for the payment of any commission owed to the Retained Real Estate Brokers if, and only to the extent, there is a separate written commission agreement between Landlord and the Retained Real Estate Brokers for the payment of a commission as a result of the execution of this Lease by Tenant. The indemnity, defense and hold harmless obligations under this Section 15.13 shall survive the expiration or sooner termination of this Lease.

15.14 Joint and Several Liability. If more than one party signs this Lease as "Tenant", such parties shall be liable for all obligations, covenants and liability of "Tenant" on a joint and several basis.

15.15 Force Majeure. Any prevention, delay or stoppage due to strikes, lock-outs, inclement weather, labor disputes, inability to obtain labor, materials, fuels or reasonable substitutes therefore, governmental restrictions, regulations, controls, action or inaction, civil commotion, fire or other acts of God, and other causes beyond the reasonable control of the party obligated to perform (except financial inability) shall excuse the performance, for a period equal to the period of any said prevention, delay or stoppage, of any obligation hereunder except the obligation of Tenant to pay rent or any other sums due hereunder.

15.16 Entire Agreement. This Lease constitutes the entire agreement between the parties, and there are no binding agreements or representations between the parties except as expressed herein. Tenant acknowledges that neither Landlord nor Landlord's Agents has made any legally binding representation or warranty as to any matter except those expressly set forth herein, including any warranty as to (i) whether the Premises may be used for Tenant's intended use under existing Laws, (ii) the suitability of the Premises or the Project for the conduct of Tenant's business, or (iii) the condition of any improvements. There are no oral agreements between Landlord and Tenant affecting this Lease, and this Lease supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between Landlord and Tenant or displayed by Landlord to Tenant with respect to the subject matter of this Lease. This instrument shall not be legally binding until it is executed by both Landlord and Tenant. No subsequent change or addition to this Lease shall be binding unless in writing and signed by Landlord and Tenant.

15.17 Intentionally Omitted.

**15.18 JURY TRIAL WAIVER. TO THE EXTENT PERMITTED OR HEREAFTER PERMITTED BY APPLICABLE LAW, LANDLORD AND TENANT EACH ACKNOWLEDGES THAT IT IS AWARE OF AND HAS HAD THE ADVICE OF COUNSEL OF ITS CHOICE WITH RESPECT TO THE RIGHTS TO TRIAL BY JURY, AND EACH PARTY DOES, TO THE EXTENT PERMITTED OR HEREAFTER PERMITTED BY APPLICABLE LAW, HEREBY EXPRESSLY AND KNOWINGLY WAIVE AND RELEASE ALL SUCH RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER PARTY HERETO AGAINST THE OTHER (AND/OR AGAINST ITS OFFICERS, DIRECTORS, PARTNERS, MEMBERS, EMPLOYEES, AGENTS, OR SUBSIDIARY OR AFFILIATED ENTITIES) ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM OF INJURY OR DAMAGE.**

---

[signatures to follow on succeeding page]



IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease with the intent to be legally bound thereby, to be effective as of the Effective Date.

LANDLORD:

Millich Commercial, LLC  
a California limited liability company

By: Briggs Development Corporation  
a California corporation  
Its: Managing Member

By: /s/ Jeffrey L. Rogers  
Name: Jeffrey L. Rogers  
Its: President

Date: 7/20/2017

TENANT:

Arteris, Inc.,  
a Delaware corporation

By: /s/ K. Charles Janac  
Name: K. Charles Janac  
Its: President and CEO

By: /s/ Stephane Mehat  
Name: Stephane Mehat  
Its: CFO

Date: July 19, 2017

EXHIBIT A

PROJECT SITE PLAN

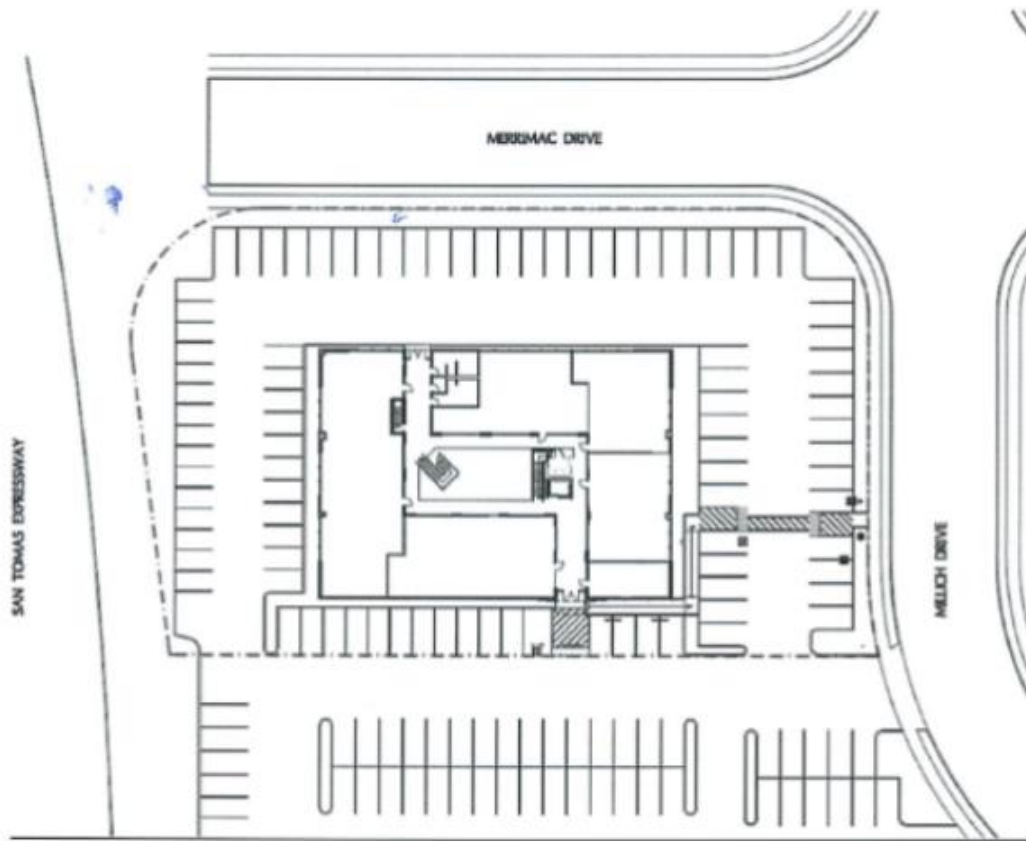


EXHIBIT B

DIAGRAM OF PREMISES

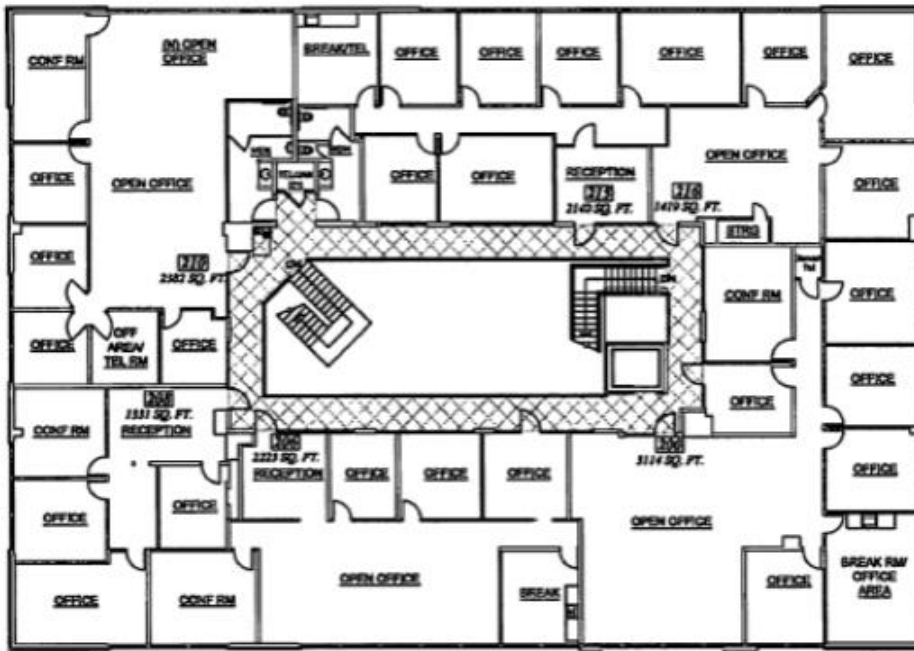


EXHIBIT B-1

DIAGRAM OF TEMPORARY SPACE

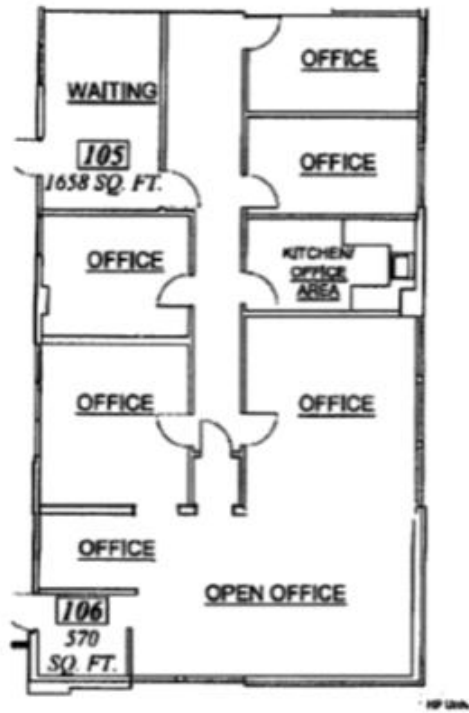


EXHIBIT C

Space Plan of Premises Showing Landlord Improvements

Space Plan of Premises Showing Landlord Improvements

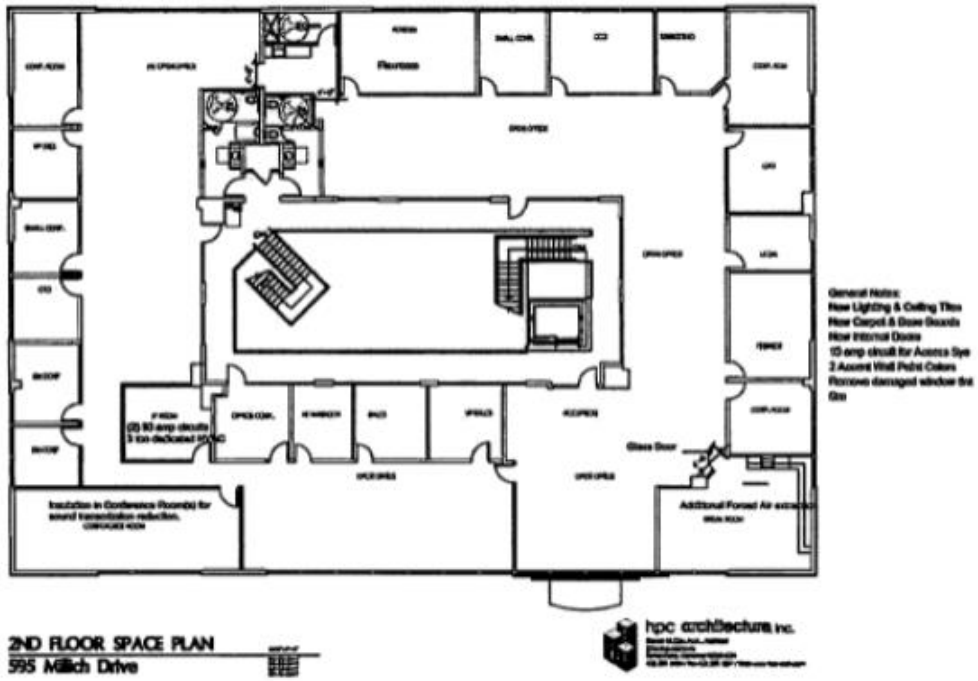


EXHIBIT D

RULES & REGULATIONS

1. No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed, or printed or affixed on or to any part of the outside or inside of the Building without the written consent of Landlord first had and obtained and Landlord shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant. All approved signs or lettering on doors shall be printed, painted, affixed or inscribed at the expense of Tenant by a person approved of by Landlord. Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises; provided, however, that Landlord may furnish and install a Building standard window covering at all exterior windows. Tenant shall not without prior written consent of Landlord cause or otherwise sunscreen any window.
2. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by any of the tenants or used by them for any purpose other than for ingress and egress from their respective Premises.
3. Tenant shall not alter any lock or install any new or additional locks or any bolts on any doors or windows of the Premises.
4. Tenant shall not allow any chairs with wheels or casters to be used without a carpet protector or chairmat. Failure to follow this requirement which results in carpet damage will result in Tenant being charged for replacement of the carpet.
5. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by Tenant who, or whose employees or invitees shall have caused it.
6. Tenant shall not overload the floor of the Premises or in any way deface the Premises or any part thereof.
7. No furniture, freight or equipment of any kind shall be brought in the Building without the prior notice to Landlord and all moving of the same into or out of the Building shall be done in such manner as Landlord shall designate. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into the Building and also the times and manner of moving the same in and out of the Building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the Building by moving or maintaining any such safe or other property shall be repaired at the expense of Tenant.
8. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason or noise, odors and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises or the Building other than fish in a fish tank of a size reasonably approved by Landlord.
9. No cooking, except by microwave oven, shall be done or permitted by any Tenant on the Premises, nor shall the Premises be used for the storage of merchandise, for washing clothes, for lodging, or for any improper, objectionable or immoral purposes.

10. Tenant shall not use or keep in the Premises of the Building any kerosene, gasoline, or inflammable or combustible fluid or material, or use any method of heating or air conditioning other than that supplied by Landlord.

11. Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires will be allowed without the consent of Landlord. The locations of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.

12. On Saturdays, Sundays, and legal holidays, and on other days between the hours of 7:00 PM and 7:00 AM the following day, access to the Building, or to the halls, corridors, elevators or stairways in the Building, or to the Premises may be refused unless the person seeking access is known to the person or employee of the Building in charge and has a pass or is properly identified. Landlord shall in no case be liable for damages for any error with regard to admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Building during the continuance of the same by closing of the doors or otherwise, for the safety of the tenants and protection of property in the Building and the Building.

13. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Building.

14. No vending machine or machines of any description shall be installed, maintained or operated upon the Premises without the written consent of the Landlord.

15. Landlord shall have the right, exercisable without notice and without liability to Tenant, to change the name and street address of the Building of which the Premises are a part.

16. Tenant shall not disturb, solicit, or canvass any occupant of the Building and shall cooperate to prevent the same.

17. Without the written consent of Landlord, Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant except as Tenant's address.

18. Landlord shall have the right to control and operate the public portions of the Building, and the public facilities, and heating and air conditioning, as well as facilities furnished for the common use of the tenants, in such manner as it deems best for the benefit of the tenants generally.

19. All entrance doors in the Premises shall be left locked when the Premises are not in use, and all doors opening to public corridors shall be kept closed except for normal ingress and egress from the Premises.

20. Landlord shall clean the Premises as provided in the Lease, and except with the written consent of Landlord, no person or persons other than those approved by Landlord will be permitted to enter the Building for such purposes. Tenant shall not cause unnecessary labor by reason of Tenant's carelessness and indifference in the preservation of good order and cleanliness. All cardboard boxes must be "broken down", and all styrofoam chips must be bagged or otherwise contained so as not to constitute a nuisance. Landlord shall have no responsibility whatsoever for the theft of or damage to any property of Tenant or its employees resulting from any acts or omissions of janitorial personnel, and Tenant hereby waives any and all claims against Landlord therefore.

21. Landlord reserves the right to amend or supplement the Rules and Regulations and to adopt and promulgate additional rules and regulations applicable to the Project, the Building and/or the Premises.

22. Neither Landlord nor Landlord's Agents or any other person or entity shall be responsible to Tenant or to any other person for the violation of these or other Rules and regulations by any other tenant or other person. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition precedent, waivable only by Landlord, to Tenant's occupancy of the Premises.

#### PARKING RULES

1. Parking areas shall be used only for parking by vehicles no longer than full size, passenger automobiles, or sport utility vehicles. Tenant and its employees shall park automobiles within the lines of the parking spaces. Landlord may designate the areas in the parking facilities that will be available for unreserved parking, in Landlord's sole discretion.
2. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Landlord for such activities. Users of the parking area will obey all posted signs and park only in the areas designated for vehicle parking.
3. Landlord may require Tenant and Tenant's employees to use parking cards, parking stickers or other identification devices. Parking stickers, parking cards and other identification devices shall be the property of Landlord and shall be returned to Landlord by the holder thereof upon termination of the holder's parking privileges. Landlord may require Tenant and each of its employees to give Landlord a deposit or a nonrefundable fee when a parking card or other parking device is issued. If Landlord collects deposits (as opposed to nonrefundable fees), Landlord shall not be obligated to return the deposit unless and until the parking card or other device is returned to Landlord. Tenant will pay such replacement charges as is reasonably established by Landlord for the loss of such devices. Loss or theft of parking identification stickers or devices from automobiles must be reported to the parking operator immediately. Any parking identification stickers or devices reported lost or stolen found on any unauthorized car will be confiscated and the illegal holder will be subject to prosecution.
4. Landlord reserves the right to relocate all or a part of parking spaces within the parking area and/or to reasonably adjacent off site locations(s), and to allocate them between compact and standard size and tandem spaces, as long as the same complies with applicable laws, ordinances and regulations and does not reduce Tenant's parking allocation under this Lease. If access to the parking areas are not now controlled with gates or similar devices, Landlord shall have the right, but not the obligation, to install gates or other devices to control access to the parking areas, and Tenant shall comply with all of Landlord's rules and regulations relating to access to the parking areas.
5. Unless otherwise instructed, every person using the parking area is required to park and lock his own vehicle. Landlord will not be responsible for any damage to vehicles, injury to persons or loss of property, all of which risks are assumed by the party using the parking area.
6. Validation of visitor parking, if established, will be permissible only by such method or methods as Landlord may establish at rates determined by Landlord, in Landlord's sole discretion. Only persons visiting Tenant at the Premises shall be permitted by Tenant to use the Project's visitor parking facilities.
7. The maintenance, washing, waxing or cleaning of vehicles in the parking structure or Common Areas is prohibited.
8. Tenant shall be responsible for seeing that all of its employees, agents and invitees comply with the applicable parking rules, regulations, laws and agreements. Parking area managers or attendants, if any, are not authorized to make or allow any exceptions to these Parking Rules and Regulations. Landlord reserves the right to terminate parking rights for any person or entity that willfully refuses to comply with these rules and regulations.



9. Every driver is required to park his own car. Where there are tandem spaces, the first car shall pull all the way to the front of the space leaving room for a second car to park behind the first car. The driver parking behind the first car must leave his key with the parking attendant. Failure to do so shall subject the driver of the second car to a \$50.00 fine. Refusal of the driver to leave his key when parking in a tandem space shall be cause for termination of the right to park in the parking facilities. The parking operator, or his employees or agents, shall be authorized to move cars that are parked in tandem should it be necessary for the operation of the parking facilities. Tenant agrees that all responsibility for damage to cars or the theft of or from cars is assumed by the driver, and further agrees that Tenant will hold Landlord harmless for any such damages or theft.

10. No vehicles shall be parked in the parking areas overnight. The parking areas shall only be used for daily parking and no vehicle or other property shall be stored in a parking space.

11. Any vehicle parked by Tenant, its employees, contractors or visitors in a reserved parking space or in any area of the parking area that is not designated for the parking of such a vehicle may, at Landlord's option, and without notice or demand, be towed away by any towing company selected by Landlord, and the cost of such towing shall be paid for by Tenant and/or the driver of said vehicle.

12. At Landlord's request, Tenant shall provide Landlord with a list which includes the name of each person using the parking facilities based on Tenant's parking rights under this Lease and the license plate number of the vehicle being used by that person. Tenant shall provide Landlord with an updated list within five (5) days after any part of the list becomes inaccurate.

#### ELECTRIC VEHICLE CHARGING STATIONS

1. If, and only if, Section 1952.7 of the California Civil Code ("**Section 1952.7**") applies to the Building's parking area where Tenant's parking spaces are located and gives Tenant the legal right to install electric vehicle charging stations ("Tenant Charging Stations"), Tenant shall have the right to install Tenant Charging Stations in its parking spaces subject to all of the following terms and conditions and Tenant hereby acknowledges and agrees that all of the following terms and conditions are reasonable restrictions on the installation of the Tenant Charging Stations:

(a) Prior to installing, modifying, replacing or removing any Charging Station Improvements (as defined below) Tenant shall obtain the prior written approval of Landlord. For purposes of this Section, "Charging Station Improvements" shall mean the Tenant Charging Stations, the Charging Station Parking Spaces (as defined below), all other improvements or alterations made to the Project as part of the installation of the Tenant Charging Stations or any modifications to any of the foregoing. Landlord shall provide its written approval or disapproval of Tenant's request to install or modify the Charging Station Improvements within thirty (30) days after Landlord has received the Charging Station Plans (as defined below). Nothing contained in this Section shall be interpreted as granting Tenant the right to alter any aspect of the parking spaces including, but not limited to, the size or location of parking spaces, and Tenant shall not have the right to alter the parking spaces at the Project.

(b) Tenant may install the greater of the following number of Tenant Charging Stations: (i) one (1) and (ii) the number derived by dividing the rentable area of the Premises by 12,500 and rounding the resulting quotient to the nearest whole number; provided, however, in no event shall Tenant be permitted to install more Tenant Charging Stations than the lesser of the number of parking spaces (A) it is entitled to use pursuant to Summary Item H of the Lease and (B) that are permitted by Section 1952.7. To the extent Section 1952.7 permits Tenant to install without Landlord's approval a greater number of Tenant Charging Stations than provided above, Tenant shall be entitled to install the smallest number of Tenant Charging Stations it is permitted to install without Landlord's approval by Section 1952.7. The parking spaces used when vehicles are being charged at the Tenant Charging Stations are hereinafter collectively referred to as the "Charging Station Parking Spaces". Charging Station Parking Spaces shall be included in the number of parking spaces Tenant is entitled to use pursuant to Summary Item H of the Lease.

(c) Landlord may determine the location of the Tenant Charging Stations, the Charging Station Parking Spaces and the other Charging Station Improvements in its sole discretion provided that they are located in the Building's and/or Project's parking area.

(d) In addition to all other amounts payable by Tenant pursuant to this Section and the Lease, Tenant shall pay to Landlord its prevailing reserved parking charge for each Charging Station Parking Space, as such rate is increased by Landlord from time to time (the "**Parking Charges**"); provided, however, if Landlord does not have a standard reserved parking rate the Parking Charges shall be a monthly rental amount determined by Landlord. The Parking Charges shall be due and payable on the first day of each calendar month and shall constitute additional rent.

(e) The Charging Station Improvements shall comply with all Federal, State and local laws and regulations and all covenants, conditions and restrictions applicable to the Project including, but not limited to, applicable health, safety, zoning and land use laws (collectively, "**Applicable Requirements**").

(f) At Tenant's sole cost and expense, Tenant may place a sign in front of each Charging Station Parking Space stating that the Charging Station Parking Space is reserved for use by Tenant (the "**Charging Station Signs**"). Landlord shall have the right to approve in its sole discretion the size, content, color, design, materials and method of attachment of the Charging Station Signs. The Charging Station Signs shall be maintained by Tenant in good condition and repair at Tenant's sole cost and expense.

(g) The Tenant Charging Stations may only be used by Tenant's employees while working at the Premises, no other person or entity shall have the right to use the Tenant Charging Stations, and Tenant shall not permit any other person or entity to use the Tenant Charging Stations. Landlord shall not be responsible for the security or use of the Tenant Charging Stations or for preventing other persons or entities from using the Tenant Charging Stations or from parking in the Charging Station Parking Spaces.

(h) Tenant shall pay, at Tenant's sole cost and expense, any cost or expense related directly or indirectly to the existence of the Charging Station Improvements, including, but not limited to, all costs associated with the ownership, design, purchase, installation, maintenance, repair, operation and removal of the Charging Station Improvements (collectively, "**Charging Station Expenses**"). Landlord shall have no obligation to pay any Charging Station Expense. If Tenant fails to pay any Charging Station Expense or if Tenant fails to perform any obligation it has under this Section (collectively, a "**Tenant Obligation**"), Landlord shall have the right, but not the obligation, to complete the Tenant Obligation (e.g., by paying the Charging Station Expense or performing the Tenant obligation), and Tenant shall reimburse Landlord for the costs incurred by Landlord plus and amount equal to ten percent (10%) of such costs within ten (10) days after written demand.

(i) At all times Tenant shall, at Tenant's sole cost and expense, maintain the Charging Station Improvements in good condition and repair and in compliance with all Applicable Requirements. Tenant shall keep the area around the Tenant Charging Stations and the Charging Station Parking Spaces in neat and clean condition, at Tenant's sole expense.

(j) Tenant shall employ qualified engineers and architects approved by Landlord, in Landlord's reasonable discretion, to prepare detailed plans and specifications for the installation and any subsequent modification of the Charging Station Improvements (the "**Charging Station Plans**"). Landlord shall have the right to approve the Charging Station Plans including, but not limited to, the type and size of the charging stations Tenant desires to install and all electrical infrastructure. Once Landlord has approved the Charging Station Plans, Tenant shall obtain all required permits and other governmental approvals needed in order to install or modify the Charging Station Improvements pursuant to the approved Charging Station Plans, at Tenant's sole cost and expense. Tenant shall provide copies of the permits to Landlord prior to commencing the construction or modification of the Charging Station Improvements. Landlord shall have the right to approve in its sole discretion any conditions imposed by applicable governmental agencies on the installation or modification of the Charging Station Improvements. In addition, Landlord shall have the right to approve in its sole discretion the methods and procedures used to complete any trenching, landscaping repairs and/or asphalt and concrete repairs.

(k) Landlord shall have the right to approve in advance the contractors (the “**Contractors**”) used by Tenant to construct, install and/or modify the Charging Station Improvements, in Landlord’s reasonable discretion; provided, however, any work on the Project’s electrical systems, plumbing systems, life/fire/safety systems, any modifications to concrete or asphalt areas or any modifications to landscaped areas shall be performed by contractors designated by Landlord. The Contractors shall carry worker’s compensation insurance covering all of their respective employees, and shall also carry public liability insurance, including property damage, all with limits, in form and with companies as are acceptable to Landlord, in Landlord’s reasonable discretion. Certificates for all insurance carried pursuant to this Section shall be delivered to Landlord before the commencement of the construction or modification of the Charging Station Improvements. All such policies of insurance shall name Landlord and its property manager as an additional insured. Prior to commencing construction or modification of the Charging Station Improvements, Tenant shall provide Landlord with copies of the final contract entered into with each Contractor.

(l) The Contractors shall comply with Landlord’s construction rules and procedures (the “**Construction Procedures**”), and if any Contractor fails to comply with the Construction Procedures after Landlord has provided the Contractor with written notice of its non-compliance, Landlord shall have the right to prohibit such Contractor from performing any further work at the Project, and Landlord shall have no liability to Tenant do to such prohibition. Tenant and the Contractors shall not have the right, at any time, to disrupt any Building or Project service (e.g., electrical, plumbing etc.) to the Common Areas or to another tenant’s premises or to interfere with the use of the Project’s parking area. Tenant and the Contractors shall not store construction materials at the Project and the Contractors shall not dispose of their refuse or construction materials in the Project’s trash receptacles. Tenant shall reimburse Landlord for the cost of repairing any damage to the Project caused by the construction or modification of the Charging Station Improvements, plus an amount equal to ten percent (10%) of such cost, within ten (10) days after written request by Landlord. Landlord shall have the right to inspect the Charging Station Improvements at all times. Landlord shall have the right to receive a fee to reimburse it for its costs in providing approvals hereunder and in monitoring the construction or modification of the Charging Station Improvements in an amount equal to ten percent (10%) of the total cost of constructing, installing and/or modifying the Charging Station Improvements (the “**Charging Station Landlord Fee**”). Tenant shall pay the Charging Station Landlord Fee to Landlord within ten (10) days after written demand.

(m) All electricity used by the Tenant Charging Stations shall be paid by Tenant, at Tenant’s sole cost and expense. The electricity used by the Tenant Charging Stations shall be separately metered by the applicable public utility and Tenant shall pay the electricity charges directly to the applicable public utility. All costs associated with metering the electricity used by the Tenant Charging Stations, bringing electricity to the Tenant Charging Stations (e.g., the cost of metering devices, the cost of modifications to the Project’s electrical system, the cost of bringing electrical lines to the Tenant Charging Stations etc.) and all design and construction costs associated with bringing electricity to the Tenant Charging Stations shall be paid by Tenant, at Tenant’s sole cost and expense. Landlord shall determine in its sole discretion what electrical improvements need to be made to bring the electricity to the Tenant Charging Stations, and where such electrical improvements will be located, and all such electrical improvements shall be included in the Charging Station Plans.

(n) Upon the termination of the Lease or upon Tenant’s election to no longer use the Tenant Charging Stations, Tenant shall remove the Charging Station Improvements and shall return the Project to the condition it was in prior to the installation of the Charging Station Improvements, at Tenant’s sole cost and expense. At Landlord’s option, Landlord may require Tenant to leave some or all of the Charging Station Improvements in place upon the termination of the Lease or upon Tenant’s election to no longer use the Tenant Charging Stations, and in this event, the Charging Station Improvements left by Tenant shall be the property of Landlord. At Landlord’s option, Tenant shall execute a bill of sale confirming that it has conveyed title to the Charging Station Improvements to Landlord free of all liens and encumbrances within ten (10) days after Landlord’s written request.

(o) Prior to and as condition to Tenant’s right to install Tenant Charging Stations, Landlord may require Tenant to provide to Landlord an additional security deposit in an amount equal to Landlord’s estimate of the cost of removing the Charging Station Improvements and returning the Project to the

condition it was in prior to the installation of the Charging Station Improvements (the “**Charging Station Deposit**”). The Charging Station Deposit shall be held by Landlord pursuant to the terms of Section 3.5 of the Lease, and shall be paid by Tenant in addition to any other security deposit required by Landlord.

(p) The Charging Station Improvements shall be considered a use of the Premises pursuant to Section 10.3 of the Lease, and pursuant to Section 10.3 Tenant shall indemnify, defend and hold harmless Landlord and its Agents (as defined in Section 10.3) from any and all liability, penalties, losses, damages, costs, expenses, causes of action, claims and/or judgments arising out of or in any way related to the installation, use, repair, maintenance and removal of the Charging Station Improvements. The insurance purchased by Tenant pursuant to Section 8.1 of the Lease shall apply to the Charging Station Improvements, and within fourteen (14) days after Landlord approves the installation of the Tenant Charging Stations Tenant shall provide Landlord with a certificates of insurance meeting the requirements of Section 9.1 of the Lease showing that the insurance described above is in place with respect to the Charging Station Improvements.

(q) Landlord shall have the right at any time, in Landlord’s sole discretion, to elect to relocate some or all of the Charging Station Improvements to another area of the Project (a “Relocation”). In the event of a Relocation, Landlord shall pay for the cost of the Relocation at Landlord’s sole cost and expense. After the Relocation, all of the terms and conditions of this Section shall continue to apply to the Charging Station Improvements.

(r) If as a result of the construction or the existence of the Charging Station Improvements, Landlord is obligated to comply with the Americans With Disabilities Act or any other law or regulation and such compliance requires Landlord to make any improvements or alterations to any portion of the Project (an “Additional Alteration”), Landlord shall have the right to make the Additional Alteration and in this event Tenant shall reimburse Landlord for the cost of the Additional Alteration plus ten percent (10%) of the cost of the Additional Alteration within ten (10) days after written demand.

(s) At Landlord’s option and in addition to all of Landlord’s other rights under this Section, Landlord may require Tenant to comply with some or all of the items described on the “Permitting Checklist” of the “Zero-Emission Vehicles in California: Community Readiness Guidebook” referred to in Section 1952.7, at Tenant’s sole cost and expense.

(t) If any provision of this Section is determined to conflict with the requirements of Section 1952.7, the provision shall be modified to the least extent possible to comply with the requirements of Section 1952.7 and except as modified such provision shall remain in full force and effect.

Exhibit E

Common Area Improvements Planned as of Lease Reference Date

1. Exterior building finish upgrades to include partial stucco work and natural stone.
2. New mansard exterior roofing.
3. New exterior lighting.
4. New exterior metal awning over main building entrance.
5. New accessible path of travel from public sidewalks to building entry.
6. Remodel restrooms – work complete.
7. New courtyard finishes to include tile walkways and landscaping.
8. Replace courtyard stairs and hand railing.
9. New common area lighting.
10. Install new elevator

## ARTERIS, INC.

## 2013 EQUITY INCENTIVE PLAN

ADOPTED BY THE BOARD OF DIRECTORS: DECEMBER 30, 2013  
APPROVED BY THE STOCKHOLDERS: DECEMBER 30, 2013  
AMENDED BY THE BOARD OF DIRECTORS: FEBRUARY 5, 2016  
AMENDMENT APPROVED BY THE STOCKHOLDERS: FEBRUARY 5, 2016  
TERMINATION DATE: DECEMBER 30, 2023

## 1. GENERAL.

**(a) Eligible Stock Award Recipients.** Employees, Directors and Consultants are eligible to receive Stock Awards. Notwithstanding the foregoing, only Employees, Directors and Consultants of a Parent Affiliate that are not U.S. taxpayers may receive Stock Awards.

**(b) Available Stock Awards.** The Plan provides for the grant of the following types of Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock Awards, (v) Restricted Stock Unit Awards and (vi) Other Stock Awards.

**(c) Purpose.** The Plan, through the granting of Stock Awards, is intended to help the Company secure and retain the services of eligible award recipients, provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and provide a means by which the eligible recipients may benefit from increases in value of the Common Stock.

## 2. ADMINISTRATION.

**(a) Administration by Board.** The Board will administer the Plan. The Board may delegate administration of the Plan to a Committee or Committees, as provided in Section 2(c).

**(b) Powers of Board.** The Board will have the power, subject to, and within the limitations of, the express provisions of the Plan:

**(i)** To determine (A) who will be granted Stock Awards; (B) when and how each Stock Award will be granted; (C) what type of Stock Award will be granted; (D) the provisions of each Stock Award (which need not be identical), including when a person will be permitted to exercise or otherwise receive cash or Common Stock under the Stock Award; (E) the number of shares of Common Stock subject to a Stock Award; and (F) the Fair Market Value applicable to a Stock Award.

**(ii)** To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for administration of the Plan and Stock Awards. The Board, in the exercise of these powers, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it will deem necessary or expedient to make the Plan or Stock Award fully effective.

**(iii)** To settle all controversies regarding the Plan and Stock Awards granted under it.

(iv) To accelerate, in whole or in part, the time at which a Stock Award may be exercised or vest (or at which cash or shares of Common Stock may be issued).

(v) To suspend or terminate the Plan at any time. Except as otherwise provided in the Plan or a Stock Award Agreement, suspension or termination of the Plan will not impair a Participant's rights under his or her then-outstanding Stock Award without his or her written consent except as provided in subsection (viii) below.

(vi) To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, by adopting amendments relating to Incentive Stock Options and certain nonqualified deferred compensation under Section 409A of the Code and/or to make the Plan or Stock Awards granted under the Plan compliant with the requirements for Incentive Stock Options or exempt from or compliant with the requirements for nonqualified deferred compensation under Section 409A of the Code, subject to the limitations, if any, of applicable law. However, if required by applicable law, and except as provided in Section 9(a) relating to Capitalization Adjustments, the Company will seek stockholder approval of any amendment of the Plan that (A) materially increases the number of shares of Common Stock available for issuance under the Plan, (B) materially expands the class of individuals eligible to receive Stock Awards under the Plan, (C) materially increases the benefits accruing to Participants under the Plan, (D) materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (E) materially extends the term of the Plan, or (F) materially expands the types of Stock Awards available for issuance under the Plan. Except as provided in the Plan (including subsection (viii) below) or a Stock Award Agreement, no amendment of the Plan will impair a Participant's rights under an outstanding Stock Award unless (1) the Company requests the consent of the affected Participant, and (2) such Participant consents in writing.

(vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 422 of the Code regarding Incentive Stock Options.

(viii) To approve forms of Stock Award Agreements for use under the Plan and to amend the terms of any one or more Stock Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Stock Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided however*, that a Participant's rights under any Stock Award will not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant, and (B) such Participant consents in writing. Notwithstanding the foregoing, (1) a Participant's rights will not be deemed to have been impaired by any such amendment if the Board, in its sole discretion, determines that the amendment, taken as a whole, does not materially impair the Participant's rights, and (2) subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Stock Awards without the affected Participant's consent (A) to maintain the qualified status of the Stock Award as an Incentive Stock Option under Section 422 of the Code; (B) to change the terms of an Incentive Stock Option, if such change results in impairment of the Award solely because it impairs the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code; (C) to clarify the manner of exemption from, or to bring the Stock Award into compliance with, Section 409A of the Code; or (D) to comply with other applicable laws.

**(ix)** Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Stock Awards.

**(x)** To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States (provided that Board approval will not be necessary for immaterial modifications to the Plan or any Stock Award Agreement that are required for compliance with the laws of the relevant foreign jurisdiction).

**(xi)** To effect, with the consent of any adversely affected Participant, (A) the reduction of the exercise, purchase or strike price of any outstanding Stock Award; (B) the cancellation of any outstanding Stock Award and the grant in substitution therefor of a new (1) Option or SAR, (2) Restricted Stock Award, (3) Restricted Stock Unit Award, (4) Other Stock Award, (5) cash and/or (6) other valuable consideration determined by the Board, in its sole discretion, with any such substituted award (x) covering the same or a different number of shares of Common Stock as the cancelled Stock Award and (y) granted under the Plan or another equity or compensatory plan of the Company; or (C) any other action that is treated as a repricing under generally accepted accounting principles.

**(c) Delegation to Committee.** The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board will thereafter be to the Committee or subcommittee). Any delegation of administrative powers will be reflected in resolutions, not inconsistent with the provisions of the Plan, adopted from time to time by the Board or Committee (as applicable). The Committee may, at any time, abolish the subcommittee and/or revert in the Committee any powers delegated to the subcommittee. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revert in the Board some or all of the powers previously delegated.

**(d) Delegation to an Officer.** The Board may delegate to one (1) or more Officers the authority to do one or both of the following: (i) designate Employees who are not Officers to be recipients of Options and SARs (and, to the extent permitted by applicable law, other Stock Awards) and, to the extent permitted by applicable law, the terms of such Stock Awards, and (ii) determine the number of shares of Common Stock to be subject to such Stock Awards granted to such Employees; provided, however, that the Board resolutions regarding such delegation will specify the total number of shares of Common Stock that may be subject to the Stock Awards granted by such Officer and that such Officer may not grant a Stock Award to himself or herself. Any such Stock Awards will be granted on the form of Stock Award Agreement most recently approved for use by the Committee or the Board, unless otherwise provided in the resolutions approving the delegation authority. The Board may not delegate authority to an Officer who is acting solely in the capacity of an Officer (and not also as a Director) to determine the Fair Market Value pursuant to Section 13(t) below.



(e) **Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons.

### 3. SHARES SUBJECT TO THE PLAN.

#### (a) Share Reserve.

(i) Subject to Section 9(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards from and after the Effective Date will not exceed Ten Million Seven Hundred Thirty One Thousand Eight Hundred Twenty One (10,731,821) shares (the "**Share Reserve**").

(ii) For clarity, the Share Reserve in this Section 3(a) is a limitation on the number of shares of Common Stock that may be issued pursuant to the Plan. Accordingly, this Section 3(a) does not limit the granting of Stock Awards except as provided in Section 7(a).

(b) **Reversion of Shares to the Share Reserve.** If a Stock Award or any portion thereof (i) expires or otherwise terminates without all of the shares covered by such Stock Award having been issued or (ii) is settled in cash (*i.e.*, the Participant receives cash rather than stock), such expiration, termination or settlement will not reduce (or otherwise offset) the number of shares of Common Stock that may be available for issuance under the Plan. If any shares of Common Stock issued pursuant to a Stock Award are forfeited back to or repurchased by the Company because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares that are forfeited or repurchased will revert to and again become available for issuance under the Plan. Any shares reacquired by the Company in satisfaction of tax withholding obligations on a Stock Award or as consideration for the exercise or purchase price of a Stock Award will again become available for issuance under the Plan.

(c) **Incentive Stock Option Limit.** Subject to the Share Reserve and Section 9(a) relating to Capitalization Adjustments, the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options will be Ten Million Seven Hundred Thirty One Thousand Eight Hundred Twenty One (10,731,821) shares of Common Stock.

(d) **Source of Shares.** The stock issuable under the Plan will be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

### 4. ELIGIBILITY.

(a) **Eligibility for Specific Stock Awards.** Incentive Stock Options may be granted only to employees of the Company or a "parent corporation" or "subsidiary corporation" thereof (as such terms are defined in Sections 424(e) and 424(f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; *provided, however*, that Stock Awards may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any "parent" of the Company, as such term is defined in Rule 405, unless (i) the stock underlying such Stock Awards is treated as "service recipient stock"

under Section 409A of the Code (for example, because the Stock Awards are granted pursuant to a corporate transaction such as a spin off transaction), or (ii) the Company, in consultation with its legal counsel, has determined that such Stock Awards are otherwise exempt from or alternatively comply with the distribution requirements of Section 409A of the Code.

**(b) Ten Percent Stockholders.** A Ten Percent Stockholder will not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) Consultants. A Consultant will not be eligible for the grant of a Stock Award if, at the time of grant, either the offer or sale of the Company's securities to such Consultant is not exempt under Rule 701 because of the nature of the services that the Consultant is providing to the Company, because the Consultant is not a natural person, or because of any other provision of Rule 701, unless the Company determines that such grant need not comply with the requirements of Rule 701 and will satisfy another exemption under the Securities Act as well as comply with the securities laws of all other relevant jurisdictions.

## 5. PROVISIONS RELATING TO OPTIONS AND STOCK APPRECIATION RIGHTS.

Each Option or SAR will be in such form and will contain such terms and conditions as the Board deems appropriate. All Options will be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, or if an Option is designated as an Incentive Stock Option but some portion or all of the Option fails to qualify as an Incentive Stock Option under the applicable rules, then the Option (or portion thereof) will be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; *provided, however*, that each Stock Award Agreement will conform to (through incorporation of provisions hereof by reference in the applicable Stock Award Agreement or otherwise) the substance of each of the following provisions:

**(a) Term.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, no Option or SAR will be exercisable after the expiration of ten (10) years from the date of its grant or such shorter period specified in the Stock Award Agreement.

**(b) Exercise Price.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, the exercise or strike price of each Option or SAR will be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Stock Award is granted. Notwithstanding the foregoing, an Option or SAR may be granted with an exercise or strike price lower than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Stock Award if such Stock Award is granted pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Corporate Transaction and in a manner consistent with the provisions of Section 409A of the Code and, if applicable, Section 424(a) of the Code. Each SAR will be denominated in shares of Common Stock equivalents.

**(c) Purchase Price for Options.** The purchase price of Common Stock acquired pursuant to the exercise of an Option may be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board will have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to use a particular method of payment. The permitted methods of payment are as follows:

**(i)** by cash, check, bank draft or money order payable to the Company;

**(ii)** pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

**(iii)** by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

**(iv)** if an Option is a Nonstatutory Stock Option, by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Common Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; provided, however, that the Company will accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued. Shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are used to pay the exercise price pursuant to the “net exercise,” (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations;

**(v)** according to a deferred payment or similar arrangement with the Optionholder; *provided, however*, that interest will compound at least annually and will be charged at the minimum rate of interest necessary to avoid (A) the imputation of interest income to the Company and compensation income to the Optionholder under any applicable provisions of the Code, and (B) the classification of the Option as a liability for financial accounting purposes; or

**(vi)** in any other form of legal consideration that may be acceptable to the Board and specified in the applicable Stock Award Agreement.

**(d) Exercise and Payment of a SAR.** To exercise any outstanding SAR, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Award Agreement evidencing such SAR. The appreciation distribution payable on the exercise of a SAR will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the SAR) of a number of shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such SAR, and with respect to which the Participant is exercising the SAR on such date, over (B) the aggregate strike price of the number of Common Stock equivalents with respect to which the Participant is exercising the SAR on such date. The appreciation distribution may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the Stock Award Agreement evidencing such SAR.

**(e) Transferability of Options and SARs.** The Board may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Board will determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options and SARs will apply:

**(i) Restrictions on Transfer.** An Option or SAR will not be transferable except by will or by the laws of descent and distribution (and pursuant to subsections (ii) and (iii) below), and will be exercisable during the lifetime of the Participant only by the Participant. The Board may permit transfer of the Option or SAR in a manner that is not prohibited by applicable tax and securities laws. Except as explicitly provided herein, neither an Option nor a SAR may be transferred for consideration.

**(ii) Domestic Relations Orders.** Subject to the approval of the Board or a duly authorized Officer, an Option or SAR may be transferred pursuant to the terms of a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by Treasury Regulation 1.421-1(b)(2). If an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

**(iii) Beneficiary Designation.** Subject to the approval of the Board or a duly authorized Officer, a Participant may, by delivering written notice to the Company, in a form approved by the Company (or the designated broker), designate a third party who, upon the death of the Participant, will thereafter be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, upon the death of the Participant, the executor or administrator of the Participant's estate will be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. However, the Company may prohibit designation of a beneficiary at any time, including due to any conclusion by the Company that such designation would be inconsistent with the provisions of applicable laws.

**(f) Vesting Generally.** The total number of shares of Common Stock subject to an Option or SAR may vest and become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of performance goals or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 5(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

**(g) Termination of Continuous Service.** Except as otherwise provided in the applicable Stock Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates (other than for Cause and other than upon the Participant's death or Disability), the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Stock Award as of the date of termination of Continuous Service) within the period of time ending on the earlier of (i) the date three (3) months following the termination of the Participant's Continuous Service (or such longer or shorter

period specified in the applicable Stock Award Agreement, which period will not be less than thirty (30) days if necessary to comply with applicable laws unless such termination is for Cause) and (ii) the expiration of the term of the Option or SAR as set forth in the Stock Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the applicable time frame, the Option or SAR (as applicable) will terminate.

**(h) Extension of Termination Date.** Except as otherwise provided in the applicable Stock Award Agreement or other agreement between the Participant and the Company, if the exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause and other than upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR will terminate on the earlier of (i) the expiration of a total period of time (that need not be consecutive) equal to the applicable post termination exercise period after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Stock Award Agreement. In addition, unless otherwise provided in a Participant's Stock Award Agreement, if the sale of any Common Stock received upon exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause) would violate the Company's insider trading policy, then the Option or SAR will terminate on the earlier of (i) the expiration of a period of time (that need not be consecutive) equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the sale of the Common Stock received upon exercise of the Option or SAR would not be in violation of the Company's insider trading policy, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Stock Award Agreement.

**(i) Disability of Participant.** Except as otherwise provided in the applicable Stock Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination of Continuous Service (or such longer or shorter period specified in the Stock Award Agreement, which period will not be less than six (6) months if necessary to comply with applicable laws), and (ii) the expiration of the term of the Option or SAR as set forth in the Stock Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the applicable time frame, the Option or SAR (as applicable) will terminate.

**(j) Death of Participant.** Except as otherwise provided in the applicable Stock Award Agreement or other agreement between the Participant and the Company, if (i) a Participant's Continuous Service terminates as a result of the Participant's death, or (ii) the Participant dies within the period (if any) specified in the Stock Award Agreement for exercisability after the termination of the Participant's Continuous Service (for a reason other than death), then the Option or SAR may be exercised (to the extent the Participant was entitled to exercise such Option or SAR as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the Participant's death, but only within the period ending on the earlier of (i)

the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Stock Award Agreement, which period will not be less than six (6) months if necessary to comply with applicable laws), and (ii) the expiration of the term of such Option or SAR as set forth in the Stock Award Agreement. If, after the Participant's death, the Option or SAR is not exercised within the applicable time frame, the Option or SAR (as applicable) will terminate.

**(k) Termination for Cause.** Except as explicitly provided otherwise in a Participant's Stock Award Agreement or other individual written agreement between the Company or any Affiliate and the Participant, if a Participant's Continuous Service is terminated for Cause, the Option or SAR will terminate immediately upon such Participant's termination of Continuous Service, and the Participant will be prohibited from exercising his or her Option or SAR from and after the time of such termination of Continuous Service.

**(l) Non-Exempt Employees.** If an Option or SAR is granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, the Option or SAR will not be first exercisable for any shares of Common Stock until at least six (6) months following the date of grant of the Option or SAR (although the Stock Award may vest prior to such date). Consistent with the provisions of the Worker Economic Opportunity Act, (i) if such non-exempt Employee dies or suffers a Disability, (ii) upon a Corporate Transaction in which such Option or SAR is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant's retirement (as such term may be defined in the Participant's Stock Award Agreement, in another agreement between the Participant and the Company, or, if no such definition, in accordance with the Company's then current employment policies and guidelines), the vested portion of any Options and SARs may be exercised earlier than six (6) months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option or SAR will be exempt from his or her regular rate of pay. To the extent permitted and/or required for compliance with the Worker Economic Opportunity Act to ensure that any income derived by a non-exempt employee in connection with the exercise, vesting or issuance of any shares under any other Stock Award will be exempt from the employee's regular rate of pay, the provisions of this Section 5(l) will apply to all Stock Awards and are hereby incorporated by reference into such Stock Award Agreements.

**(m) Early Exercise of Options.** An Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares of Common Stock subject to the Option prior to the full vesting of the Option. Subject to the "**Repurchase Limitation**" in Section 8(l), any unvested shares of Common Stock so purchased may be subject to a repurchase right in favor of the Company or to any other restriction the Board determines to be appropriate. Provided that the "**Repurchase Limitation**" in Section 8(l) is not violated, the Company will not be required to exercise its repurchase right until at least six (6) months (or such longer or shorter period of time required to avoid classification of the Option as a liability for financial accounting purposes) have elapsed following exercise of the Option unless the Board otherwise specifically provides in the Option Agreement.

**(n) Right of Repurchase.** Subject to the “*Repurchase Limitation*” in Section 8(l), the Option or SAR may include a provision whereby the Company may elect to repurchase all or any part of the vested shares of Common Stock acquired by the Participant pursuant to the exercise of the Option or SAR.

**(o) Right of First Refusal.** The Option or SAR may include a provision whereby the Company may elect to exercise a right of first refusal following receipt of notice from the Participant of the intent to transfer all or any part of the shares of Common Stock received upon the exercise of the Option or SAR. Such right of first refusal will be subject to the “*Repurchase Limitation*” in Section 8(l). Except as expressly provided in this Section 5(o) or in the Stock Award Agreement, such right of first refusal will otherwise comply with any applicable provisions of the bylaws of the Company.

## **6. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS AND SARs.**

**(a) Restricted Stock Awards.** Each Restricted Stock Award Agreement will be in such form and will contain such terms and conditions as the Board deems appropriate. To the extent consistent with the Company’s bylaws, at the Board’s election, shares of Common Stock underlying a Restricted Stock Award may be (i) held in book entry form subject to the Company’s instructions until any restrictions relating to the Restricted Stock Award lapse; or (ii) evidenced by a certificate, which certificate will be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical. Each Restricted Stock Award Agreement will conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) past services to the Company or an Affiliate, or (C) any other form of legal consideration (including future services) that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** Subject to the “*Repurchase Limitation*” in Section 8(l), shares of Common Stock awarded under the Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

**(iii) Termination of Participant’s Continuous Service.** If a Participant’s Continuous Service terminates, the Company may receive through a forfeiture condition or a repurchase right, any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

**(iv) Transferability.** Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement will be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board will determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

**(v) Dividends.** A Restricted Stock Award Agreement may provide that any dividends paid on Restricted Stock will be subject to the same vesting and forfeiture restrictions as apply to the shares subject to the Restricted Stock Award to which they relate.

**(b) Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement will be in such form and will contain such terms and conditions as the Board deems appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical. Each Restricted Stock Unit Award Agreement will conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

**(iii) Payment.** A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

**(iv) Additional Restrictions.** At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

**(v) Dividend Equivalents.** Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

**(vi) Termination of Participant's Continuous Service.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.



**(vii) Compliance with Section 409A of the Code.** Notwithstanding anything to the contrary set forth herein, any Restricted Stock Unit Award granted under the Plan that is not exempt from the requirements of Section 409A of the Code shall contain such provisions so that such Restricted Stock Unit Award will comply with the requirements of Section 409A of the Code. Such restrictions, if any, shall be determined by the Board and contained in the Restricted Stock Unit Award Agreement evidencing such Restricted Stock Unit Award. For example, such restrictions may include, without limitation, a requirement that any Common Stock that is to be issued in a year following the year in which the Restricted Stock Unit Award vests must be issued in accordance with a fixed pre-determined schedule.

**(c) Other Stock Awards.** Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value thereof (e.g., options or stock rights with an exercise price or strike price less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the time of grant) may be granted either alone or in addition to Stock Awards provided for under Section 5 and the preceding provisions of this Section 6. Subject to the provisions of the Plan, the Board will have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards.

## 7. COVENANTS OF THE COMPANY.

**(a) Availability of Shares.** The Company will keep available at all times the number of shares of Common Stock reasonably required to satisfy then-outstanding Stock Awards.

**(b) Securities Law Compliance.** The Company will seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; *provided, however,* that this undertaking will not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts and at a reasonable cost, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company will be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant will not be eligible for the grant of a Stock Award or the subsequent issuance of cash or Common Stock pursuant to the Stock Award if such grant or issuance would be in violation of any applicable securities law.

**(c) No Obligation to Notify or Minimize Taxes.** The Company will have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Stock Award. Furthermore, the Company will have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of a Stock Award or a possible period in which the Stock Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of a Stock Award to the holder of such Stock Award.

**8. MISCELLANEOUS.**

**(a) Use of Proceeds from Sales of Common Stock.** Proceeds from the sale of shares of Common Stock pursuant to Stock Awards will constitute general funds of the Company.

**(b) Corporate Action Constituting Grant of Stock Awards.** Corporate action constituting a grant by the Company of a Stock Award to any Participant will be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Stock Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (e.g., Board consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (e.g., exercise price, vesting schedule or number of shares) that are inconsistent with those in the Stock Award Agreement as a result of a clerical error in the papering of the Stock Award Agreement, the corporate records will control and the Participant will have no legally binding right to the incorrect term in the Stock Award Agreement.

**(c) Stockholder Rights.** No Participant will be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to a Stock Award unless and until (i) such Participant has satisfied all requirements for exercise of, or the issuance of shares of Common Stock under, the Stock Award pursuant to its terms, and (ii) the issuance of the Common Stock subject to the Stock Award has been entered into the books and records of the Company.

**(d) No Employment or Other Service Rights.** Nothing in the Plan, any Stock Award Agreement or any other instrument executed thereunder or in connection with any Stock Award granted pursuant thereto will confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or will affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

**(e) Change in Time Commitment.** In the event a Participant's regular level of time commitment in the performance of his or her services for the Company and any Affiliates is reduced (for example, and without limitation, if the Participant is an Employee of the Company and the Employee has a change in status from a full-time Employee to a part-time Employee) after the date of grant of any Stock Award to the Participant, the Board has the right in its sole discretion to (x) make a corresponding reduction in the number of shares subject to any portion of such Stock Award that is scheduled to vest or become payable after the date of such change in time commitment, and (y) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Stock Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Stock Award that is so reduced or extended.

**(f) Incentive Stock Option Limitations.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds one hundred thousand dollars (\$100,000) (or such other limit established in the Code) or otherwise does not comply with the rules governing Incentive Stock Options, the Options or portions thereof that exceed such limit (according to the order in which they were granted) or otherwise do not comply with such rules will be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

**(g) Investment Assurances.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, will be inoperative if (A) the issuance of the shares upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

**(h) Withholding Obligations.** Unless prohibited by the terms of a Stock Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to a Stock Award by any of the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Stock Award; *provided, however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from a Stock Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Stock Award Agreement.

**(i) Electronic Delivery.** Any reference herein to a "written" agreement or document will include any agreement or document delivered electronically or posted on the Company's intranet (or other shared electronic medium controlled by the Company to which the Participant has access).

**(j) Deferrals.** To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Stock Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Stock Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant's termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

**(k) Compliance with Section 409A of the Code.** To the extent that the Board determines that any Stock Award granted hereunder is subject to Section 409A of the Code, the Stock Award Agreement evidencing such Stock Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Stock Award Agreements shall be interpreted in accordance with Section 409A of the Code.

**(l) Repurchase Limitation.** The terms of any repurchase right will be specified in the Stock Award Agreement. The repurchase price for vested shares of Common Stock will be the Fair Market Value of the shares of Common Stock on the date of repurchase. The repurchase price for unvested shares of Common Stock will be the lower of (i) the Fair Market Value of the shares of Common Stock on the date of repurchase or (ii) their original purchase price. However, the Company will not exercise its repurchase right until at least six (6) months (or such longer or shorter period of time necessary to avoid classification of the Stock Award as a liability for financial accounting purposes) have elapsed following delivery of shares of Common Stock subject to the Stock Award, unless otherwise specifically provided by the Board.

## **9. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; OTHER CORPORATE EVENTS.**

**(a) Capitalization Adjustments.** In the event of a Capitalization Adjustment, the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 3(c), and (iii) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board will make such adjustments, and its determination will be final, binding and conclusive.

**(b) Dissolution or Liquidation.** Except as otherwise provided in the Stock Award Agreement, in the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company's right of repurchase) will terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service, *provided, however*, that the Board may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

**(c) Corporate Transaction.** The following provisions will apply to Stock Awards in the event of a Corporate Transaction unless otherwise provided in the Stock Award Agreement or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of a Stock Award. In the event of a Corporate Transaction, then, notwithstanding any other provision of the Plan, the Board may take one or more of the following actions with respect to Stock Awards, contingent upon the closing or completion of the Corporate Transaction:

**(i)** arrange for the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) to assume or continue the Stock Award or to substitute a similar stock award for the Stock Award (including, but not limited to, an award to acquire the same consideration paid to the stockholders of the Company pursuant to the Corporate Transaction);

**(ii)** arrange for the assignment of any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to the Stock Award to the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company);

**(iii)** accelerate the vesting, in whole or in part, of the Stock Award (and, if applicable, the time at which the Stock Award may be exercised) to a date prior to the effective time of such Corporate Transaction as the Board determines (or, if the Board does not determine such a date, to the date that is five (5) days prior to the effective date of the Corporate Transaction), with such Stock Award terminating if not exercised (if applicable) at or prior to the effective time of the Corporate Transaction; provided, however, that the Board may require Participants to complete and deliver to the Company a notice of exercise before the effective date of a Corporate Transaction, which exercise is contingent upon the effectiveness of such Corporate Transaction;

**(iv)** arrange for the lapse, in whole or in part, of any reacquisition or repurchase rights held by the Company with respect to the Stock Award;

**(v)** cancel or arrange for the cancellation of the Stock Award, to the extent not vested or not exercised prior to the effective time of the Corporate Transaction, in exchange for such cash consideration, if any, as the Board, in its sole discretion, may consider appropriate; and

**(vi)** make a payment, in such form as may be determined by the Board equal to the excess, if any, of (A) the value of the property the Participant would have received upon the exercise of the Stock Award immediately prior to the effective time of the Corporate Transaction, over (B) any exercise price payable by such holder in connection with such exercise. For clarity, this payment may be zero (\$0) if the value of the property is equal to or less than the exercise price. Payments under this provision may be delayed to the same extent that payment of consideration to the holders of the Company's Common Stock in connection with the Corporate Transaction is delayed as a result of escrows, earn outs, holdbacks or any other contingencies.

The Board need not take the same action or actions with respect to all Stock Awards or portions thereof or with respect to all Participants. The Board may take different actions with respect to the vested and unvested portions of a Stock Award.

**(d) Change in Control.** A Stock Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration will occur.

**10. PLAN TERM; EARLIER TERMINATION OR SUSPENSION OF THE PLAN.**

**(a) Plan Term.** The Board may suspend or terminate the Plan at any time. Unless terminated sooner by the Board, the Plan will automatically terminate on the day before the tenth (10th) anniversary of the earlier of (i) the date the Plan is adopted by the Board, or (ii) the date the Plan is approved by the stockholders of the Company. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

**(b) No Impairment of Rights.** Suspension or termination of the Plan will not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the affected Participant or as otherwise permitted in the Plan.

**11. EFFECTIVE DATE OF PLAN.**

This Plan will become effective on the Effective Date.

**12. CHOICE OF LAW.**

The laws of the State of Delaware will govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

**13. DEFINITIONS.** As used in the Plan, the following definitions will apply to the capitalized terms indicated below:

**(a) "Affiliate"** means, at the time of determination, (i) any "parent" or "majority-owned subsidiary" of the Company, as such terms are defined in Rule 405, and (ii) any Parent Affiliate (as defined below). The Board will have the authority to determine the time or times at which "parent" or "majority-owned subsidiary" status is determined within the foregoing definition.

**(b) "Board"** means the Board of Directors of the Company.

**(c) "Capitalization Adjustment"** means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Effective Date without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, reverse stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure, or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto). Notwithstanding the foregoing, the conversion of any convertible securities of the Company will not be treated as a Capitalization Adjustment.

(d) “Cause” will have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term and, in the absence of such agreement, such term means, with respect to a Participant, the occurrence of any of the following events: (i) such Participant’s commission of any felony or any crime involving fraud, dishonesty or moral turpitude under the laws of the United States or any state thereof; (ii) such Participant’s attempted commission of, or participation in, a fraud or act of dishonesty against the Company; (iii) such Participant’s intentional, material violation of any contract or agreement between the Participant and the Company or of any statutory duty owed to the Company; (iv) such Participant’s unauthorized use or disclosure of the Company’s confidential information or trade secrets; or (v) such Participant’s gross misconduct. The determination that a termination of the Participant’s Continuous Service is either for Cause or without Cause will be made by the Company, in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Stock Awards held by such Participant will have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(e) “Change in Control” means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control will not be deemed to occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company’s securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities or (C) solely because the level of Ownership held by any Exchange Act Person (the “Subject Person”) exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control will be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

(iii) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company will otherwise occur, except for a liquidation into a parent corporation; or

(iv) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition.

Notwithstanding the foregoing definition or any other provision of this Plan, (A) the term Change in Control will not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company, and (B) the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Affiliate and the Participant will supersede the foregoing definition with respect to Stock Awards subject to such agreement; *provided, however*, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition will apply.

(f) “*Code*” means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(g) “*Committee*” means a committee of one (1) or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

(h) “*Common Stock*” means the common stock of the Company.

(i) “*Company*” means Arteris, Inc., a Delaware corporation.

(j) “*Consultant*” means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, will not cause a Director to be considered a “*Consultant*” for purposes of the Plan.



**(k) “Continuous Service”** means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Director or Consultant or a change in the Entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service with the Company or an Affiliate, will not terminate a Participant’s Continuous Service; *provided, however*, that if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board in its sole discretion, such Participant’s Continuous Service will be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or to a Director will not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service will be considered interrupted in the case of (i) any leave of absence approved by the Board or chief executive officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence will be treated as Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company’s leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

**(l) “Corporate Transaction”** means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

**(i)** a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

**(ii)** a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;

**(iii)** a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

**(iv)** a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

**(m) “Director”** means a member of the Board.

**(n) “Disability”** means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve (12) months as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and will be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

**(o) “Effective Date”** means the effective date of this Plan, which is the earlier of (i) the date that this Plan is first approved by the Company’s stockholders, and (ii) the date this Plan is adopted by the Board.

**(p) “Employee”** means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, will not cause a Director to be considered an “Employee” for purposes of the Plan.

**(q) “Entity”** means a corporation, partnership, limited liability company or other entity.

**(r) “Exchange Act”** means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(s) “**Exchange Act Person**” means any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that “Exchange Act Person” will not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities.

(t) “**Fair Market Value**” means, as of any date, the value of the Common Stock determined by the Board in compliance with Section 409A of the Code or, in the case of an Incentive Stock Option, in compliance with Section 422 of the Code.

(u) “**Incentive Stock Option**” means an option granted pursuant to Section 5 of the Plan that is intended to be, and that qualifies as, an “incentive stock option” within the meaning of Section 422 of the Code.

(v) “**Nonstatutory Stock Option**” means any option granted pursuant to Section 5 of the Plan that does not qualify as an Incentive Stock Option.

(w) “**Officer**” means any person designated by the Company as an officer.

(x) “**Option**” means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(y) “**Option Agreement**” means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement will be subject to the terms and conditions of the Plan.

(z) “**Optionholder**” means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(aa) “**Other Stock Award**” means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 6(c).

(bb) “**Other Stock Award Agreement**” means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement will be subject to the terms and conditions of the Plan.

(cc) “**Own,**” “**Owned,**” “**Owner,**” “**Ownership**” A person or Entity will be deemed to “Own,” to have “Owned,” to be the “Owner” of, or to have acquired “Ownership” of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(dd) **“Parent Affiliate”** means any “majority-owned subsidiary” (as that term is defined in Rule 405) of Arteris IP, LLC, the parent of the Company.

(ee) **“Participant”** means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(ff) **“Plan”** means this Arteris, Inc. 2013 Equity Incentive Plan.

(gg) **“Restricted Stock Award”** means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(a).

(hh) **“Restricted Stock Award Agreement”** means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement will be subject to the terms and conditions of the Plan.

(ii) **“Restricted Stock Unit Award”** means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(b).

(jj) **“Restricted Stock Unit Award Agreement”** means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement will be subject to the terms and conditions of the Plan.

(kk) **“Rule 405”** means Rule 405 promulgated under the Securities Act.

(ll) **“Rule 701”** means Rule 701 promulgated under the Securities Act.

(mm) **“Securities Act”** means the Securities Act of 1933, as amended.

(nn) **“Stock Appreciation Right”** or **“SAR”** means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 5.

(oo) **“Stock Appreciation Right Agreement”** means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement will be subject to the terms and conditions of the Plan.

(pp) **“Stock Award”** means any right to receive Common Stock granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right or any Other Stock Award.

(qq) **“Stock Award Agreement”** means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement will be subject to the terms and conditions of the Plan.

(rr) “**Subsidiary**” means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation will have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%)(tt) .

(ss) “**Ten Percent Stockholder**” means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Affiliate.

**RULES OF THE ARTERIS, INC. 2016 EQUITY INCENTIVE PLAN  
FOR THE GRANT OF RESTRICTED STOCK UNIT AWARDS TO  
EMPLOYEES IN FRANCE**

**Dated October 10, 2016**

**1. Introduction.**

The Board of Directors (the “Board”) of Arteris, Inc. (the “Company”) has established the Arteris, Inc. 2016 Equity Incentive Plan (the “U.S. Plan”), as approved on October 10, 2016 by the stockholders of Arteris, Inc. , for the benefit of certain employees, directors and consultants of the Company or Affiliates of the Company, including its French subsidiaries (the “French Entities”).

Section 2(b)(x) of the U.S. Plan specifically authorizes the Board or the Committee (as applicable) who administers the U.S. Plan (the “Administrator”) to adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the U.S. Plan by employees, directors or consultants who are foreign nationals or employed outside the United States. The Administrator has determined that it is necessary and advisable to establish a sub-plan for the purpose of permitting Restricted Stock Unit Awards to qualify for favorable tax and social security treatment in France. The Administrator, therefore, intends to establish a sub-plan of the U.S. Plan for the purpose of granting Restricted Stock Unit Awards which qualify for the favorable tax and social security treatment in France applicable to shares granted for no consideration under Sections L. 225-197-1 to L. 225-197-6 of the French Commercial Code (*code de commerce*), as amended, to qualifying employees who are resident in France for French tax purposes and/or subject to the French social security regime (the “French Participants”). The terms of the U.S. Plan, as set out in Appendix 1 hereto, shall, subject to the limitations in the following rules, constitute the rules of the Arteris, Inc. 2016 Equity Incentive Plan for the grant of Restricted Stock Unit Awards to employees in France (the “French Restricted Stock Unit Plan”).

Under the French Restricted Stock Unit Plan, the qualifying employees will be granted only Restricted Stock Unit Awards as defined in Section 3 hereunder. The provisions of Sections 5, 6(a), and 6(c) of the U.S. Plan permitting the grant of Nonstatutory Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock Awards, and other awards are not applicable to grants made under this French Restricted Stock Unit Plan. The grant of Restricted Stock Unit Awards is authorized under the Section 6(b) of the U.S. Plan.

## 2. **Definitions.**

Capitalized terms not otherwise defined herein used in the French Restricted Stock Unit Plan shall have the same meanings as set forth in the U.S. Plan. The terms set out below will have the following meanings:

(a) **French Entities.**

The term “French Entities” means any Affiliate of the Company, as defined in the U.S. Plan, established in France and in which the Company owns directly or indirectly at least 10% or more of the share capital or / and voting rights (of all categories of stocks) at the Grant Date of the Restricted Stock Unit Awards.

(b) **Grant Date.**

The term “Grant Date” means the date on which the Administrator both (1) designates the French Participants and (2) specifies the terms and conditions of the Restricted Stock Unit Awards, including the number of shares of Common Stock to be issued at a future date and the conditions for the vesting of the Restricted Stock Unit Awards.

(c) **Regulated Market**

The term “Regulated Market” refers to a regulated market in the meaning of Article L. 421-1 of the French monetary and financial code (*code monétaire et financier*) the list of which is established and up-dated by the French Minister in charge of the economy upon proposal from the AMF (*Autorité des marchés financiers*). It is noted that this list does not include the Nasdaq Stock Market nor the New York Stock Exchange on the date of adoption of the Arteris, Inc. 2016 Equity Incentive Plan by the Board.

(d) **Restricted Stock Unit Awards.**

The term “Restricted Stock Unit Awards” means a promise by the Company to a future issuance at the Vesting Date provided the individual remains employed as of the Vesting Date, of one share of Common Stock of the Company for each unit granted to the French Participant, and subject to specific terms and conditions. Notwithstanding any provisions of the U.S. Plan, Restricted Stock Unit Awards granted under the French Restricted Stock Unit Plan will not give rise to dividend equivalent payments prior to the Vesting Date nor shall a French Participant be entitled to receive on vesting an amount in cash in lieu of shares.

(e) **Vesting Date.**

The term “Vesting Date” means the date on which the Restricted Stock Unit Awards become vested, as specified by the Administrator. In principle, the shares of Common Stock subject to the Restricted Stock Unit Awards are issued upon vesting. To qualify for the French favorable tax and social security regime, such Vesting Date shall not occur prior to the first anniversary of the Grant Date, as required under Section L. 225-197-1 of the French Commercial Code, as amended, or in the French Tax Code or in the French Social Security Code, as amended.

**3. Entitlement to Participate.**

(a) Subject to Sections 3 (b), (c) and (d) below, any French Participant who, on the Grant Date of the Restricted Stock Unit Awards and to the extent required under French law, is either employed under the terms and conditions of an employment contract with the Company or a French Entity (contrat de travail) or who is a corporate officer (mandataire social) of the Company, shall be eligible to receive Restricted Stock Unit Awards under the French Restricted Stock Unit Plan, provided that he or she also satisfies the eligibility conditions of Section 4 of the U.S. Plan.

Restricted Stock Unit Awards may not be issued to corporate officers of the French Entities, including the managing directors (*e.g.*, Président du Conseil d'Administration, Directeur Général, Directeur Général Délégué, Membre du Directoire, Gérant de Sociétés par actions), unless the corporate officer is an employee of a French Entity as defined by French law and is otherwise eligible to receive awards under Section 4 of the U.S. Plan.

(b) Notwithstanding any provisions in the U.S. Plan to the contrary, Restricted Stock Unit Awards may not be issued under the French Restricted Stock Unit Plan to French Participants owning more than ten percent (10%) of the Company's share capital.

(c) Notwithstanding any provisions in the U.S. Plan to the contrary, a grant of Restricted Stock Unit Awards may not result in a French Participant holding more than ten percent (10%) of the Company's shares.

(d) Notwithstanding any provisions in the U.S. Plan to the contrary, the number of shares granted to French Participants subject to Restricted Stock Unit Awards may not exceed 10% of the Company's share capital at any time.

**4. Conditions of the Restricted Stock Unit Awards.**

(a) **Grant of Restricted Stock Unit Awards.**

Restricted Stock Unit Awards may be granted to French Participants within 38 months from the date of the approval of the U.S. Plan by the shareholders of the Company. However, notwithstanding the above, the granting period may be extended to 76 months as long as the time period stated in the U.S. Plan complies with applicable U.S. law.

(b) **Vesting of Stock Units.**

Restricted Stock Unit Awards will not vest prior to the relevant anniversary of the Grant Date specified by the Administrator and in any case will not vest prior to the first anniversary of the Grant Date as defined under Section 2 above. However, notwithstanding the above, in the event of the death of a French Participant, all of his or her outstanding Restricted Stock Unit Awards shall vest and shares of Common Stock shall be delivered as set forth in Sections 7 of this French Restricted Stock Unit Plan.

(c) **Holding of shares.**

The French Participants must hold each share of Common Stock subject to Restricted Stock Unit Awards until the relevant anniversary of the Vesting Date specified by the Administrator, if any, and in any case until the second anniversary of the Grant Date, or such other period as is required to comply with the minimum mandatory holding period applicable to shares underlying French-qualified Restricted Stock Unit Awards under Section L. 225-197-1 of the French Commercial Code, as amended or under the French Tax Code or French Social Security Code as amended. This holding period will continue to apply even after the French Participant is no longer an employee or corporate officer of a French Entity.

With respect to French Participants who are corporate officer of the Company, if any, the Administrator shall determine a number of shares of Common Stock subject to Restricted Stock Units Awards which shall not be sold by the concerned French Participants until their removal from office (“révocation en qualité de mandataire social”).

In addition, notwithstanding any provisions in the U.S. Plan to the contrary, if the Company is listed on a Regulated Market, shares delivered upon the Vesting Date shall not be sold during certain closed periods as provided for by Section L. 225-197-1 of the French Commercial Code.

(d) **French Participant’s Account.**

The shares of Common Stock subject to Restricted Stock Unit Awards issued to a French Participant shall be recorded in an account in the name of the French Participant with the Company or a broker or in such other manner as the Company may otherwise determine to ensure compliance with applicable restrictions provided by law.

(e) **Cash Dividends.**

French Participants shall not be granted any cash dividends with respect to a Restricted Stock Unit, applicable to the period commencing on the Grant Date and terminating on the Vesting Date.

(f) **Filing requirements**

The French Participants and their employer shall comply with the filing requirements provided for by French tax law.

5. **Non-transferability of Stock Units.**

Notwithstanding any provision in the U.S. Plan to the contrary, the Restricted Stock Unit Awards are not transferable, except by will or by the laws of descent and distribution, and the granting of the Company’s shares may be claimed during the life of the French Participant by the French Participant.

6. **Adjustments and Change of Control.**

In the event of adjustment or a Change of Control, adjustment to the terms and conditions of the Restricted Stock Unit Awards or shares of Common Stock subject to Restricted Stock Unit Awards may be made in accordance with the U.S. Plan. To the extent that such adjustments would violate applicable French rules, it may result in the disqualification of the Restricted Stock Unit Awards for purposes of the French favorable tax and social security regime. In this case, the Administrator may decide at its discretion to lift the restriction on sale of the shares of Common Stock subject to Restricted Stock Unit Awards.



**7. Death.**

Notwithstanding the provisions set forth in Section 5 above, in the event of the death of a French Participant, the Restricted Stock Unit Awards held by French Participants at the time of death are transferable to the French Participant's heirs. The Company shall issue the underlying shares to the French Participant's heirs, at their request, if such request occurs within six months following the death of the French Participant, as provided for in the Restricted Stock Unit Agreement. If the French Participant's heirs do not request the issuance of the shares underlying the Restricted Stock Unit Awards within six months following the French Participant's death, the Restricted Stock Unit Awards will be forfeited.

The French Participant's heirs may freely sell the shares notwithstanding the restriction on the sale of shares set forth in Section 4(c) above to the extent and as long as applicable under French law.

**8. Disqualification of French-qualified Restricted Stock Unit Awards.**

If the Restricted Stock Unit Awards are otherwise modified or adjusted in a manner in keeping with the terms of the U.S. Plan or as mandated as a matter of law and the modification or adjustment is contrary to the terms and conditions of this French Restricted Stock Unit Plan, the Restricted Stock Unit Awards may no longer qualify as French-qualified Restricted Stock Unit Awards. If the Restricted Stock Unit Awards no longer qualify as French-qualified Restricted Stock Unit Awards, the Administrator may, provided it is authorized to do so under the U.S. Plan, determine to lift, shorten or terminate certain restrictions applicable to the vesting of the Restricted Stock Unit Awards or the sale of the shares which may have been imposed under this French Restricted Stock Unit Plan or in the Restricted Stock Unit Agreement delivered to the French Participant.

**9. Interpretation.**

It is intended that Restricted Stock Unit Awards granted under the French Restricted Stock Unit Plan shall qualify for the favorable tax and social security treatment applicable to Restricted Stock Unit Awards granted under Sections L. 225-197-1 to L. 225-197-6 of the French Commercial Code as amended, or under the French Tax Code and the French Social Security Code as amended.

The terms of the French Restricted Stock Unit Plan shall be interpreted accordingly and in accordance with the relevant provisions set forth by French tax and social security laws, as well as the French tax and social security authorities and the relevant guidelines released by the French tax and social insurance authorities and subject to the fulfillment of legal, tax and reporting obligations.

In the event of any conflict between the provisions of the French Restricted Stock Unit Plan and the U.S. Plan, the provisions of the French Restricted Stock Unit Plan shall control for any grants made to the French Participants under this French Restricted Stock Unit Plan.

Should the Restricted Stock Unit Awards not benefit from the French tax and social security favorable regime due to the French Participants' failure to comply with the provisions of this French Restricted Stock Unit Plan, the French Participant shall be liable for the payment of resulting taxes and social security charges.

---

**10. Employment Rights.**

The adoption of this French Restricted Stock Unit Plan shall not confer upon the French Participants or any employees of a French Entity, any employment rights and shall not be construed as part of any employment contracts that a French Entity has with its employees.

**11. Amendments.**

Subject to the terms of the U.S. Plan, the Board reserves the right to amend or terminate this French Stock Unit Plan at any time. Such amendments would only apply to future grants and would not be retroactive.

**12. Effective Date.**

The French Restricted Stock Unit Plan is adopted and effective as of October 10, 2016.

## Subsidiaries of Arteris, Inc.

Legal Name of Subsidiary	Jurisdiction of Organization
Arteris Semiconductor Technology (Nanjing) Co., Ltd.	People's Republic of China
TransChip Management Consultancy (Nanjing) Co., Ltd.	People's Republic of China
Arteris IP Korea Limited	Korea
Arteris K.K.	Japan
Arteris IP, SAS	France
Resident Representative Office of Foreign (Region) Enterprise in China	People's Republic of China