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

FORM 10-Q

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

For the quarterly period ended December 31, 2022

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

For the transition period from __________ to __________

Commission file number: 000-55832

transphorm

Transphorm, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**82-1858829**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
75 Castilian Drive	
Goleta, California	**93117**
(Address of principal executive offices)	(Zip Code)

(805) 456-1300
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.0001 per share	TGAN	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of February 16, 2023, 57,016,858 shares of the registrant’s common stock were outstanding.

Transphorm, Inc.
FORM 10-Q

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Glossary of Terms and Abbreviations

The following is a glossary of technical terms used in this Quarterly Report on Form 10-Q (this "Report"):

AC – alternating current

AEC-Q101 – Automotive Electronic Council's electronic components stress qualification standard

AFSW – Aizu Fujitsu Semiconductor Wafer Solution Limited, the wafer fabrication facility located in Aizu Wakamatsu, Japan that is owned by GaNovation, our joint venture company

DC – direct current

Epi/Epiwafer/Epimaterials – GaN device layers grown on a substrate, from which active GaN-based devices are subsequently manufactured in a wafer fabrication facility

FET – field effect transistor, a type of switching transistor

GaN – gallium nitride

JEDEC – Joint Electron Device Engineering Council, an independent semiconductor engineering trade organization and standardization body that represents all areas of the electronics industry

MOCVD – metal organic chemical vapor deposition, a technique for layering GaN layers onto substrates such as a silicon substrate and making the starting GaN semiconductor material (i.e., an epiwafer)

Power converters / Inverters – electronic systems used to convert electricity from AC to DC (such as a charger), DC-AC (such as an inverter) or in some cases AC-AC or DC-DC within the systems converting from one voltage level to another

TO – transistor outline leaded packages commonly used in power semiconductors (such as TO220, TO247)

Risk Factor Summary

Our business is subject to significant risks and uncertainties that make an investment in us speculative and risky. Below we summarize what we believe are the principal risk factors but these risks are not the only ones we face, and you should carefully review and consider the full discussion of our risk factors in the section titled "Risk Factors," together with the other information in this Report. If any of the following risks actually occurs (or if any of those listed elsewhere in this Report occur), our business, reputation, financial condition, results of operations, revenue, and future prospects could be seriously harmed. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business.

- We have a history of losses, anticipate increasing our operating expenses and capital expenditures in the future, and may not be able to achieve or maintain profitability.
- Our recurring operating losses and our current operating plans raise substantial doubt about our ability to continue as a going concern for the next twelve months. We need to raise capital to support our business, and this capital may be unavailable on attractive terms, if at all, and could dilute your investment.
- Our quarterly results of operations are likely to vary from period to period, which could cause the market price of our common stock to fluctuate or decline.
- We are exposed to foreign currency exchange rate fluctuations. Although we hedge certain currency risks, our hedging strategies may not be successful in mitigating our risks and changes in foreign currency exchange rates may adversely affect our financial condition, cash flows and results of operations.
- We may not be able to develop new technologies and products to satisfy changes in customer demand or industry standards, and our competitors could develop products that decrease the demand for our products.
- Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense.
- We must commit resources to development, design and production prior to receipt of purchase commitments and could lose some or all of the associated investment.
- Unfavorable worldwide economic conditions (including inflation and supply chain disruptions), may negatively affect our business, financial condition and results of operations
- We compete in highly competitive markets, and competitive pressures from existing and new companies may adversely impact our business and operating results.
- We rely on third-party channel partners to sell our products. If our partners fail to perform, our ability to sell our products and services could be limited, and if we fail to optimize our channel partner model going forward, our operating results could be harmed.
- We rely on limited sources of wafer fabrication, packaged products fabrication and product testing, the loss of which could delay and limit our product shipments.
- Because we depend on third-party manufacturers to build portions of our products, we are susceptible to manufacturing delays and pricing fluctuations that could prevent us from shipping customer orders on time, if at all, or on a cost-effective basis, which may result in the loss of sales, income and customers.
- Our business could be adversely affected by the effects of health epidemics or pandemics.
- An earthquake, terrorist attack or other man-made or natural disaster could negatively impact our business and operating results.

- The loss of one or more key employees or our inability to attract and retain qualified personnel could harm our business.
- If we fail to effectively manage our growth, our business, financial condition and results of operations would be harmed.
- We are subject to a number of risks associated with international sales and operations.
- Investments in us may be subject to U.S. foreign investment regulations which may impose conditions on or limit certain investors' ability to purchase or hold our common stock, potentially limiting our ability to enter into or maintain strategic relationships and making our common stock less attractive to investors.
- 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.
- Our sales to government customers subject us to uncertainties regarding fiscal funding approvals, renegotiations or terminations at the discretion of the government, as well as audits and investigations, which could result in litigation, penalties and sanctions including early termination, suspension and debarment.
- Any failure by us to protect our proprietary technologies or maintain the right to use certain technologies may negatively affect our ability to compete.
- If we fail to comply with our obligations under any license, collaboration or other agreements, we may be required to pay damages and could lose certain intellectual property rights.
- Any failure to maintain effective internal controls over our financial reporting could materially and adversely affect us.
- We have identified a material weakness in our internal control over financial reporting that, if not properly remediated, could result in material misstatements in our consolidated financial statements in future periods.
- Sales of substantial amounts of our common stock in the public markets, or the perception that such sales might occur, could cause the market price of our common stock to decline significantly, even if our business is doing well.
- We could be subject to certain liquidated damages pursuant to the registration rights agreements we entered into with certain holders of our securities.
- Our principal stockholders and management have substantial control over us and could delay or prevent a change in corporate control.
- Anti-takeover provisions in our charter documents could make an acquisition of us more difficult and may prevent attempts by our stockholders to replace or remove our management.

Note Regarding Forward-Looking Statements

This Report, including the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains express or implied forward-looking statements that are based on our management's belief and assumptions and on information currently available to our management. All statements other than statements of historical fact contained in this Report are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "could," "will," "would," "should," "expect," "plan," "anticipate," "believe," "estimate," "intend," "predict," "seek," "contemplate," "project," "continue," "potential," "ongoing" or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements about:

- the implementation of our business model and strategic plans for our business, technologies and products;
- our costs in meeting our contractual obligations, including the cash flow impact of operating AFSW, and our ability to maintain our contracts for their expected durations;
- the impact of the COVID-19 pandemic on our industry and our business, operations and financial condition, as well as on the global economy;
- the rate and degree of market acceptance of any of our products or GaN technology in general, including changes due to the impact of (i) new GaN fabrication sources, (ii) the performance of GaN technology, whether perceived or actual, relative to competing semiconductor materials, and (iii) the performance of our products, whether perceived or actual, compared to competing GaN-based, silicon-based and other products;
- the timing and success of product releases by us and our customers;
- our ability to develop new products and technologies;
- our future financial performance, including our expectations regarding our revenue, expenses, ongoing losses, and capital requirements;
- our needs for additional financing, ability to obtain additional funds for our operations and our intended use of any such funds;
- our receipt and timing of any royalties or other payments under any current or future collaboration, license or other agreements or arrangements, including the credit risks of our customers;
- our ability to obtain, maintain, enforce, defend and enhance our intellectual property rights;
- the strength and marketability of our intellectual property portfolio;
- our dependence on current and future collaborators for developing, manufacturing or otherwise bringing our products to market;
- the ability of our third party supply and manufacturing partners to meet our current and future business needs;
- the throughput of our fabrication facilities and third party foundries, as well as the ability of such facilities and foundries to ramp up production;

- our expectations regarding our classification in future periods as a “smaller reporting company,” as defined under the Securities Exchange Act of 1934 (the “Exchange Act”), and an “emerging growth company,” as defined under the JOBS Act;

- the total addressable market and growth rates of the markets in which we compete;

- the competitive landscape of our industry; and

- the impact of government regulation and developments relating to us, our competitors or our industry.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Report.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Report primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to significant risks, uncertainties, and other factors, including those described in the section titled “Risk Factors” and elsewhere in this Report. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Report. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

Neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. Moreover, the forward-looking statements made in this Report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Report to reflect events or circumstances after the date of this Report or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

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 Report, 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.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Transphorm, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	December 31, 2022 (unaudited)	March 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 23,149	$ 33,435
Restricted cash	500	500
Accounts receivable, net, including related parties (Note 14)	3,704	2,558
Inventory	7,476	6,330
Prepaid expenses and other current assets	1,570	1,971
Total current assets	36,399	44,794
Property and equipment, net	5,367	1,649
Operating lease right-of-use assets	3,173	—
Goodwill	1,097	1,180
Intangible assets, net	395	617
Investment in joint venture	647	143
Other assets	2,167	263
Total assets	**$ 49,245**	**$ 48,646**
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,016	$ 3,588
Deferred revenue	—	346
Accrued interest	184	180
Accrued payroll and benefits	1,657	1,171
Operating lease liabilities	536	—
Revolving credit facility	12,000	—
Total current liabilities	18,393	5,285
Revolving credit facility, net of current portion	—	12,000
Operating lease liabilities, net of current portion	2,670	—
Total liabilities	**21,063**	**17,285**
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.0001 par value; 750,000,000 shares authorized as of December 31, 2022 and March 31, 2022, and 56,861,743 and 53,379,307 shares issued and outstanding as of December 31, 2022 and March 31, 2022, respectively	6	5
Additional paid-in capital	229,954	211,190
Accumulated deficit	(200,446)	(178,638)
Accumulated other comprehensive loss	(1,332)	(1,196)
Total stockholders' equity	**28,182**	**31,361**
Total liabilities and stockholders' equity	**$ 49,245**	**$ 48,646**

See accompanying notes to unaudited condensed consolidated financial statements

Transphorm, Inc.
Condensed Consolidated Statements of Operations (unaudited)
(in thousands, except share and per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	**2021**	**2022**	**2021**
Revenue, net, including related parties (Note 14)	$ 4,493	$ 4,604	$ 13,319	$ 19,123
Cost of goods sold	7,162	3,935	14,444	8,741
Gross (loss) profit	(2,669)	669	(1,125)	10,382
Operating expenses:				
Research and development	2,325	1,609	5,895	5,023
Sales and marketing	1,447	976	3,596	2,488
General and administrative	3,457	2,852	9,818	8,309
Total operating expenses	7,229	5,437	19,309	15,820
Loss from operations	(9,898)	(4,768)	(20,434)	(5,438)
Interest expense	184	187	550	611
Loss in joint venture	799	712	2,065	3,294
Changes in fair value of promissory note	—	—	—	(605)
Other income, net	(421)	(1,503)	(1,241)	(3,502)
Loss before tax expense	(10,460)	(4,164)	(21,808)	(5,236)
Tax expense	—	—	—	—
Net loss	**$ (10,460)**	**$ (4,164)**	**$ (21,808)**	**$ (5,236)**
Net loss per share - basic and diluted	**$ (0.18)**	**$ (0.08)**	**$ (0.38)**	**$ (0.12)**
Weighted average common shares outstanding - basic and diluted	**56,739,450**	**49,147,630**	**55,926,828**	**43,671,321**

See accompanying notes to unaudited condensed consolidated financial statements

Transphorm, Inc.
Condensed Consolidated Statements of Comprehensive Loss (unaudited)
(in thousands)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	**2021**	**2022**	**2021**
Net loss	$ (10,460)	$ (4,164)	$ (21,808)	$ (5,236)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	521	(70)	(136)	(131)
Other comprehensive loss, net of tax	521	(70)	(136)	(131)
Comprehensive loss	**$ (9,939)**	**$ (4,234)**	**$ (21,944)**	**$ (5,367)**

See accompanying notes to unaudited condensed consolidated financial statements

Transphorm, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit) (unaudited)
(in thousands, except share data)

Three Months Ended December 31, 2022

	Common Stock					
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
Balance at October 1, 2022	**56,626,340**	**$ 6**	**$ 228,178**	**$ (189,986)**	**$ (1,853)**	**$ 36,345**
Stock options exercised	154,904	—	653	—	—	653
Restricted stock units vested	80,551	—		—	—	—
Restricted stock units surrendered due to net share settlement to satisfy employee tax liability	(52)	—	—	—	—	—
Stock-based compensation	—	—	1,123	—	—	1,123
Other comprehensive loss	—	—	—	—	521	521
Net loss	—	—	—	(10,460)	—	(10,460)
Balance at December 31, 2022	**56,861,743**	**$ 6**	**$ 229,954**	**$ (200,446)**	**$ (1,332)**	**$ 28,182**

Three Months Ended December 31, 2021

	Common Stock					
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
Balance at October 1, 2021	**41,664,020**	**$ 4**	**$ 150,843**	**$ (169,475)**	**$ (918)**	**$ (19,546)**
Restricted stock units vested	9,750	—	—	—	—	—
Issuance of common stock (Note 10)	8,273,152	1	44,772	—	—	44,773
Conversion of promissory note (Note 10)	3,120,000	—	14,378	—	—	14,378
Stock-based compensation	—	—	848	—	—	848
Other comprehensive loss	—	—	—	—	(70)	(70)
Net loss	—	—	—	(4,164)	—	(4,164)
Balance at December 31, 2021	**53,066,922**	**$ 5**	**$ 210,841**	**$ (173,639)**	**$ (988)**	**$ 36,219**

Nine Months Ended December 31, 2022

	Common Stock					
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
Balance at April 1, 2022	**53,379,307**	**$ 5**	**$ 211,190**	**$ (178,638)**	**$ (1,196)**	**$ 31,361**
Stock options exercised	168,326	—	709	—	—	709
Restricted stock units vested	115,731	—	—	—	—	—
Restricted stock units surrendered due to net share settlement to satisfy employee tax liability	(1,620)	—	(6)	—	—	(6)
Issuance of common stock (Note 10)	3,199,999	1	15,719	—	—	15,720
Stock-based compensation	—	—	2,342	—	—	2,342
Other comprehensive loss	—	—	—	—	(136)	(136)
Net loss	—	—	—	(21,808)	—	(21,808)
Balance at December 31, 2022	**56,861,743**	**$ 6**	**$ 229,954**	**$ (200,446)**	**$ (1,332)**	**$ 28,182**

Nine Months Ended December 31, 2021

	Common Stock					
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
Balance at April 1, 2021	**40,531,996**	**$ 4**	**$ 144,201**	**$ (168,403)**	**$ (857)**	**$ (25,055)**
Stock options exercised	31,925	—	134	—	—	134
Restricted stock units vested	12,750	—	—	—	—	—
Issuance of common stock (Note 10)	9,370,251	1	50,272	—	—	50,273
Conversion of promissory note (Note 10)	3,120,000	—	14,378	—	—	14,378
Stock-based compensation	—	—	1,856	—	—	1,856
Other comprehensive loss	—	—	—	—	(131)	(131)
Net loss	—	—	—	(5,236)	—	(5,236)
Balance at December 31, 2021	**53,066,922**	**$ 5**	**$ 210,841**	**$ (173,639)**	**$ (988)**	**$ 36,219**

See accompanying notes to unaudited condensed consolidated financial statements

Transphorm, Inc.
Condensed Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Nine Months Ended December 31,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (21,808)	$ (5,236)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inventory write-off	2,810	202
Depreciation and amortization	719	621
Amortization of operating lease right-of-use assets	425	—
Perpetual licensing revenue from a related party (Note 14)	—	(8,000)
Stock-based compensation	2,342	1,856
Interest cost	4	295
Gain on promissory note conversion	—	(1,222)
Gain on sale of equipment	(110)	—
Loss in joint venture	2,065	1,839
Changes in fair value of derivative instruments	75	—
Changes in fair value of promissory note	—	(605)
Changes in operating assets and liabilities:		
Accounts receivable	(1,221)	(871)
Inventory	(3,956)	(3,935)
Prepaid expenses and other current assets	401	204
Other assets	(504)	(8)
Accounts payable and accrued expenses	428	1,359
Deferred revenue	(346)	(238)
Accrued payroll and benefits	486	(171)
Operating lease liabilities	(392)	—
Net cash used in operating activities	**(18,582)**	**(13,910)**
Cash flows from investing activities:		
Advances and purchases of property and equipment	(5,633)	(690)
Proceeds from sale of equipment	110	—
Investment in joint venture	(2,569)	(3,765)
Net cash used in investing activities	**(8,092)**	**(4,455)**
Cash flows from financing activities:		
Proceeds from stock option exercise	709	134
Proceeds from issuance of common stock	16,000	49,773
Cost associated with issuance of common stock	(280)	—
Payment for taxes related to net share settlement of restricted stock units	(6)	—
Net cash provided by financing activities	**16,423**	**49,907**
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	**(35)**	**(75)**
Net (decrease) increase in cash, cash equivalents and restricted cash	**(10,286)**	**31,467**
Cash, cash equivalents and restricted cash at beginning of period	33,935	9,500
Cash and cash equivalents at end of period	23,149	40,467

Restricted cash at end of period		500		500
Cash, cash equivalents and restricted cash at end of period	**$**	**23,649**	**$**	**40,967**
Supplemental disclosures of cash flow information:				
Interest expense paid	$	546	$	316
Supplemental non-cash investing activity:				
Equipment purchases	$	—	$	250
Supplemental non-cash financing activity:				
Issuance of shares in connection with a service contract	$	—	$	500
Operating lease right-of-use asset obtained in exchange for operating lease liabilities	$	3,598	$	—
Development loan reduction related to perpetual licensing revenue	$	—	$	8,000
Conversion of promissory note	$	—	$	15,600

See accompanying notes to unaudited condensed consolidated financial statements

Transphorm, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 - Business and Basis of Presentation

The original Transphorm, Inc., now named Transphorm Technology, Inc. (“Transphorm Technology”), a wholly owned subsidiary of Parent (as defined below), was founded in 2007 to develop gallium nitride (“GaN”) semiconductor components used in power conversion.

On February 12, 2020 (the “Closing Date”), Peninsula Acquisition Corporation (“Peninsula”), a shell company, consummated the Agreement and Plan of Merger and Reorganization (the “Merger Agreement”) dated February 12, 2020, by and among Peninsula, Peninsula Acquisition Sub, Inc., a Delaware corporation and wholly owned subsidiary of Peninsula (“Merger Sub”), and Transphorm Technology. Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into Transphorm Technology, with Transphorm Technology surviving as the surviving company and as a wholly-owned subsidiary of Peninsula (the “Merger”). On the Closing Date, Peninsula changed its name to Transphorm, Inc. (“Parent”).

Throughout these notes, “the Company,” “Transphorm,” “we,” “us” and “our” refer to Parent and its direct and indirect wholly-owned subsidiaries. Transphorm Technology and its subsidiaries hold all material assets and conduct all business activities and operations of the Company. Transphorm Technology’s activities to date have been primarily performing research and development, establishing manufacturing infrastructure, market sampling, product launch, hiring personnel, and raising capital to support and expand these activities. Transphorm Japan, Inc. (“TPJ”) was established in Japan in February 2014 to secure the Company’s production capacity and establish a direct presence in Asian markets. Transphorm Aizu, Inc. (“Transphorm Aizu”) was established in Japan to manage the financial transactions around Aizu Fujitsu Semiconductor Wafer Solution Limited (“AFSW”), the wafer fabrication facility located in Aizu Wakamatsu, Japan that is owned by GaNovation, the joint venture company in which the Company has a non-controlling interest. Transphorm Japan Epi, Inc. (“TJE”) was established in Japan in 2019 to enable the operational capacity of the MOCVD reactors held in Aizu.

Going Concern

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, considering the Company’s working capital (including restricted cash) of $18.0 million as of December 31, 2022, the Company’s historical losses from operations (during the three and nine months ended December 31, 2022, the Company used $8.8 million and $18.6 million in cash from operations), and the future expected losses, there is substantial doubt about the Company’s ability to continue as a going concern for the next twelve months from the issuance of these financial statements.

During the year ended March 31, 2022 and nine months ended December 31, 2022, the Company raised gross proceeds of $50.0 million and $16.0 million, respectively. In response to the factors noted above, management plans to raise additional working capital to fund operations through the issuance of stock to investors, license of intellectual property and/or issuance of notes payable. However, there is no assurance that the Company will be successful in raising additional capital.

The Company’s ability to sustain operations is dependent on its ability to successfully market and sell its products and its ability to raise capital through additional financings until it is able to achieve profitability with positive cash flows. To the extent sufficient financing is not available, the Company may not be able to, or may be delayed in, developing its offerings and meeting its obligations. The Company will continue to evaluate its projected expenditures relative to its available cash and to evaluate financing alternatives in order to satisfy its working capital and other cash requirements. The accompanying unaudited condensed consolidated financial statements do not reflect any adjustments that might result from the outcome of these uncertainties.

Impact of COVID-19 on Our Business

The COVID-19 pandemic has adversely disrupted and may further disrupt the operations at certain of our customers, partners, suppliers and other third-party providers. As a result of the pandemic, some of the Company's customers experienced delays in their internal development programs and design cycles with the Company's GaN products, which led to postponements of their orders of the Company's products and postponements of determinations that the Company's products will be used in their designs for new products under development, with corresponding delays in their market introduction and potentially the Company's revenues. While the impact of the pandemic on the Company's business and results of operations has not been significant to date, and the Company does not expect to see any significant impact in the near term, any future impact of the pandemic cannot be predicted with certainty and may, along with the global macroeconomic environment, make it more difficult or preclude the Company from raising additional capital, increase costs of capital and otherwise adversely affect the Company's business, results of operations, financial condition and liquidity.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended December 31, 2022, but are not necessarily indicative of the results that will be reported for the entire fiscal year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") have been condensed or omitted. The aforementioned unaudited condensed consolidated financial statements are prepared in conformity with GAAP and in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2022. The consolidated balance sheet as of March 31, 2022 is derived from those audited financial statements.

Cost of goods sold, which was previously presented as a separate line item under operating expenses for the prior year comparable periods, was reclassed as a separate line item to arrive at gross (loss) profit in the condensed consolidated statement of operations.

Significant Accounting Policies

Descriptions of the Company's significant accounting policies are included in Note 2 - Summary of Significant Accounting Policies in the notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2022, except for the adoption of Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)* as noted below.

Accounting Standard Adopted

Effective April 1, 2022, the Company adopted ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a right-of-use ("ROU") asset and a lease liability on their balance sheet for all leases, including operating leases, with a term of greater than 12 months. In July 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-11, which adds a transition option permitting entities to apply the provisions of the new standard at its adoption date instead of the earliest comparative period presented in the consolidated financial statements. Under this transition option, comparative reporting would not be required, and the provisions of the standard would be applied prospectively to leases in effect at the date of adoption. The Company elected to use the optional transition method provided by ASU 2018-11. The Company also elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Company to carry forward its ASC 840 assessment regarding definition of a lease, lease classification, and initial direct costs. The following practical expedients were applied implementing this standard.

- The Company did not reassess whether any expired or existing contracts are, or contain, leases. Additionally, the Company did not reassess for lease classifications of expired or existing leases, or initial direct costs for any existing leases.

- The Company elected the short-term lease exception, which allows the Company to account for leases with a lease term of twelve months or less similar to existing operating leases. The cost of these leases is disclosed, but is not recognized in the ROU asset and lease liability balances. Consistent with ASC 842 requirements, leases that are one month or less are not included in the disclosures.

Operating lease ROU assets represent the Company's right to use the underlying asset during the lease term, and operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using incremental borrowing rate at the lease commencement date. The Company chose the practical expedients and reviewed the lease and non-lease components for any impairment or otherwise, subsequently determining that no cumulative-effect adjustment to equity was necessary as part of implementing the modified retrospective approach for its adoption of ASC 842. Operating lease expense, which is comprised of amortization of the ROU asset and the interest accreted on the lease liability, is recognized on a straight-line basis over the lease term and is recorded in lease expense in the condensed consolidated statements of operations.

Recently Issued Accounting Standards under Evaluation

Debt - In August 2020, the FASB issued ASU 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), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, to address the complexity in accounting for certain financial instruments with characteristics of liabilities and equity. Among other provisions, the amendments in this ASU significantly change the guidance on the issuer's accounting for convertible instruments and the guidance on the derivative scope exception for contracts in an entity's own equity such that fewer conversion features will require separate recognition, and fewer freestanding instruments, like warrants, will require liability treatment. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, excluding entities eligible to be smaller reporting companies as defined by the SEC. As the Company is a smaller reporting company, the ASU is effective for fiscal years beginning after December 15, 2023. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and the adoption is not expected to have a significant impact on the consolidated financial statements.

Financial Instruments - FASB ASU 2020-03, *Codification Improvements to Financial Instruments*, makes clear the determination of the contractual life of a net investment in leases in estimating expected credit losses under ASC 326, *Financial Instruments – Credit Losses*. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU 2016-13 is effective for the Company in 2023. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and the adoption is not expected to have a significant impact on the consolidated financial statements.

Income Tax - In December 2019, the FASB issued ASU 2019-12, which modifies ASC 740 to simplify the accounting for income taxes. The ASU's amendments are based on changes that were suggested by stakeholders as part of the FASB's initiative to reduce the complexity of accounting standards while maintaining or enhancing the helpfulness of information provided to financial statement users. ASU 2019-12 is effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and the adoption is not expected to have a significant impact on the consolidated financial statements.

Note 2 - Nexperia Arrangement

On April 4, 2018, the Company entered into a multi-element commercial arrangement with Nexperia B.V. ("Nexperia"), a related party through share ownership, including a development and license agreement, loan and security agreement and supply agreement, to obtain financing in exchange for the sale of equity instruments and performing certain technology and product development activities for Nexperia (collectively, the "Collaboration Arrangement"). Nexperia specializes in designing, manufacturing and selling a broad range of small discrete semiconductor devices that utilize components such as those manufactured by the Company. By entering into this Collaboration Arrangement, Nexperia gained access to technology that allows for the production of high power semiconductors for use in electric vehicles. Financing under the Collaboration Arrangement was comprised of the following elements:

- $16.0 million of equity financing;
- $9.0 million license fee for transfer of the Gen-3 manufacturing process;
- $15.0 million of term loans, separated into tranches for pre-funded projects; and
- $10.0 million revolving loan, secured against certain of the Company's U.S. patents not relating to MOCVD or epiwafer technology.

Loan and Security Agreement

The LSA, entered into on April 4, 2018, originally comprised term loans in an aggregate principal amount of $15.0 million, separated into tranches for pre-funded projects, and a $10.0 million revolving loan, each of which bore 6% annual interest. In June 2020, $5.0 million of term loans was satisfied in full upon the Company's transfer of its Gen-4 technology development to Nexperia, at which point the Company recognized $5.0 million as licensing revenue.

On May 18, 2021, Amendment No. 6 to the LSA was executed to (1) extend the maturity date for the revolving loan to the earlier of April 4, 2023 and the occurrence of specified change of control events, (2) add Parent as a guarantor of Transphorm Technology's obligations under the LSA, and (3) convert $2.0 million of term loans into a revolving loan with the same terms and conditions as the existing revolving loan. See Note 8 - Debts.

On June 30, 2021, Amendment No. 7 to the LSA was executed to extend the maturity of the then-outstanding $8.0 million term loan to July 16, 2021.

On July 16, 2021, Nexperia agreed that the $8.0 million term loan was satisfied in full in connection with the Company transferring its Gen-5 and 900V technology developments to Nexperia, at which point the Company recognized $8.0 million as perpetual licensing revenue.

Amended and Restated Development and License Agreement

The amended and restated development and license agreement (the “DLA”), entered into on May 18, 2021 provides that the Company will develop and transfer to Nexperia certain manufacturing process technologies to enable Nexperia to manufacture GaN-based products at Nexperia’s facilities. These technologies to be transferred included the Company’s Gen-3, Gen-4 (Tranche A), and Gen-5 and 900V (Tranche B) process technologies, but do not include the Company’s Epi Process Technology (as defined in the DLA). Nexperia also agreed to provide funding for the development of such technologies in return for limited exclusivities in automotive and other fields. Nexperia’s rights now include sale of products in the automotive field in Japan along with Transphorm’s rights for sale of products in the automotive field in Japan which remain in place. As per the original agreement, after April 2023, Nexperia’s exclusive rights for sale of products in the automotive field outside of Japan terminate. In addition, the parties have clarified the ability of Nexperia’s customers to use products developed by Nexperia through exercise of its rights under this agreement.

Amended and Restated Supply Agreement

The amended and restated supply agreement (the “Supply Agreement”), entered into on May 18, 2021, sets forth the terms under which Nexperia may purchase epiwafers and processed wafers from the Company, and the Company may purchase processed wafers from Nexperia. The agreement specifies that Nexperia is the Company’s priority customer with respect to epiwafers manufactured by TJE and, accordingly, has preferred utilization of extra capacity, and further specifies procedures to address expansion of the Company’s epiwafer manufacturing capacity and Nexperia’s obligations with respect thereto. The term of the Supply Agreement was extended until December 31, 2025, with automatic one year renewals thereafter, and the Company may not terminate the Supply Agreement while the option agreement (described below) is in effect.

Strategic Cooperation Agreement

The strategic cooperation agreement, entered into on May 18, 2021, serves as a framework agreement that describes the numerous agreements between the parties and provides Nexperia with information rights and inspection rights with respect to the Company’s business.

Option Agreement

The option agreement, entered into on May 18, 2021, establishes the parameters pursuant to which Nexperia, in certain limited instances, is permitted to exercise an option (the “Option”) to acquire TJE, a Japanese subsidiary of the Company through which the Company is engaged in the development, manufacturing and sales of GaN-based epitaxial wafer products. In general, the Option is exercisable upon (1) certain acquisitions of securities or assets of the Company or its subsidiaries by a Competitor (as defined in the option agreement) that results in the Company, directly or indirectly, owning less than a majority of TJE, which acquisition is followed by any material breach (that is not cured within a specified time period) by the Company or a subsidiary of its obligations with respect to epiwafer supply to Nexperia under the Supply Agreement, or (2) the unilateral termination by the Company of the Supply Agreement. The option agreement also establishes the material terms, including price and timing, for the exercise of the Option by Nexperia. The Option terminates (1) if the Option is not exercised by Nexperia prior to the date on which the option agreement terminates, or (2) on the first to occur of (a) the termination of the option agreement upon written agreement of the parties, (b) the mutual termination or expiration of the Supply Agreement, or (c) the first to occur of (i) two years following the date on which the Company notifies Nexperia of epiwafer qualification of a second source and (ii) April 1, 2028.

In connection with the option agreement, the Company has also amended and restated its existing intracompany license agreement with TJE to clarify Nexperia’s rights upon exercise of the Option.

Note 3 - Revenue Recognition

The Company derives its revenues primarily through the sale and delivery of promised goods and services to distributors and end-users in various sectors such as, but not limited to, the gaming, industrial, IT, and consumer products industries. The Company disaggregates revenue based on the following contract types:

- **Commercial Product and Service** contracts, including contracts for sales of high-powered GaN-based products manufactured utilizing the Company's proprietary and patented epiwafer technology and wafer fabrication and other assembly processes, sales of GaN epiwafers for the radio frequency and power markets, and the provision of epiwafer growth services and products to the Company's strategic partners.

- **Government** contracts for research and development related services and activities.

- **Licensing** contracts, including licenses to use the Company's patented proprietary technology.

The Company follows a five-step approach for recognizing revenue, consisting of the following: (1) identifying the contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when, or as, the entity satisfies a performance obligation. Sales and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The Company does not have any significant financing components associated with its revenue contracts, as payment is received at or shortly after the point of sale.

Commercial Product and Service contracts

Performance obligations are satisfied, and revenue is recognized when control of a good or service promised in a contract is transferred to a customer using relative standalone selling prices. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service at a point in time, and revenue is recognized in an amount that reflects the consideration the Company expects to be entitled to, in exchange for those products or services. The majority of the Company's revenue under commercial product and service contracts is derived from product sales.

Revenue is recognized over time if the customer receives the benefits as the Company performs work, if the customer controls the asset as it is being produced (continuous transfer of control), or if the product being produced for the customer has no alternative use and the Company has a contractual right to payment for performance to date. The Company recognizes revenue ratably over time under the cooperation and development agreement with Yaskawa Electric Corporation ("Yaskawa"), a related party through share ownership.

Sales of products or services typically do not include more than one performance obligation.

A portion of the Company's products are sold through distributors. Distributors stock inventory and sell the Company's products to their own customer base. The Company recognizes revenue upon shipment of its products to its distributors.

Master supply or distributor agreements are in place with many of the Company's customers and contain terms and conditions including, but not limited to, payment, delivery, incentives and warranty. These agreements sometimes require minimum purchase commitments. If a master supply, distributor or other similar agreement is not in place with a customer, the Company considers a purchase order, which is governed by the Company's standard terms and conditions, to be the contract governing the relationship with that customer.

Pricing terms are negotiated independently on a stand-alone basis. Revenue is measured based on the amount of net consideration to which the Company expects to be entitled to receive in exchange for products or services.

Government contracts

Government contract revenue is principally generated under research and development contracts with agencies of the U.S. government. Performance obligations under government contracts are satisfied over time because the customer receives the benefits as the Company performs work, the customer controls the asset as it is being produced (continuous transfer of control), and the Company has a contractual right to payment for performance to date.

Licensing contracts

From time to time, the Company may enter into licensing arrangements related to its intellectual property. Revenue from licensing arrangements is recognized when earned and estimable. The timing of revenue recognition is dependent on the terms of each license agreement. Generally, the Company will recognize non-refundable upfront licensing fees related to patent licenses immediately upon receipt of the funds if the Company has no significant future obligations to perform under the arrangement.

In the case that the arrangement gives rise to variable consideration in the form of milestone and royalty payments, the Company evaluates the royalties to determine if they qualify for the sales and usage-based royalty exception. In the case of the Company's royalty arrangement with Nexperia, the Company determined the royalties qualify for the sales and usage-based royalty exception, as the license of intellectual property is the predominant item to which the royalty relates and revenue is recognized upon the subsequent sale occurring. The variable amounts are recognized at the net consideration the Company expects to receive upon satisfaction of contractually agreed upon development targets and sales volumes.

Disaggregation of Revenue from Contracts with Customers

Revenue disaggregated by contract type is as follows *(in thousands)*:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	**2021**	**2022**	**2021**
Commercial product and service	$ 3,960	$ 3,623	$ 11,556	$ 8,127
Government (1)	533	981	1,763	2,996
Licensing	—	—	—	8,000
Revenue, net	**$ 4,493**	**$ 4,604**	**$ 13,319**	**$ 19,123**

(1) Government revenue from a Government Agency was $0.5 million and $1.0 million for the three months ended December 31, 2022 and 2021, respectively, and $1.6 million and $3.0 million for the nine months ended December 31, 2022 and 2021, respectively. The contract with the Government Agency ended December 31, 2022.

The Company recognized service revenue under commercial product and service contracts of $0.3 million and $1.4 million for the three and nine months ended December 31, 2022, respectively, and $0.4 million and $1.8 million for the three and nine months ended December 31, 2021, respectively.

Note 4 - Concentration of Credit Risk and Significant Customers

The Company manages its credit risk associated with exposure to distributors and direct customers on outstanding accounts receivable through the application of credit approvals and other monitoring procedures. Credit sales, which are mainly on credit terms of 30 to 60 days, are only made to customers who meet the Company's credit standards, while sales to new customers or customers with low credit ratings are usually made on an advance payment basis. The Company closely monitors the aging of accounts receivable from its distributors and direct customers, and regularly reviews their financial positions, where available.

Significant customers are those that represent 10% or more of revenue or accounts receivable.

Total revenues, by percentage, from individual customers representing 10% or more of total revenues in the respective periods were as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Customer A	20.5%	10.9%	13.9%	49.8%
Customer B	10.6%	21.3%	11.8%	15.7%
Customer C	*	41.2%	23.2%	16.1%
Customer D	39.5%	*	24.4%	*

* Less than 10% of total

Accounts receivable, by percentage, from individual customers representing 10% or more of accounts receivable are set forth in the following table:

	As of	
	December 31, 2022	March 31, 2022
Customer A	24.3%	20.1%
Customer B	*	19.4%
Customer C	10.0%	38.8%
Customer D	34.6%	*
Customer E	13.5%	*

* Less than 10% of total

Customers A and E are related parties and Customer B is a government agency. JCP Capital Management, LLC Limited is a majority stockholder of Customer C. Customer D is GaNovation. See Note 6 - Investment in Joint Venture and Note 14 - Related Party Transactions.

Note 5 - Inventory

Inventory consists of the following as of the dates presented *(in thousands)*:

	December 31, 2022	March 31, 2022
Raw materials	$ 4,789	$ 2,412
Work in process	1,594	1,865
Sub-assembly	736	1,677
Finished goods	357	376
Total	**$ 7,476**	**$ 6,330**

The Company recorded inventory write-off of $2.8 million and $8 thousand for the three months ended December 31, 2022 and 2021, respectively. The Company recorded inventory write-off of $2.8 million and

$0.2 million for the nine months ended December 31, 2022 and 2021, respectively. The inventory write-offs resulted primarily from a decision in the current period to discontinue the evaluation of certain epiwafer inventory produced while bringing the Company’s reactors online following an internal risk assessment of using these epiwafer units in the Company’s manufacturing process, and in favor of allocating the Company’s resources to current and future epiwafer production and expansion efforts.

Note 6 - Investment in Joint Venture

Through July 31, 2021, the Company was party to a joint venture agreement (the “JVA”), by and among Aizu Fujitsu Semiconductor Limited, Fujitsu Semiconductor Limited (“FSL”), the Company and Transphorm Aizu for the ownership and operations of AFSW. Through July 31, 2021, the Company held a 49% interest in AFSW through Transphorm Aizu, the Company’s wholly-owned subsidiary established in Japan to manage the financial transactions around AFSW. Transphorm Aizu and FSL funded AFSW based on a mutually agreed funding schedule. Any outstanding balances were reviewed upon the conclusion of the JVA effective July 31, 2021 to assess unfunded commitment to joint venture liability. During the the nine months ended December 31, 2021, the Company recognized a $1.5 million gain, in other income, upon termination of the JVA and settlement of its obligation.

On April 1, 2020, FSL exercised its put option under the JVA and notified the Company that FSL intended to exit the joint venture by selling its 51% interest in AFSW to the Company. In December 2020, the Company entered into a joint venture agreement with JCP Capital Management, LLC Limited (“JCP”) (controlling party with 75% ownership) to create GaNovation, a joint venture company in Singapore, to engage in the business of distribution, development and supply of GaN products and, upon approval of the regulatory authorities in Japan, to purchase FSL’s and Transphorm’s interests in AFSW. In July 2021, regulatory authorities in Japan approved GaNovation’s purchase of 100% of the interests in AFSW from Transphorm and FSL. On July 20, 2021, Transphorm Aizu entered into a Share Purchase Agreement (the “Purchase Agreement”) with GaNovation, pursuant to which GaNovation agreed to acquire Transphorm’s 49% interest in AFSW from Transphorm Aizu for 1 Japanese Yen. The closing of the Purchase Agreement occurred on August 1, 2021. Following the closing of the Purchase Agreement and other concurrent transactions between GaNovation and FSL, GaNovation owns 100% of AFSW and Transphorm holds a 25% interest in GaNovation.

GaNovation (through AFSW) manufactures semiconductor products exclusively for its owners under manufacturing agreements at prices estimated to cover the cost of production. GaNovation was determined to be a variable interest entity as the equity at risk was not believed to be sufficient. GaNovation depends on its owners for any additional cash. The Company extended $2.6 million to GaNovation to fund operations of GaNovation for the nine months ended December 31, 2022 and $3.8 million to GaNovation and AFSW to fund operations of GaNovation and AFSW for the nine months ended December 31, 2021. The Company’s known maximum exposure to loss approximated the carrying value of its investment balance, which included the financing. Potential future losses could be higher than the carrying amount of the Company’s investment, as the Company is liable for other future operating costs or obligations of GaNovation. In addition, because Transphorm is currently committed to purchasing GaN wafers and production-related services from AFSW at pre-agreed pricing based upon the Company’s second generation products, the Company may be required to purchase products at a higher cost for its newer generation products. Investment in GaNovation was $0.6 million and $0.1 million as of December 31, 2022 and March 31, 2022, respectively.

For the period from April 1, 2022 through March 31, 2023, JCP is responsible for 75% of the funding obligations and losses of AFSW, while Transphorm is responsible for 25% of the funding obligations and losses of AFSW. Beginning April 1, 2023, JCP will be responsible for 67.5% of the funding obligations and losses of AFSW, while Transphorm will be responsible for 32.5% of the funding obligations and losses of AFSW, except that JCP’s total funding obligations or investment shall not exceed $35 million and Transphorm’s total funding obligations or investment shall not exceed $12 million for the three-year period beginning from August 1, 2021. Transphorm had invested $4.6 million on its funding obligation as of December 31, 2022.

The Company’s investment activities in GaNovation and AFSW for the periods presented are summarized below *(in thousands)*:

	GaNovation		GaNovation	GaNovation / AFSW (1)
	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Beginning Balance	**$ 414**	**$ 89**	**$ 143**	**$ (1,866)**
Investment	1,032	684	2,569	3,765
Loss	(799)	(712)	(2,065)	(3,294)
Gain	—	—	—	1,455
Effect of exchange rate change	—	—	—	1
Ending Balance	**$ 647**	**$ 61**	**$ 647**	**$ 61**

(1) Includes transactions for AFSW during the four months ended July 30, 2021.

Summarized unaudited financial information of GaNovation and AFSW for the periods indicated are as follows *(in thousands)*:

	GaNovation	
	December 31, 2022	March 31, 2022
Current assets	$ 3,678	$ 4,259
Long-term assets	5,870	3,690
Other current liabilities	4,282	3,799
Due to controlling owner	4	(1)
Due to Transphorm	113	—
Net surplus	5,149	4,151

	GaNovation		GaNovation	GaNovation / AFSW (1)
	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2022	2021	2022	2021
Sales	$ 3,926	$ 2,262	$ 9,958	$ 5,957
Gross loss	(2,716)	(2,338)	(6,964)	(7,094)
Net loss	(3,197)	(2,848)	(8,351)	(9,085)

(1) Includes sales of $2.2 million, gross loss of $(3.2) million and net loss of $(4.3) million for AFSW during the four months ended July 30, 2021.

Note 7 - Leases

On April 1, 2022, the Company adopted ASU No. 2016-02, *Leases (Topic 842)*, using the optional transition method permitted by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. See Note 1 - Business and Basis of Presentation.

The Company’s operating leases are real estate leases which are comprised of the Company’s headquarters and offices in the United States and internationally with remaining lease terms ranging from one to eight years as of December 31, 2022. Certain lease arrangements contain extension options and, as these extension options are generally considered reasonably certain of exercise, they are included in the lease term. As most of the Company’s leases do not provide an explicit rate, the Company utilizes a 6.0% discount rate (based on the rate provided for under the LSA with Nexperia) at the commencement date to calculate the present value of lease payments.

In determining whether a contract contains a lease, the Company assesses whether an arrangement includes a lease at contract inception. Operating lease ROU assets and liabilities are recognized at commencement date and initially measured based on the present value of lease payments over the defined lease term. The opening balances for operating lease ROU assets and lease liabilities were $3.5 million and $3.5 million, respectively, as of the adoption date of April 1, 2022. The outstanding balances of ROU assets and lease liabilities were $3.2 million and $3.2 million, respectively, as of December 31, 2022. The Company did not have any finance leases at December 31, 2022.

The following table presents the Company’s ROU assets and lease liabilities as of the date indicated (*in thousands*):

		December 31, 2022
Operating lease ROU assets	$	3,173
Operating lease liabilities	$	536
Operating lease liabilities, net of current portion		2,670
Total operating lease liability	**$**	**3,206**

Weighted average remaining lease terms for the Company’s operating leases were 5.8 years and the weighted average discount rate for the Company's operating leases was 6.0 percent as of December 31, 2022. Operating lease expense and short-term lease expense were $0.2 million and $0.1 million, respectively, for the three months ended December 31, 2022 and $0.6 million and $0.2 million, respectively, for the nine months ended December 31, 2022. Cash paid, and included in cash flows from operating activities, for amounts included in the measurement of the lease liability for the Company's operating leases was $0.2 million and $0.5 million for the three and nine months ended December 31, 2022, respectively.

The following table presents the Company's remaining lease liabilities by maturity for the periods indicated (*in thousands*):

		Year Ending March 31,
2023	$	179
2024		710
2025		674
2026		659
2027		616
Thereafter		984
Lease payments		**3,822**
Less: interest		(616)
Present value of lease liability	**$**	**3,206**

Note 8 - Debts

Development Loans

As of March 31, 2021, the Company had $10.0 million of development loans outstanding under the LSA. On May 18, 2021, $2.0 million of development loans was converted into a revolving loan with the same terms and conditions as the existing revolving loan described below, leaving $8.0 million of development loans with a maturity date of June 30, 2021. On June 30, 2021, the maturity of the development loans was extended to July 16, 2021. On July 16, 2021, the $8.0 million of development loans was satisfied in full when the Company transferred its Gen-5 and 900V technology developments to Nexperia. See Note 2 - Nexperia Arrangement.

Revolving Credit Facility

As of March 31, 2021, the Company had a $10.0 million revolving loan outstanding under the LSA. On May 18, 2021, $2.0 million of development loans was converted into a revolving loan, increasing the aggregate principal amount of revolving loans to $12.0 million. The revolving loans mature on the earlier of April 4, 2023 and the occurrence of specified change of control events. See Note 2 - Nexperia Arrangement.

The revolving loans are recorded based on principal in the amount of $12.0 million and accrued interest (6% interest per annum). The Company recorded interest expense of $0.2 million for each of the three months ended December 31, 2022 and 2021, and $0.6 million and $0.5 million for the nine months ended December 31, 2022 and 2021, respectively.

As of December 31, 2022, the scheduled maturity, including accrued interest, of the Company's borrowings under the revolving credit facility were as follows *(in thousands)*:

Year Ending March 31,		
2023	$	184
2024		12,000
Total	**$**	**12,184**

Promissory Note

In October 2017, the Company issued an unsecured subordinated convertible promissory note to Yaskawa (the "Yaskawa Note") for $15.0 million. The stated interest rate of the Yaskawa Note was 1.0%, and principal plus interest was due on the earlier of September 30, 2022, or the date of the occurrence of an Event of Default, Change of Control or an Initial Public Offering (all terms as defined in the Yaskawa Note). In February 2020, the Yaskawa Note was amended to be convertible at the option of the holder into a maximum of 3,076,171 shares of the Company's common stock at a conversion price of $5.12 per share.

On October 4, 2021, the Company entered into a Note Amendment and Conversion Agreement with Yaskawa to (i) reduce the conversion price of the Yaskawa Note from $5.12 per share to $5.00 per share and (ii) remove the limitation on the maximum number of shares of the Company's common stock that could be issued upon conversion of the Yaskawa Note. Yaskawa simultaneously elected to convert the outstanding principal amount (plus accrued but unpaid interest) under the Yaskawa Note, which as of the effective date of the conversion totaled $15.6 million, into an aggregate of 3,120,000 shares of common stock. The Company also issued to Yaskawa a warrant to purchase up to 650,000 shares of common stock at an exercise price of $6.00 per share, with a term of three years. On October 4, 2021, the Company recognized $1.2 million gain, in other income, upon the conversion of the Yaskawa Note.

Pursuant to ASC 825-10-15-4, the Company elected to apply the fair value option for the promissory note and fair value of promissory note increased $0.6 million for the nine months ended December 31, 2021. In connection with its promissory note obligation, the Company recorded interest expense of $3 thousand and $0.1 million for the three and nine months ended December 31, 2021, respectively. In accordance with the terms of the promissory note, interest is added to the principal balance and is reflected in the carrying value on the condensed consolidated balance sheet.

In December 2020, the Company entered into a cooperation and development agreement with Yaskawa, pursuant to which Yaskawa agreed to provide $4.0 million over approximately three years to fund development activities related to industrial power conversion applications, with an initial focus on servo motor drive applications. Yaskawa provided payments of $1.0 million and $0.8 million of this $4.0 million commitment in December 2020 and July 2021, respectively. With respect to the $1.8 million payment, the Company recognized $0.3 million and $0.4 million as revenue for the three months ended June 30, 2021 and September 30, 2021, respectively. The Company also recorded $0.4 million as revenue for services rendered for the three months ended June 30, 2022. The cooperation and development agreement was subsequently amended to provide for two separate commitments of $2.5 million and $1.5 million, respectively. The $2.5 million contract was fully recognized as of June 30, 2022 and the $1.5 million contract will be recognized over 19 months until December 31, 2023. Accordingly, with respect to the $1.5 million contract, the Company recognized $0.2 million as revenue for services rendered for each of the three months ended June 30, 2022, September 30, 2022 and December 31, 2022.

Note 9 - Commitments and Contingencies

Commitment with a Government Agency

In connection with a contract with a government agency, the Company entered into commitments to acquire equipment and services from vendors totaling $7.4 million, all of which is reimbursable. Under this contract, which expired in December 2022, the Company made total purchases of $7.4 million as of December 31, 2022, of which $7.4 million was reimbursed by the government agency as of December 31, 2022. During the nine months ended December 31, 2022, the Company made purchases of $0.2 million and remaining accounts payable to the vendors was $0.1 million as of December 31, 2022.

In September 2021, the Company was awarded a $0.9 million contract with a $0.5 million option by a government agency for delivering epiwafer technology and the expiration date of the contract is May 2023. During the nine months ended December 31, 2022, the Company billed and received $0.4 million related to such contract.

Cooperation Agreement

On December 30, 2022, and effective as of December 18, 2022, the Company entered into a cooperation agreement (the “Cooperation Agreement”) with GaNext (Zhuhai) Technology Co., Ltd (“GaNext”). Among other things, the Cooperation Agreement calls for certain royalties including a royalty due to the Company in the event that GaNext utilizes epiwafers not provided by the Company (such royalties are based on time and volume with a minimum floor), and a royalty payable by the Company in the event the Company utilizes certain future platform that may be developed independently by GaNext (such royalties are based on time and volume, and half the amount per wafer of the royalties GaNext would pay the Company when utilizing epiwafers not provided by the Company).

Other Commitment

In July 2022, the Company placed an order for a reactor from Aixtron, Inc. for a total purchase price of $2.8 million. As of December, 31 2022, the Company had $1.4 million remaining to be paid on the commitment.

Contingencies

During the ordinary course of business, the Company may become a party to legal proceedings incidental to its business. The Company accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. Legal cost is expensed as incurred.

On April 5, 2022, Joel Newman, an alleged holder of the Company's common stock, filed a complaint in the Delaware Court of Chancery derivatively against the Company's directors and KKR Phorm Investors L.P. ("Phorm"). The complaint alleges that the directors and Phorm breached their fiduciary duties, and the directors committed waste, because the terms of the November 5, 2021 private placement in which Phorm participated were unfairly favorable to Phorm. The directors have the right to advancement from the Company of expenses incurred defending the claims. On July 11, 2022, plaintiff filed an amended complaint, on which the parties completed briefing on January 9, 2023. A hearing on the motion to dismiss is scheduled for May 9, 2023. The Company is unable to estimate the potential loss or range of loss, if any, associated with this lawsuit.

The Company is not aware of any material legal claims or assessments other than disclosed above. Although the results of litigation and claims are inherently unpredictable, management believes (in consultation with legal counsel) there was not at least a reasonable possibility that the Company had incurred a material loss with respect to any loss contingencies as of December 31, 2022 and through the issuance of these financial statements.

Indemnification

The Company from time to time enters into types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily relate to: (1) real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities and for other claims arising from the Company's use of the applicable premises; (2) agreements with the Company's officers, directors, and employees, under which the Company may be required to indemnify such persons from liabilities arising out of their relationship; (3) indemnifying customers in the event of product failure; and (4) agreements with outside parties that use the Company's intellectual property, under which the Company may indemnify for copyright or patent infringement related specifically to the use of such intellectual property.

Historically, the Company has not been required to make payments under these obligations, and no liabilities have been recorded for these obligations in the Company's consolidated financial statements.

Note 10 - Stockholders' Equity

In April 2021, the Company issued 97,099 shares of common stock as payment of $0.5 million pursuant to a one year internet advertising contract with SRAX, Inc.

In October 2021, the Company issued 3,120,000 shares of common stock to Yaskawa upon the conversion of $15.6 million of outstanding principal and accrued interest under the Yaskawa Note.

In January and February 2022, the Company withheld an aggregate of 97,249 shares of common stock upon the vesting of restricted stock units to satisfy employee withholding tax obligations.

In July and October 2022, the Company withheld an aggregate of 1,620 shares of common stock upon the vesting of restricted stock units to satisfy employee withholding tax obligations.

As of December 31, 2022, 750,000,000 shares of common stock are authorized, of which 56,861,743 shares of common stock were issued and outstanding, and 5,000,000 shares of preferred stock are authorized, none of which were issued and outstanding. The Company's Board of Directors has the ability to designate the rights, preferences and privileges for the preferred stock.

Private Placements

On August 13, 2021, the Company sold 1,000,000 shares of common stock in a private placement offering at a purchase price of $5.00 per share with gross proceeds of $5.0 million (before deducting legal costs of $22 thousand).

On November 5, 2021 and November 9, 2021, the Company sold an aggregate of 6,600,000 shares of common stock in a private placement offering at a purchase price of $5.00 per share, with aggregate gross proceeds of $33.0 million (before deducting placement agent fees and other offering expenses, which were an aggregate of $0.8 million). Pursuant to the purchase agreements entered into with the investors in this offering, each investor had the right (but not the obligation), subject to the satisfaction of customary closing conditions, to purchase and acquire from the Company (i) additional shares of common stock at a purchase price of $5.00 per share and (ii) additional warrants to purchase shares of common stock. On June 2, 2022, in connection with the investors' exercise of such purchase rights, the Company sold 3,199,999 shares of common stock for aggregate gross proceeds of $16.0 million (before deducting placement agent fees and other offering expenses, which were an aggregate of $0.3 million).

On December 7, 2021, the Company sold 1,673,152 shares of common stock in a private placement offering at a purchase price of $7.71 per share, with aggregate gross proceeds of $12.9 million (before deducting a finder's fee and other offering expenses, which were an aggregate of $0.3 million).

Common Stock

Common stockholders are entitled to dividends, as and when declared by the Company's Board of Directors, subject to the priority dividend rights of the holders of other classes of stock. There have been no dividends declared to date. The holder of each share of common stock is entitled to one vote.

The Company has reserved shares of common stock for future issuance as of the date presented as follows:

	December 31, 2022
Equity incentive plans	9,092,751
Common stock warrants	3,323,966
Total	**12,416,717**

Common Stock Warrants

In connection with the private placements disclosed above, the Company issued warrants as follows.

On August 13, 2021, the Company issued warrants to purchase 209,000 shares of common stock at an exercise price of $6.00 per share. On November 5, 2021, the Company issued warrants to purchase 958,334 shares of common stock at an exercise price of $6.00 per share. On November 9, 2021, the Company issued warrants to purchase 416,667 shares of common stock at an exercise price of $6.00 per share. On December 7, 2021, the Company issued warrants to purchase 348,649 shares of common stock at an exercise price of $9.25 per share. On February 10, 2022, the Company issued warrants to purchase 20,233 shares of common stock at an exercise price of $8.48 per share. On June 2, 2022, the Company issued warrants to purchase 666,668 shares of common stock at an exercise price of $6.00 per share. These warrants are exercisable by paying cash or by cashless exercise. The exercise price of the warrants is subject to standard anti-dilution adjustment in the case of stock dividends or other distributions on shares of common stock or any other equity or equity equivalent securities payable in shares of common stock, stock splits, stock combinations, reclassifications or similar events affecting the Company's common stock, and also, subject to limitations, upon any distribution of assets, including cash, stock or other property to the Company's stockholders. The exercise price of the warrants is not subject to "price-based" anti-dilution adjustment. The Company has determined that these warrants are subject to equity treatment because warrant holders have no right to demand cash settlement and there are no unusual anti-dilution rights.

On October 4, 2021, the Company issued warrants to purchase 650,000 shares of common stock at an exercise price of $6.00 per share upon Yaskawa Note conversion.

On January 5, 2022, the Company issued 13,028 shares of common stock in connection with the cashless exercise of a warrant. On January 10, 2022, the Company issued 82,500 shares of common stock in connection with the exercise of a warrant at an exercise price of $3.30 per share.

The following warrants to purchase common stock were outstanding as of December 31, 2022:

Number of Shares	Exercise Price		Expiration Date
209,000	$	6.00	August 13, 2024
650,000		6.00	October 4, 2024
1,416,669		6.00	November 5, 2024
625,000		6.00	November 9, 2024
348,649		9.25	December 7, 2024
20,233		8.48	December 10, 2025
45,000		3.30	December 23, 2025
6,046		34.74	5 years after an initial public offering of the Company
3,369		54.41	5 years after an initial public offering of the Company
3,323,966			

Note 11 - Stock-Based Compensation

The 2020 Equity Incentive Plan (the "2020 Plan") was approved by the Company's stockholders on February 11, 2020. The 2020 Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), to employees, and for the grant of nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance units, and performance shares to employees, directors and consultants.

Subject to the adjustment provisions of the 2020 Plan and the automatic annual increase described below, the maximum aggregate number of shares of common stock that may be issued under the 2020 Plan is 5,050,000 shares, which includes (i) 2,588,077 shares initially reserved for issuance, plus (ii) any shares of the Company's common stock subject to issued and outstanding awards under the Transphorm Technology 2007 Stock Plan or the Transphorm Technology 2015 Equity Incentive Plan that, on or after February 12, 2020, expire or otherwise terminate without having been exercised or issued in full, are tendered to or withheld by the Company for payment of an exercise price or for tax withholding obligations, or are forfeited to or repurchased by the Company due to failure to vest, with the maximum number of shares to be added to the 2020 Plan pursuant to this clause (ii) equal to 2,461,923 shares.

Subject to the adjustment provisions of the 2020 Plan, the number of shares of common stock available for issuance under the 2020 Plan will also include an annual increase on the first day of each fiscal year beginning with the Company's 2022 fiscal year and ending on (and including) the Company's 2030 fiscal year, in an amount equal to the least of: (i) 5,000,000 shares of common stock; (ii) five percent (5%) of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year; or (iii) such number of shares of common stock as the administrator of the 2020 Plan may determine. On April 1, 2022, 2,668,965 shares were added to the 2020 Plan pursuant to such automatic annual increase provision.

As of December 31, 2022, there were 2,929,485 stock options outstanding, 1,018,478 RSUs outstanding and 5,144,788 shares available for grant under the 2020 Plan.

Stock Options

The following table summarizes stock option activity and related information for the periods presented:

	Number of Options		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)		Aggregate Intrinsic Value (1) (in thousands)
Outstanding at October 1, 2022	**3,045,662**	**$**	**4.89**	**5.80**	**$**	**1,783**
Options granted	87,803		4.77			
Options exercised	(154,904)		4.22			
Options canceled	(49,076)		5.25			
Outstanding at December 31, 2022	**2,929,485**		**4.92**	**5.76**		**2,608**
Exercisable at December 31, 2022	**2,221,319**		**4.62**	**4.70**		**2,342**
Outstanding at October 1, 2021	**2,506,531**	**$**	**4.77**	**5.67**	**$**	**590**
Options granted	473,077		6.52			
Options exercised	—		—			
Options canceled	(21,704)		9.32			
Outstanding at December 31, 2021	**2,957,904**		**5.02**	**6.14**		**9,218**
Exercisable at December 31, 2021	**2,227,540**		**4.61**	**5.00**		**7,958**

(1) Intrinsic value represents the excess of the fair value on the last day of the period (which was $5.44 and $8.00 as of December 31, 2022 and 2021, respectively) over the exercise price, multiplied by the number of options.

	Number of Options		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)		Aggregate Intrinsic Value (1) (in thousands)
Outstanding at April 1, 2022	**2,879,008**	**$**	**4.88**	**6.02**	**$**	**6,747**
Options granted	281,712		5.09			
Options exercised	(168,326)		4.22			
Options canceled	(62,909)		5.75			
Outstanding at December 31, 2022	**2,929,485**		**4.92**	**5.76**		**2,608**
Exercisable at December 31, 2022	**2,221,319**		**4.62**	**4.70**		**2,342**
Outstanding at April 1, 2021	**2,543,125**	**$**	**4.82**	**6.05**	**$**	**—**
Options granted	528,077		6.31			
Options exercised	(31,925)		4.21			
Options canceled	(81,373)		7.46			
Outstanding at December 31, 2021	**2,957,904**		**5.02**	**6.14**		**9,218**
Exercisable at December 31, 2021	**2,227,540**		**4.61**	**5.00**		**7,958**

(1) Intrinsic value represents the excess of the fair value on the last day of the period (which was $5.44 and $8.00 as of December 31, 2022 and 2021, respectively) over the exercise price, multiplied by the number of options.

Stock-based compensation expense is determined based on the fair value of the Company's common stock as determined by the Board of Directors and assumptions such as volatility, expected term, risk-free interest rates, and other factors. Changes in the deemed fair value of the common stock, the underlying assumptions in the calculations, the number of options granted or the terms of such options, the expected forfeiture rate, the treatment of tax benefits and other changes may result in significant differences in the amounts or timing of the compensation expense recognized.

The assumptions used to value options granted to employees during the periods presented were as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	**2021**	**2022**	**2021**
Weighted average expected life (in years)	5.66	5.58	5.68	5.88
Risk-free interest rate	3.73% - 3.75%	1.32%	3.12% - 3.75%	1.30%
Expected volatility	45.91% - 47.20%	42.65%	42.49% - 47.20%	42.77%
Grant date fair market value	$4.77	$6.55	$4.77 - $5.24	$6.34
Grant date fair value	$2.21- $2.30	$3.11	$2.21 - $3.01	$2.99
Dividend yield	—%	—%	—%	—%

Option Modifications

During the three months ended December 31, 2022, the Company recognized $0.3 million in incremental compensation cost as a result of an amendment to a former employee's option agreements to allow for an extended post termination exercise period.

Restricted Stock Units

During the three months ended September 30, 2021, the Company granted 35,000 RSUs, 25 percent of which are scheduled to vest after one year and the remainder of which are scheduled to vest in equal quarterly installments over the next three years, in each case subject to the RSU holders' continued status as a service provider to the Company through each vesting date. During the three months ended September 30, 2022, the Company granted 164,440 RSUs that are scheduled to vest within four years, in each case subject to the RSU holders' continued status as a service provider to the Company through each vesting date. During the three months ended December 31, 2022, the Company granted 75,250 RSUs that are scheduled to vest annually over three years, in each case subject to the RSU holders' continued status as a service provider to the Company through each vesting date.

The following table summarizes RSU activity and related information for the periods presented:

	December 31, 2022			
	Three Months Ended		Nine Months Ended	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at beginning of period	**1,027,754**	**$ 4.96**	**954,775**	**$ 4.61**
Granted	75,250	4.77	239,690	5.09
Vested	(80,551)	7.17	(115,731)	6.31
Canceled	(3,975)	4.04	(60,256)	3.98
Balance at end of period	**1,018,478**	**4.77**	**1,018,478**	**4.77**

	December 31, 2021			
	Three Months Ended		Nine Months Ended	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at beginning of period	**951,637**	**$ 3.96**	**935,397**	**$ 3.96**
Granted	307,640	6.60	342,640	6.31
Vested	(9,750)	3.75	(12,750)	3.75
Canceled	(1,520)	3.85	(17,280)	3.97
Balance at end of period	**1,248,007**	**4.61**	**1,248,007**	**4.61**

On December 16, 2022 the Board approved $0.5 million worth of RSU grants for which shares were to be determined on January 1, 2023 and which shall vest on January 1, 2024. On January 1, 2023, the total number of RSU awards under this grant was determined to be 93,895.

Stock-Based Compensation

The accompanying condensed consolidated statement of operations includes stock-based compensation expense for the periods presented as follows *(in thousands)*:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Cost of revenue	$ 88	$ 52	$ 180	$ 118
Research and development	410	145	365	383
Sales and marketing	62	88	171	159
General and administrative	563	563	1,626	1,196
Total	**$ 1,123**	**$ 848**	**$ 2,342**	**$ 1,856**

Unrecognized Stock-Based Compensation

Unrecognized stock-based compensation expense as of dates presented was as follows *(in thousands, except years)*:

	December 31, 2022		December 31, 2021	
	Unrecognized Expense	Average Expected Recognition Period (in years)	Unrecognized Expense	Average Expected Recognition Period (in years)
Stock options	$ 1,553	1.17	$ 1,531	2.23
Restricted stock	1,979	1.59	3,117	1.74
Total	**$ 3,532**	**1.41**	**$ 4,648**	**1.90**

Note 12 - Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 - Inputs (other than quoted prices included within Level 1) that are observable, unadjusted quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the related assets or liabilities.

Level 3 - Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Inputs are unobservable for the asset or liability. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The following table includes the changes in fair value of the promissory note which are Level 3 on the fair value hierarchy *(in thousands)*:

April 1, 2021	**$ 16,128**
Interest expense accrued	77
Decrease in fair value	(605)
Conversion	(15,600)
March 31, 2022	**$ —**

On October 4, 2021, the promissory note of $15.6 million, consisting of an outstanding principal amount of $15.0 million plus accrued but unpaid interest of $0.6 million, was converted into an aggregate of 3,120,000 shares of common stock. See Note 8 - Debts and Note 10 - Stockholders' Equity.

The Company recorded interest expense of $3 thousand and $77 thousand for the three and nine months ended December 31, 2021, respectively. Fair value of promissory note decreased by $0.6 million for the nine months ended December 31, 2021.

Derivative Assets and Liabilities. For derivatives, the Company uses forward contract and option models employing market observable inputs, such as spot currency rates and forward points. The Company has determined that the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, therefore the derivatives are categorized as Level 2. As of December 31, 2022 the fair value of the Company's derivative assets were $0.1 million and there were no derivative liabilities. The Company had no derivative assets or liabilities as of March 31, 2022.

Note 13 - Derivative Instruments and Hedging Activities

Foreign Currency Forward and Option Contracts. The Company uses foreign currency forward and option contracts to manage the foreign exchange risk associated with certain foreign currency-denominated assets and liabilities, specifically those associated with its Japanese operations. As a result of foreign currency fluctuations, the U.S. dollar equivalent values of its foreign currency-denominated assets and liabilities change. The Company has not elected to account for these contracts as hedge instruments and as such, gains and losses on these contracts are included in other income (expense), net in the Company's condensed consolidated statements of operations, along with foreign currency gains and losses of the related foreign currency-denominated assets and liabilities associated with this foreign currency forward and option contracts. During the three months ended December 31, 2022, the Company entered into four quarterly tiered collar contracts with quarterly maturities ending January 2024. During three months ended December 31, 2022 the Company recognized net gains of $0.1 million associated with these contracts.

The following table presents the fair value of derivative instruments recognized in the Company's condensed consolidated balance sheets as of December 31, 2022 (*in thousands*):

	Derivative Not Designated as Hedging Instruments	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets and Liabilities Presented in the Balance Sheet
Prepaid expenses and other current assets	$ 75	$ 75	$ —	$ 75
Net	**$ 75**	**$ 75**	**$ —**	**$ 75**

Note 14 - Related Party Transactions

The Company entered into the following related party transactions for the periods indicated (*in thousands*):

	December 31, 2022	
	Three Months Ended	Nine Months Ended
Joint Venture-GaNovation:		
Product sale	$ 1,774	$ 3,246
Service revenue	67	131
Inventory purchase	96	345
Cost of goods sold	1,030	2,738
Research and development expense	141	330
Consumption tax	91	311
Employee and related benefits	35	124
Yaskawa:		
Revenue per a cooperation and development agreement	221	991
Nexperia:		
Product sale	923	1,778
Service fee income	—	66
Reimbursements in license maintenance fee	13	88
Interest expense	184	550

As of December 31, 2022, total due from related parties was $2.2 million, consisting of $1.3 million due from GaNovation and $0.9 million accounts receivable from Nexperia. As of December 31, 2022, total due to related parties was $1.2 million to GaNovation and $0.2 million to Nexperia.

The Company entered into the following related party transactions for the periods indicated (*in thousands*):

	December 31, 2021	
	Three Months Ended	Nine Months Ended
Joint Venture-GaNovation (1):		
Inventory purchase	$ 70	$ 140
Cost of goods sold	791	2,306
Research and development expense	102	401
Consumption tax	55	92
Employee and related benefits	124	221
Gain upon termination of JVA and settlement of its obligation	—	1,455
Yaskawa:		
Revenue per a cooperation and development agreement	375	1,084
Gain on Yaskawa promissory note conversion	1,221	1,221
Non-controlling stockholder:		
Product sale	—	19
License maintenance fee	—	111
Consulting expense	—	176
GaNovation:		
Product sale	251	405
Nexperia:		
Product sale	504	1,010
License fee income	—	8,479
Reimbursements in license maintenance fee	38	113
Interest expense	184	534

(1) Includes transactions for AFSW during the four months ended July 30, 2021.

As of March 31, 2022, total due from related parties was $1.2 million, consisting of $719 thousand due from the joint venture and $515 thousand accounts receivable from a stockholder and noteholder of the Company. As of March 31, 2022, total accounts payable to related parties was $760 thousand to the joint venture and $102 thousand to Nexperia.

Note 15 - Subsequent Events

The Company has evaluated subsequent events through the filing date or the issuance of these financial statements and is not aware of any material items that would require disclosure in the notes to the financial statements or would be required to be recognized as of December 31, 2022.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our historical financial statements and the related notes thereto contained in this Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the sections titled "Note Regarding Forward-Looking Statements" and "Risk

Factors" for a discussion of forward-looking statements and important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a pioneer, and a market and technology leader, in the wide-bandgap GaN power electronics field for high voltage power conversion applications. We deliver high quality and reliable GaN devices with high performance, while providing application design support to a growing customer base. Our GaN devices allow customers to design smaller, lighter and cooler power systems that create increased functional value in end products including smartphone power adapters, smartphone chargers, power supplies for datacenter servers and automotive electric vehicles, among other applications. We deploy our unique vertically integrated innovation model that leverages one of the industry's most experienced GaN engineering teams (with over 300 years of combined experience) at every development stage: device design, materials growth, device fabrication, packaging, circuits and application support. This approach, backed by one of the GaN power industry's largest intellectual property portfolios with access to over 1,000 world-wide patents, has yielded the industry's first automotive-grade AEC-Q101 and JEDEC qualified high voltage GaN FETs. Our innovations are designed to move power electronics beyond the limitations of silicon and provide our customers with the potential to achieve higher efficiency (e.g., titanium-class performance in power supplies), higher power density and, in some designs, an overall lower system cost.

We received our first product order "in volume" (i.e., greater than ten thousand units) for our Gen-2-based TO247 products in January 2018. We introduced our Gen-3 products in June 2018. Also in 2018, we were awarded a contract from the U.S. Navy to become a supplier for GaN epiwafer products for use by the U.S. Department of Defense. In the year ended March 31, 2022, we recognized $8.0 million of perpetual licensing revenue from Nexperia related to Gen-5 and 900V technology development.

Since our inception, we have devoted substantial resources to the research and development of GaN power devices and the protection and enhancement of our intellectual property and have incurred significant operating losses. Our net loss was $21.8 million and $5.2 million for the nine months ended December 31, 2022 and 2021, respectively. As of December 31, 2022, our accumulated deficit was $200.4 million. Substantially all of our operating losses have resulted from expenses incurred in connection with research and development activities and from general and administrative costs associated with our operations.

Our revenue for the nine months ended December 31, 2022 was $13.3 million, of which $6.2 million was from related parties. Our revenue for the nine months ended December 31, 2021 was $19.1 million, of which $10.6 million was from related parties. For the nine months ended December 31, 2022 and 2021, we had four and three customers, respectively, that each accounted for more than ten percent of our revenue. Together, these customers accounted for 73.3% and 81.6% of our revenue during the nine months ended December 31, 2022 and 2021, respectively.

We expect to continue to incur significant expenses and operating losses for the foreseeable future. We expect our expenses will increase in connection with our ongoing activities as we:

- add sales and field applications personnel and incur related expenses to support operational growth;
- increase activity directly related to promoting our products to increase revenue;
- acquire additional MOCVD reactor capacity; and
- add financial accounting and management systems and select personnel and incur additional legal and accounting expense as we operate as a public company.

Private Placements

On August 13, 2021, we sold 1,000,000 shares of common stock in a private placement at a purchase price of $5.00 per share, with aggregate gross proceeds of $5.0 million (before deducting legal costs of $22 thousand).

On November 5, 2021 and November 9, 2021, we sold an aggregate of 6,600,000 shares of common stock in a private placement at a purchase price of $5.00 per share, with aggregate gross proceeds of $33.0 million (before deducting placement agent fees and other offering expenses, which were an aggregate of $0.8 million). Pursuant to the purchase agreements entered into with the investors in this offering, each investor had the right (but not the obligation), subject to the satisfaction of customary closing conditions, to purchase additional shares of common stock at a purchase price of $5.00 per share. On June 2, 2022, in connection with the investors' exercise of such purchase rights, we sold 3,199,999 shares of common stock in a private placement for aggregate gross proceeds of $16.0 million (before deducting placement agent fees and other offering expenses, which were an aggregate of $0.3 million).

On December 7, 2021, we sold 1,673,152 shares of common stock in a private placement at a purchase price of $7.71 per share, with aggregate gross proceeds of $12.9 million (before deducting a finder's fee and other offering expenses, which were an aggregate of $0.3 million).

In connection with the private placements disclosed above, we issued warrants as follows.

On August 13, 2021, we issued warrants to purchase 209,000 shares of common stock at an exercise price of $6.00 per share. On November 5, 2021, we issued warrants to purchase 958,334 shares of common stock at an exercise price of $6.00 per share. On November 9, 2021, we issued warrants to purchase 416,667 shares of common stock at an exercise price of $6.00 per share. On December 7, 2021, we issued warrants to purchase 348,649 shares of common stock at an exercise price of $9.25 per share. On February 10, 2022, we issued warrants to purchase 20,233 shares of common stock at an exercise price of $8.48 per share. On June 2, 2022, we issued warrants to purchase 666,668 shares of common stock at an exercise price of $6.00 per share. These warrants are exercisable by paying cash or by cashless exercise. The exercise price of the warrants is subject to standard anti-dilution adjustment in the case of stock dividends or other distributions on shares of common stock or any other equity or equity equivalent securities payable in shares of common stock, stock splits, stock combinations, reclassifications or similar events affecting our common stock, and also, subject to limitations, upon any distribution of assets, including cash, stock or other property to our stockholders. The exercise price of the warrants is not subject to "price-based" anti-dilution adjustment. We have determined that these warrants are subject to equity treatment because warrant holders have no right to demand cash settlement and there are no unusual anti-dilution rights.

Key Factors Affecting Our Performance

A number of industry factors affect our business, including:

Overall Demand for Products and Applications Using GaN Devices. Our potential for growth depends significantly on the adoption of GaN materials and devices in the power markets and GaN epiwafer material products in the radio frequency markets, the expansion of the use of GaN devices in infrastructure, IT, datacenter, industrial, automotive and consumer applications such as fast charger/adapter and gaming power supplies, and our ability to win new designs for these applications. Demand also fluctuates based on various market cycles, fluctuations in supply chains, trade and tariff terms, and the competitive dynamics in each of the respective markets. These uncertainties make demand difficult to forecast for us and our customers. Some of our customers have experienced delays in their internal development programs and design cycles with our GaN products due to the effects of the COVID-19 pandemic, which led to postponements of their orders of our products and postponements of determinations that our products will be used in their designs for new products under development, with corresponding delays in their market introduction and potentially our revenues.

Intense and Constantly Evolving Competitive Environment. Competition in the industries we serve is intense. Many companies have made significant investments in product development and production equipment. To remain competitive, market participants must continuously increase product performance, reduce costs and develop improved ways to serve their customers. To address these competitive pressures, we have invested in research and development activities to support new product development, lower product costs and deliver higher levels of performance to differentiate our products in the market.

Governmental Trade and Regulatory Conditions. Our potential for growth, as with most multinational companies, depends on a balanced and stable trade, political, economic and regulatory environment among the countries where we do business. Changes in trade policy such as the imposition of tariffs or export bans to specific customers or countries could reduce or limit demand for our products in certain markets.

Technological Innovation and Advancement. Innovations and advancements in materials and power technologies continue to expand the potential commercial application for our products. However, new technologies or standards could emerge or improvements could be made to existing technologies that could reduce or limit the demand for our products.

Intellectual Property Issues. We rely on patented and non-patented proprietary information relating to product development, manufacturing capabilities and other core competencies of our business. Protection of intellectual property is critical. Therefore, filing additional patent applications, entering into confidentiality and non-disclosure agreements, and other security measures are important. While we have a strong patent portfolio comprising access to over 1,000 worldwide patents (directly owned or licensed) and there is no actual or, to our knowledge, threatened litigation against us for patent-related matters, litigation or threatened litigation is a common method to effectively enforce or protect intellectual property rights. Such action may be initiated by or against us and could require significant management time and be costly.

Components of Results of Operations

Revenue

Our revenue currently consists of (1) commercial product and service contracts, (2) government contracts for research and development and (3) licensing contracts. Products are sold to distributors and end-users in various sectors such as, the gaming, industrial, IT, and consumer products industries.

Cost of Goods Sold

Cost of goods sold consists of (1) direct product costs incurred for the raw materials and manufacturing services for our products, (2) fixed product costs primarily relating to production, manufacturing and personnel and (3) depreciation and amortization expenses consisting primarily of expenses related to our fixed assets together with amortization of our intangible assets. In future periods, we expect our cost of goods sold attributable to direct product costs to increase proportionately with increases in revenue, and our cost of goods sold attributable to fixed product costs to remain substantially flat or moderately increase in connection with increases in revenue.

Operating Expenses

Research and Development. Research and development expenses consist primarily of compensation and related costs for personnel, including stock-based compensation and employee benefits as well as costs associated with design, fabrication, packaging and testing of GaN devices. In addition, research and development expenses include depreciation expenses related to our fixed assets. We expense research and development expenses as incurred. As we continue to invest in developing our technology for new products, we expect research and development expenses in future periods to remain flat or moderately increase in absolute dollars and decrease as a percentage of revenue.

Sales and Marketing. Sales and marketing expenses consist primarily of compensation and related costs for personnel, including stock-based compensation and employee benefits, and associated travel costs. Sales and marketing expenses also include costs associated with our support of business development efforts with distributors in Europe and Asia, and costs related to trade shows and marketing programs. We expense sales and marketing expenses as incurred. As we increase our sales and expand our sales force and our marketing organization, we expect sales and marketing expenses in future periods to increase in absolute dollars.

General and Administrative. General and administrative expenses consist primarily of compensation and related costs for personnel, including stock-based compensation, employee benefits and travel. In addition, general and administrative expenses include third-party consulting, legal, audit, and accounting services, allocations of overhead costs, such as rent, facilities and information technology, and amortization of our intangible assets. We expect general and administrative expenses in future periods to increase in absolute dollars due to additional legal, accounting, insurance, investor relations and other costs associated with being a public company, as well as other costs associated with growing our business.

Interest Expense

Interest expense consists primarily of interest and amortization of related costs associated with our debts with Nexperia and Yaskawa, respectively.

Equity Loss in Joint Venture

Equity loss in joint venture consists of expenditures to cover the losses associated with our 25% share ownership of GaNovation starting August 2021 and former 49% share ownership of AFSW. The potential magnitude of this loss may increase or decrease in the future based upon changes in our shareholding percentage in GaNovation and the level of operating expenses incurred by GaNovation, which wholly owns AFSW.

Changes in Fair Value of Promissory Note

Changes in the fair value of promissory note reflect valuation changes in the notes held by the Company.

Other Income, Net

Other income, net of other expenses, consists primarily of income generated from subleasing a portion of our research and development facility located in California.

Tax Expense

Tax expense consists primarily of income taxes in certain foreign and state jurisdictions in which we conduct business.

Results of Operations

Comparison of the Three Months Ended December 31, 2022 and 2021

The following table sets forth our unaudited condensed consolidated statements of operations data for the periods indicated *(in thousands, except percentages)*:

	Three Months Ended December 31,		Change	
	2022	2021	Amount	Percentage
Revenue, net	$ 4,493	$ 4,604	$ (111)	(2.4) %
Cost of goods sold	7,162	3,935	3,227	82.0
Gross (loss) profit	(2,669)	669	(3,338)	(499.0)
Operating expenses:				
Research and development	2,325	1,609	716	44.5
Sales and marketing	1,447	976	471	48.3
General and administrative	3,457	2,852	605	21.2
Total operating expenses	7,229	5,437	1,792	33.0
Loss from operations	(9,898)	(4,768)	(5,130)	107.6
Interest expense	184	187	(3)	(1.6)
Loss in joint venture	799	712	87	12.2
Other income, net	(421)	(1,503)	1,082	(72.0)
Loss before tax expense	(10,460)	(4,164)	(6,296)	151.2
Tax expense	—	—	—	—
Net loss	**$ (10,460)**	**$ (4,164)**	**$ (6,296)**	**151.2 %**

Revenue decreased $0.1 million, or 2.4 percent, to $4.5 million for the three months ended December 31, 2022 from $4.6 million for the same period in 2021. The decrease is due primarily to a $0.4 million decrease in government contract revenue and a $0.1 million decrease in service revenue, partially offset by an increase in commercial product and services revenue, as compared to the same period in 2021.

Cost of goods sold increased $3.2 million, or 82.0 percent, to $7.2 million for the three months ended December 31, 2022 from $3.9 million for the same period in 2021, due primarily to a $2.8 million inventory write-off. The inventory write-offs resulted primarily from a decision to discontinue the evaluation of certain epiwafer inventory produced while bringing our reactors online following an internal risk assessment of using these epiwafer units in our manufacturing process, and in favor of allocating resources to current and future epiwafer production and expansion efforts.

Gross (loss) profit decreased $3.3 million, or 499.0 percent, to $(2.7) million for the three months ended December 31, 2022 from $0.7 million for the same period in 2021. Gross (loss) profit margin decreased 73.9 percent to (59.4) percent for the three months ended December 31, 2022 from 14.5% for the same period in 2021, due primarily to a $2.8 million inventory write-off.

Research and development expense increased $0.7 million, or 44.5 percent, to $2.3 million for the three months ended December 31, 2022 from $1.6 million for the same period in 2021, due primarily to a (i) $0.4 million decrease in government contract revenue for which certain expenses otherwise classified as research and development expense were instead recognized in cost of goods sold and general and administrative expense and (ii) $0.3 million increase in costs related to stock-based compensation expense.

Sales and marketing expense increased $0.5 million, or 48.3 percent, to $1.4 million for the three months ended December 31, 2022 from $1.0 million for the same period in 2021, due primarily to a $0.4 million increase in costs related to salaries and stock-based compensation expense.

General and administrative expense increased $0.6 million, or 21.2 percent, to $3.5 million for the three months ended December 31, 2022 from $2.9 million for the same period in 2021, due primarily to a $0.6 million increase in costs related to salaries.

Interest expense was $0.2 million for our revolving credit facility with Nexperia, a related party, for the three months ended December 31, 2022. Interest expense of $0.2 million for the same period in 2021 consists of $0.2 million for our revolving credit facility with Nexperia and $3 thousand for our then-outstanding note payable to Yaskawa, a related party.

Loss in joint venture was $0.8 million for the three months ended December 31, 2022, compared with $0.7 million for the same period in 2021.

Other income, net of other expenses, decreased $1.1 million, or 72.0 percent, to $0.4 million for the three months ended December 31, 2022 from $1.5 million for the same period in 2021, due primarily to recognition of a $1.2 million gain on promissory note conversion during the three months ended December 31, 2021.

Comparison of the Nine Months Ended December 31, 2022 and 2021

The following table sets forth our unaudited condensed consolidated statements of operations data for the periods indicated *(in thousands, except percentages)*:

	Nine Months Ended December 31,		Change	
	2022	**2021**	**Amount**	**Percentage**
Revenue, net	$ 13,319	$ 19,123	$ (5,804)	(30.4) %
Cost of goods sold	14,444	8,741	5,703	65.2
Gross (loss) profit	(1,125)	10,382	(11,507)	(110.8)
Operating expenses:				
Research and development	5,895	5,023	872	17.4
Sales and marketing	3,596	2,488	1,108	44.5
General and administrative	9,818	8,309	1,509	18.2
Total operating expenses	19,309	15,820	3,489	22.1
Loss from operations	(20,434)	(5,438)	(14,996)	275.8
Interest expense	550	611	(61)	(10.0)
Loss in joint venture	2,065	3,294	(1,229)	(37)
Changes in fair value of promissory note	—	(605)	605	(100.0)
Other income, net	(1,241)	(3,502)	2,261	(64.6)
Loss before tax expense	(21,808)	(5,236)	(16,572)	316.5
Tax expense	—	—	—	—
Net loss	**$ (21,808)**	**$ (5,236)**	**$ (16,572)**	**316.5 %**

Revenue decreased $5.8 million, or 30.4 percent, to $13.3 million for the nine months ended December 31, 2022 from $19.1 million for the same period in 2021. The decrease is due primarily to an $8.0 million decrease in licensing revenue from Nexperia, combined with a smaller decrease in government contract revenue, partially offset by an increase in commercial product revenue, as compared to the same period in 2021.

Cost of goods sold increased $5.7 million, or 65.2 percent, to $14.4 million for the nine months ended December 31, 2022 from $8.7 million for the same period in 2021, due primarily to costs directly associated with increased commercial product and services sales and a $2.8 million inventory write-off. The inventory write-offs resulted primarily from a decision to discontinue the evaluation of certain epiwafer inventory produced while bringing our reactors online following an internal risk assessment of using these epiwafer units in our manufacturing process, and in favor of allocating resources to current and future epiwafer production and expansion efforts.

Gross (loss) profit decreased $11.5 million, or 110.8 percent, to $(1.1) million for the nine months ended December 31, 2022 from $10.4 million for the same period in 2021. Gross (loss) profit margin decreased 62.7 percent to (8.4) percent for the nine months ended December 31, 2022 from 54.3 percent for the same period in 2021. The decrease is due primarily to a (i) $8.0 million decrease in licensing revenue from Nexperia and (ii) $2.8 million inventory write-off during the nine months ended December 31, 2022.

Research and development expense increased $0.9 million, or 17.4 percent, to $5.9 million for the nine months ended December 31, 2022 from $5.0 million for the same period in 2021, due primarily to a $1.1 million decrease in government contract revenue for which certain expenses otherwise classified as research and development expense were instead recognized in cost of goods sold and general and administrative expense.

Sales and marketing expense increased $1.1 million, or 44.5 percent, to $3.6 million for the nine months ended December 31, 2022 from $2.5 million for the same period in 2021, due primarily to a (i) $0.7 million increase in costs related to salaries and stock-based compensation expenses and (ii) $0.3 million increase in consulting expense.

General and administrative expense increased $1.5 million, or 18.2%, to $9.8 million for the nine months ended December 31, 2022 from $8.3 million for the same period in 2021, due primarily to a (i) $1.3 million increase in costs related to salaries and stock-based compensation expenses and (ii) $0.3 million increase in consultant costs.

Interest expense was $0.6 million for our revolving credit facility with Nexperia for the nine months ended December 31, 2022. Interest expense of $0.6 million for the same period in 2021 consists of $0.5 million for our revolving credit facility with Nexperia and $0.1 million for our then-outstanding note payable to Yaskawa.

Loss in joint venture was $2.1 million for the nine months ended December 31, 2022, compared with $3.3 million for the same period in 2021 due to a reduction in our percentage ownership of the joint venture that owns AFSW.

Changes in the fair value of promissory note were no gain/loss and $0.6 million gain for the nine months ended December 31, 2022 and 2021, respectively.

Other income, net of other expenses, decreased $2.3 million, or 64.6 percent, to $1.2 million for the nine months ended December 31, 2022 from $3.5 million for the same period in 2021, due primarily to recognition of a (i) $1.5 million gain upon termination of our joint venture agreement with FSL and (ii) $1.2 million gain on promissory note conversion during the nine months ended December 31, 2021.

Liquidity and Capital Resources

Our principal sources of liquidity have been cash generated by issuing stock and promissory notes and, more recently, cash generated from operations. During the year ended March 31, 2022 and nine months ended December 31, 2022, we raised gross proceeds of $50.0 million and $16.0 million, respectively, from the sale of common stock in private placements, and used $19.7 million and $18.6 million, respectively, of cash in operations.

As of December 31, 2022, we had cash and cash equivalents and restricted cash of $23.6 million, other current assets of $12.8 million and current liabilities of $18.4 million, resulting in working capital (including restricted cash) of $18.0 million. Our current liabilities include an outstanding $12.0 million revolving loan with Nexperia that matures on the earlier of April 4, 2023 and the occurrence of specified change of control events.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, considering our working capital (including restricted cash) of $18.0 million as of December 31, 2022, our historical losses from operations (during the three and nine months ended December 31, 2022, the we used $8.8 million and $18.6 million in cash from operations), and the future expected losses, there is substantial doubt about the Company's ability to continue as a going concern for the next twelve months from the issuance of these financial statements. While we believe that our existing cash and cash equivalents will be sufficient to fund our current operating plans until at least June 2023, we have based these estimates on assumptions that may prove to be wrong, and we could spend our available financial resources much faster than we currently expect.

In response to the factors noted above, management plans to raise additional working capital to fund operations through the issuance of stock to investors, license of intellectual property and/or issuance of notes payable. However, there is no assurance that the Company will be successful in raising additional capital.

The Company's ability to sustain operations is dependent on its ability to successfully market and sell its products and its ability to raise capital through additional financings until it is able to achieve profitability with positive cash flows. To the extent sufficient financing is not available, the Company may not be able to, or may be delayed in, developing its offerings and meeting its obligations. The Company will continue to evaluate its projected expenditures relative to its available cash and to evaluate financing alternatives in order to satisfy its working capital and other cash requirements. The accompanying unaudited condensed consolidated financial statements do not reflect any adjustments that might result from the outcome of these uncertainties.

Our future capital requirements will depend on many factors including our revenue growth rate, billing frequency, the current global macroeconomic environment, the timing and extent of spending to support further sales and marketing and research and development efforts, and our obligations in connection with AFSW (through GaNovation). The current global macroeconomic environment may make it more difficult or preclude us from raising additional capital, increase our costs of capital and otherwise adversely affect our business, results of operations, financial condition and liquidity. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We will require additional equity or debt financing, which we may not be able to raise on terms acceptable to us or at all. If we are unable to raise additional capital when required, our business, results of operations and financial condition would be materially and adversely affected, or we may need to cease operations altogether.

Cash Flows

The following table shows a summary of our cash flows for the periods presented *(in thousands)*:

	Nine Months Ended December 31,		
	2022	**2021**	**Change**
Net cash (used in) provided by:			
Operating activities	$ (18,582)	$ (13,910)	$ (4,672)
Investing activities	(8,092)	(4,455)	(3,637)
Financing activities	16,423	49,907	(33,484)
(Decrease) increase in cash and cash equivalents, excluding effect of foreign exchange rate changes	**$ (10,251)**	**$ 31,542**	**$ (41,793)**

Operating Activities

Net cash used in operating activities was $18.6 million and $13.9 million for the nine months ended December 31, 2022 and 2021, respectively. The increase of $4.7 million was attributable primarily to a $16.6 million increase in net loss, reduced mainly by a (i) $8.0 million decrease in non-cash licensing revenue from a related party, (ii) $2.6 million increase in inventory write-off and (iii) $1.2 million decrease in gain on promissory note conversion.

Investing Activities

Net cash used in investing activities was $8.1 million and $4.5 million for the nine months ended December 31, 2022 and 2021, respectively. The increase of $3.6 million was attributable primarily to a $4.9 million increase in advances and purchases of property and equipment, offset by a $1.2 million decrease in investment in joint venture.

Financing Activities

Net cash provided by financing activities was $16.4 million and $49.9 million for the nine months ended December 31, 2022 and 2021, respectively. The decrease of $33.5 million was attributable to $15.7 million in net proceeds from the sale of our common stock in private placements for the nine months ended December 31, 2022, compared to $49.8 million in net proceeds from the sale of our common stock in private placements for the same period of 2021.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates as described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2022, except for the update to our revenue recognition policy and adoption of ASU 2016-02, *Leases (Topic 842)* as noted below.

Revenue Recognition

We derive revenue primarily through the sale and delivery of promised goods and services to distributors and end-users in various sectors such as, but not limited to, the gaming, industrial, IT, and consumer products industries. We disaggregate revenue based on the following contract types:

- **Commercial Product and Service** contracts, including contracts for sales of high-powered GaN-based products manufactured utilizing our proprietary and patented epiwafer technology and wafer fabrication and other assembly processes, sales of GaN epiwafers for the radio frequency and power markets, and the provision of epiwafer growth services and products to our strategic partners.

- **Government** contracts for research and development related services and activities.

- **Licensing** contracts, including licenses to use our patented proprietary technology.

We follow a five-step approach for recognizing revenue, consisting of the following: (1) identifying the contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when, or as, the entity satisfies a performance obligation. Sales and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. We do not have any significant financing components associated with our revenue contracts, as payment is received at or shortly after the point of sale.

Commercial Product and Service contracts

Performance obligations are satisfied, and revenue is recognized when control of a good or service promised in a contract is transferred to a customer using relative standalone selling prices. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service at a point in time, and revenue is recognized in an amount that reflects the consideration we expect to be entitled to, in exchange for those products or services. The majority of our revenue under commercial product and service contracts is derived from product sales.

Revenue is recognized over time if the customer receives the benefits as we perform work, the customer controls the asset as it is being produced (continuous transfer of control), or the product being produced for the customer has no alternative use and we have a contractual right to payment for performance to date. We recognize revenue ratably over-time under the cooperation and development agreement with Yaskawa.

Sales of products or services typically do not include more than one performance obligation.

A portion of our products are sold through distributors. Distributors stock inventory and sell our products to their own customer base. We recognize revenue upon shipment of our products to our distributors.

Master supply or distributor agreements are in place with many of our customers and contain terms and conditions including, but not limited to, payment, delivery, incentives and warranty. These agreements sometimes require minimum purchase commitments. If a master supply, distributor or other similar agreement is not in place with a customer, we consider a purchase order, which is governed by our standard terms and conditions, to be the contract governing the relationship with that customer.

Pricing terms are negotiated independently on a stand-alone basis. Revenue is measured based on the amount of net consideration to which we expect to be entitled to receive in exchange for products or services.

Government contracts

Government contract revenue is principally generated under research and development contracts with agencies of the U.S. government. Performance obligations under government contracts are satisfied over time because the customer receives the benefits as we perform work, the customer controls the asset as it is being produced (continuous transfer of control), and we have a contractual right to payment for performance to date. Expenses recognized outside of cost of goods sold and in general and administrative expense were $0.1 million and $0.3 million, respectively, for the three months ended December 31, 2022 and 2021 and $0.6 million and $0.9 million, respectively, for the nine months ended December 31, 2022 and 2021.

Licensing contracts

From time to time, we may enter into licensing arrangements related to our intellectual property. Revenue from licensing arrangements is recognized when earned and estimable. The timing of revenue recognition is dependent on the terms of each license agreement. Generally, we will recognize non-refundable upfront licensing fees related to patent licenses immediately upon receipt of the funds if we have no significant future obligations to perform under the arrangement.

In the case that the arrangement gives rise to variable consideration in the form of milestone and royalty payments, we evaluate the royalties to determine if they qualify for the sales and usage-based royalty exception. In the case of our royalty arrangement with Nexperia, we determined the royalties qualify for the sales and usage-based royalty exception, as the license of intellectual property is the predominant item to which the royalty relates and revenue is recognized upon the subsequent sale occurring. The variable amounts are recognized at the net consideration we expect to receive upon satisfaction of contractually agreed upon development targets and sales volumes.

Disaggregation of Revenue from Contracts with Customers

Revenue disaggregated by contract type is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Commercial product and service	$ 3,960	$ 3,623	$ 11,556	$ 8,127
Government (1)	533	981	1,763	2,996
Licensing	—	—	—	8,000
Revenue, net	**$ 4,493**	**$ 4,604**	**$ 13,319**	**$ 19,123**

(1) Government revenue from a Government Agency was $0.5 million and $1.0 million for the three months ended December 31, 2022 and 2021, respectively, and $1.6 million and $3.0 million for the nine months ended December 31, 2022 and 2021, respectively. The contract with the Government Agency ended December 31, 2022.

Accounting Standard Adopted

Effective April 1, 2022, we adopted ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a right-of-use (“ROU”) asset and a lease liability on their balance sheet for all leases, including operating leases, with a term of greater than 12 months. In July 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-11, which adds a transition option permitting entities to apply the provisions of the new standard at its adoption date instead of the earliest comparative period presented in the consolidated financial statements. Under this transition option, comparative reporting would not be required, and the provisions of the standard would be applied prospectively to leases in effect at the date of adoption. We elected to use the optional transition method provided by ASU 2018-11. We also elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed us to carry forward our ASC 840 assessment regarding definition of a lease, lease classification, and initial direct costs. The following practical expedients were applied implementing this standard.

- We did not reassess whether any expired or existing contracts are, or contain, leases. Additionally, we did not reassess for lease classifications of expired or existing leases, or initial direct costs for any existing leases.
- We elected the short-term lease exception, which allows us to account for leases with a lease term of twelve months or less similar to existing operating leases. The cost of these leases is disclosed, but is not recognized in the ROU asset and lease liability balances. Consistent with ASC 842 requirements, leases that are one month or less are not included in the disclosures.

Operating lease ROU assets represent our right to use the underlying asset during the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using incremental borrowing rate at the lease commencement date. We chose the practical expedients and reviewed the lease and non-lease components for any impairment or otherwise, subsequently determining that no cumulative-effect adjustment to equity was necessary as part of implementing the modified retrospective approach for its adoption of ASC 842. Operating lease expense, which is comprised of amortization of the ROU asset and the interest accreted on the lease liability, is recognized on a straight-line basis over the lease term and is recorded in lease expense in the condensed consolidated statements of income.

JOBS Act Accounting Election

We are an emerging growth company, as defined in the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an emerging growth company to either early adopt or delay the adoption of some accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act 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 financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a "smaller reporting company," we are not required to provide the information required by this Item.

Item 4. Controls and Procedures.

Inherent Limitations on Effectiveness of Controls

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected.

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information we are required to disclose in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance.

Our management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on this evaluation, management, including our chief executive officer and our chief financial officer, concluded that as of December 31, 2022, our disclosure controls and procedures were not effective because of a material weakness in our internal control over financial reporting.

As disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2022, our current staffing resources in our finance department are insufficient to support the complexity of our financial reporting requirements. We currently do not have adequate staff members with technical accounting knowledge and financial reporting experience and we have had an inadequate level of precision, evidence or timeliness in the performance of review controls as it relates to inventory, joint venture accounting, accrual of expenses, revenue and financial reporting.

Management has initiated the corrective actions and procedures to remediate the identified material weakness, but does not anticipate that these initiatives will be fully implemented by March 31, 2023 as a result of continued insufficient staffing resources in our finance department.

Changes in Internal Control Over Financial Reporting

Except as described above, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in litigation or other legal proceedings. We are not currently a party to any litigation or legal proceedings that, in the opinion of our management, are likely to have a material adverse effect on our business. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

On April 5, 2022, Joel Newman, an alleged holder of our common stock, filed a complaint in the Delaware Court of Chancery derivatively against our directors and KKR Phorm Investors L.P. (“Phorm”). The complaint alleges that the directors and Phorm breached their fiduciary duties, and the directors committed waste, because the terms of the November 5, 2021 private placement in which Phorm participated were unfairly favorable to Phorm. The directors have the right to advancement from us of expenses incurred defending the claims. On July 11, 2022, plaintiff filed an amended complaint, on which the parties completed briefing on January 9, 2023. A hearing on the motion to dismiss is scheduled for May 9, 2023. The Company is unable to estimate the potential loss or range of loss, if any, associated with this lawsuit.

Item 1A. Risk Factors.

An investment in our securities is highly speculative and involves a high degree of risk. We face a variety of risks that may affect our operations or financial results and many of those risks are driven by factors that we cannot control or predict. Investors should carefully consider the risks described below and all of the other information set forth in this Report, before deciding to invest in our common stock. If any of the risks described below occur, our business, financial condition, results of operations and prospects could be materially adversely affected. In that case, the market price of our common stock would likely decline and investors could lose all or a part of their investment. Only those investors who can bear the risk of loss of their entire investment should consider an investment in our securities. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations.

Risks Related to Our Business and the Industry in Which We Operate

We have a history of losses, anticipate increasing our operating expenses in the future, and may not be able to achieve or maintain profitability. If we cannot achieve or maintain profitability, stockholders could lose all or part of their investment.

Since our inception in 2007, we have generated minimal revenue and substantial net losses as we have devoted our resources to the development of our technology, and our business model has not been proven. As of December 31, 2022, we had an accumulated deficit of $200.4 million. For the nine months ended December 31, 2022 and 2021, our net loss was $21.8 million and $5.2 million, respectively. We expect our operating expenses to increase in the future as we expand our sales and marketing efforts and continue to invest in our infrastructure and research and development of our technologies. These efforts may be more costly than we expect, and we may not be able to increase our revenue to offset our increased operating expenses. Our revenue growth may be slower than anticipated or our revenue may decline for a number of other reasons, including slower growth of, or reduced demand for, GaN power management solutions, increased competition, or any failure to capitalize on growth opportunities. If we are unable to generate sufficient revenue, we may never become profitable or be able to maintain any future profitability. If this were to occur, our stockholders could lose all or part of their investment.

Our ability to continue as a going concern will depend on us being able to raise significant additional capital to fund our operations, and this capital may be unavailable on attractive terms, if at all, and could dilute your investment.

Our recurring operating losses and current operating plans raise substantial doubt about our ability to continue as a going concern for the next twelve months. We currently incur and historically have incurred losses from operations and expect to do so in the foreseeable future. During the nine months ended December 31, 2022, we raised gross proceeds of $16.0 million from selling shares of our common stock in private placements and used $18.6 million of cash in operations. As of December 31, 2022, we had $23.1 million in cash and cash equivalents. While we believe that our existing cash and cash equivalents will be sufficient to fund our current operating plans through at least June 2023, we have based these estimates on assumptions that may prove to be wrong, and we could spend our available financial resources much faster than we currently expect and need to raise additional funds sooner than we anticipate.

We have outstanding a $12.0 million revolving loan with Nexperia that bears 6% annual interest and matures on the earlier of April 4, 2023 and the occurrence of specified change of control events. We are also party to a joint venture agreement with a third party for the ownership and operations of GaNovation, which wholly owns AFSW, a wafer fabrication facility located in Aizu Wakamatsu, Japan. While we had a direct ownership interest in AFSW of 49% prior to August 2021, we currently have an indirect ownership interest in AFSW of 25% through our ownership of GaNovation. Beginning April 1, 2023, we will be responsible for 32.5% of the funding obligations and losses of AFSW, subject to a maximum of $12 million for the three-year period beginning August 1, 2021. For as long as we have had an ownership interest in AFSW, it has operated at a loss. Our share of the operating losses incurred by GaNovation over the nine months ended December 31, 2022 was $2.1 million. Our share of the operating losses incurred by GaNovation / AFSW over the nine months ended December 31, 2021 was $3.3 million.

We will be required to engage in equity or debt financings to secure additional funds. If we close one or more additional equity or convertible debt financings, our stockholders may experience significant dilution of their ownership interests, the rights given to new equityholders may be superior to those of our common stockholders and the per share value of our common stock could decline. Furthermore, if we engage in debt financing, the holders of debt would have priority over the holders of our common stock, and we may be required to accept terms that restrict our ability to run our business or incur additional indebtedness. The debt financing could also contain restrictive covenants that may impact how we run our business and could result in the loan being paid back in full immediately if we are in non-compliance. In addition, the current global macroeconomic environment may make it more difficult or preclude us from raising additional capital, increase our costs of capital and otherwise adversely affect our business, results of operations, financial condition and liquidity. If we are unable to raise additional capital when needed or on acceptable terms, we may not be able to, among other things:

- continue our business and operations;
- develop or enhance our products;
- continue to expand our sales and marketing and research and development organizations;
- acquire complementary technologies, products or businesses;
- expand operations, in the United States or internationally;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our failure to do any of these things could harm our business, financial condition and results of operations or affect our ability to continue as a going concern.

Our quarterly results of operations are likely to vary from period to period, which could cause the market price of our common stock to fluctuate or decline.

Our results of operations have varied from period to period, and we expect that our quarterly results of operations will continue to vary as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- our ability to attract new and retain existing customers, including due to our perceived or actual financial condition;
- the budgeting cycles and purchasing practices of customers;
- the timing and length of our sales cycles, including the ability of our customers to design-in successfully with GaN power solutions;
- changes in customer requirements or market needs, including market acceptance of GaN technology;
- the timing and impact of new product introductions by us or our competitors or any other change in the competitive landscape of the semiconductor industry, including consolidation among our customers or competitors;
- deferral of orders from customers in anticipation of new products or product enhancements announced by us or our competitors;
- our ability to execute on our growth strategy and operating plans;
- our ability to successfully expand our business domestically and internationally;
- our ability to successfully compete with other companies in our market;
- changes in our pricing policies or those of our competitors;
- any disruption in, or termination of, our relationship with channel partners;
- insolvency or credit difficulties confronting our customers, affecting their ability to purchase or pay for our products, or confronting our key suppliers, which could disrupt our supply chain;
- the cost and potential outcomes of potential future litigation;
- general economic conditions, both domestic and in our foreign markets; and
- the amount and timing of operating costs and capital expenditures related to the expansion of our business.

Any of the above factors, individually or in the aggregate, may result in significant fluctuations in our quarterly operating results. As a result of this variability, our historical results of operations should not be relied upon as an indication of future performance. Moreover, this variability and unpredictability could result in our failure to follow through on our operating plans or meet the expectations of investors for any period. If we fail to follow through on our operating plans or meet such expectations for these or other reasons, the market price of our common stock could fall substantially.

We are exposed to foreign currency exchange rate fluctuations. Although we hedge certain currency risks, our hedging strategies may not be successful in mitigating our risks and changes in foreign currency exchange rates may adversely affect our financial condition, cash flows and results of operations.

We are exposed to fluctuations in foreign currency exchange rates, primarily the Japanese Yen, from our international operations. We translate revenues and other results denominated in foreign currencies into U.S. dollars for our consolidated financial statements. If the U.S. dollar strengthens relative to foreign currencies, particularly the Japanese Yen, there will be a negative impact on our operating results upon translation of those foreign operating results into the U.S. dollar and may distort period to period comparisons. For example, our loss from foreign currency exchange rate fluctuations was $0.1 million for each of the nine months ended December 31, 2022 and

2021. While we recently began to hedge against certain exchange rate risks in an effort to minimize the impact of currency exchange rate fluctuations, we typically enter into hedging contracts with maturities of up to 12 months, leaving us exposed to longer term changes in exchange rates. These hedges may not fully offset the negative impacts on our financial condition from currency exchange rate fluctuations. To the extent that these hedges are inadequate, or if there are significant currency exchange rate fluctuations in currencies for which we do not have hedges in place, our reported financial results could be materially adversely affected. Furthermore, if a financial counterparty to our hedges experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency hedge, we may experience material financial losses.

We may not be able to develop new technologies and products to satisfy changes in customer demand or industry standards, and our competitors could develop products that decrease the demand for our products.

Rapidly changing technologies and industry standards, along with frequent new product introductions, characterize the industries of many of our customers and potential customers. Our financial performance depends, in part, on our ability to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis.

Our products have not been proven commercially on the scale of conventional power semiconductor products. The principal focus of our research and development activities has been to improve processes and support our ongoing development of GaN power management solutions. These projects are subject to various risks and uncertainties we are not able to control, including changes in customer demand or industry standards and the introduction of new or superior technologies by others. Moreover, any failure by us in the future to develop new technologies or timely react to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenues and a loss of our market share to our competitors. In addition, products or technologies developed by others may render our products or technologies obsolete or non-competitive. Further, if our products are not in compliance with prevailing industry standards, such non-compliance could materially and adversely affect our financial condition, cash flows and results of operations.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, our revenue is difficult to predict and may vary substantially from period to period, which may cause our results of operations to fluctuate significantly.

Our results of operations may fluctuate, in part, because of the resource intensive nature of our sales efforts, the length and variability of our sales cycle and the short-term difficulty in adjusting our operating expenses. To the extent our competitors develop products that our prospective customers view as equivalent or superior to ours, the average duration of our sales cycles may increase, and our sales efforts may be less successful. Because the length of time required to close a sale varies substantially from customer to customer, it is difficult to predict exactly when, or even if, we will make a sale with a potential customer. As a result, individual sales have, in some cases, occurred in quarters subsequent to or in advance of those we anticipated, or have not occurred at all, which makes it difficult for us to forecast our revenue accurately in any quarter. Because a substantial portion of our expenses are relatively fixed in the short term, our results of operations will suffer if our revenue falls below expectations in a particular quarter, which could cause the market price of our common stock to decline.

We must commit resources to development, design and production prior to receipt of purchase commitments and could lose some or all of the associated investment.

Our sales are typically made pursuant to individual purchase orders, rather than pursuant to long-term supply contracts. Many of these purchase orders may be revised or canceled without penalty. As a result, we typically must commit resources to the design, development, and production of products without any advance purchase commitments from customers. Any inability to sell a product after we devote resources to it could materially and adversely affect our financial condition, cash flows and results of operations.

Unfavorable worldwide economic conditions (including inflation and supply chain disruptions), may negatively affect our business, financial condition and results of operations.

The global economic downturn and uncertainty due to the effects of the COVID-19 pandemic and subsequent volatility and adverse conditions in the capital and credit markets have negatively affected levels of business and consumer spending, heightening concerns about the likelihood of a global recession and potential default of various national bonds and debt backed by individual countries. Such developments, as well as the politics impacting these, could adversely affect our financial results. In particular, the economic disruption caused by the COVID-19 pandemic has led to reduced demand in our GaN products and significant volatility in global stock markets and currency exchange rates. Uncertainty about worldwide economic conditions poses a risk as businesses may further reduce or postpone spending in response to reduced budgets, tight credit, negative financial news and declines in income or asset values, which could adversely affect our business, financial condition and results of operations and increase the volatility of our stock price.

Inflation has also risen globally to historically high levels. If the inflation rate continues to increase, the costs of labor and other expenses could also increase. There is no assurance that our revenues will increase at the same rate that costs could increase. Inflation and government efforts to combat inflation, such as raising the benchmark interest rate, could increase market volatility and have an adverse effect on the financial market and global economy. In addition, we expect that disruptions in our supply chain and fluctuations in the availability of parts and materials will continue to impact our ability to generate revenue, despite strong demand from our customers. Such adverse conditions could negatively impact demand for our products, which could adversely affect our business, financial condition and results of operations.

We compete in highly competitive markets, and competitive pressures from existing and new companies may adversely impact our business and operating results.

The markets in which we compete are highly competitive. We expect competition to intensify in the future as existing competitors and new market entrants introduce new products into our markets. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, and the loss of market share, any of which could seriously harm our business, financial condition and results of operations. If we do not keep pace with product and technology advances and otherwise keep our product offerings competitive, there could be a material and adverse effect on our competitive position, revenue and prospects for growth. Many of our existing competitors, such as silicon-based product providers (e.g., Infineon, ST Microelectronics, Toshiba and ON Semiconductor), silicon carbide-based product providers (e.g., Rohm, Infineon and Wolfspeed) and other high-voltage GaN product providers (e.g., Power Integrations, Infineon, Panasonic, GaN Systems, Navitas, Texas Instruments and Innoscience), have, and some of our potential competitors could have, substantial competitive advantages such as:

- greater name recognition, longer operating histories and larger customer bases;
- larger sales and marketing budgets and resources;
- broader distribution and established relationships with channel partners and customers;
- broader and deeper product lines;
- greater customer support resources;
- greater resources to make acquisitions;
- lower labor and research and development costs;
- substantially greater financial and other resources; and

- larger scale manufacturing operations.

In addition, some of our larger competitors have substantially broader product offerings and may be able to leverage their relationships with channel partners and customers based on other products to gain business in a manner that discourages users from purchasing our products, including by selling at zero or negative margins or product bundling. Potential customers may also prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features. As a result, even if the features of our products are superior, customers may not purchase our products. In addition, innovative start-up companies, and larger companies that are making significant investments in research and development, may invent similar or superior products and technologies that compete with our products. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources. If we are unable to compete successfully, or if competing successfully requires us to take costly actions in response to the actions of our competitors, our business, financial condition and results of operations could be adversely affected.

We rely on third-party channel partners to sell our products. If our partners fail to perform, our ability to sell our products and services could be limited, and if we fail to optimize our channel partner model going forward, our operating results could be harmed.

A portion of our revenue is generated through sales by our channel partners, which include distributors and resellers. To the extent our channel partners are unsuccessful in selling our products, we are unable to enter into arrangements with, and retain, a sufficient number of effective channel partners in each of the regions in which we sell products or we are unable to keep our channel partners motivated to sell our products, our ability to sell our products and our operating results could be harmed. The termination of our relationship with any significant channel partner may adversely impact our sales and operating results.

We rely on limited sources of wafer fabrication, packaged products fabrication and product testing, the loss of which could delay and limit our product shipments.

AFSW currently satisfies all of our GaN fab-wafer requirements (i.e., when a GaN epiwafer undergoes various processes at a wafer fabrication facility). While we believe AFSW has sufficient capacity for our near-term business needs and is reasonably scalable as our demand for throughput increases, any disruption in the AFSW fabrication facilities may severely impact our supply. In the event we are unable to continuously sustain the AFSW fabrication facility, securing supply from another source and adapting our process at such source would lead to a significant set of challenges, additional costs and delays.

We also utilize relatively standard back-side wafer processing services such as wafer-thinning and wafer back-side metalization from foundries in Asia. These suppliers also offer such services to other companies, which may lead to us not having access to adequate capacity for our needs and our customers' needs. We may have less control over delivery schedules and overall support versus other customers and users of those facilities. If the wafer foundries we use are unable or unwilling to manufacture our products in our required volumes, or at specified times, we may have to identify and qualify acceptable additional or alternative foundries. This qualification process could typically take three to six months and we may not find sufficient capacity in a timely manner or at an acceptable cost to satisfy our production requirements.

We additionally use outsourced assembly and test providers ("OSATs") for packaging and testing of our products. We utilize multiple OSATs for various package types and a single OSAT for each type of package. These OSATs may take time, or may be unable, to respond if our throughput demands increase, particularly if we expect a rapid increase in production and could harm our ability to meet unexpected rises in demand in an acceptable time frame. If the OSATs we use are unable or unwilling to package and test our products in our required volumes, or at specified times, we may have to identify and qualify acceptable additional or alternative OSATs. This qualification process would typically take three to nine months and we may not find sufficient capacity in a timely manner or at an acceptable cost to satisfy our production requirements.

Some companies that supply products to our customers are similarly dependent on a limited number of suppliers. These other companies' products may represent important components of power adapters, inverters and other products into which our products are designed. If these companies are unable to produce the volumes demanded by our customers, our customers may be forced to slow down or halt production on the equipment for which our products are designed, which could materially impact our order levels.

Because we depend on third-party manufacturers to build portions of our products, we are susceptible to manufacturing delays and pricing fluctuations that could prevent us from shipping customer orders on time, if at all, or on a cost-effective basis, which may result in the loss of sales, income and customers.

We depend on third-party manufacturers to build several stages of our products. Our reliance on these third-party manufacturers reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, and product supply and timing. Any manufacturing disruption by these third-party manufacturers could severely impair our ability to fulfill orders. Our reliance on third-party manufacturers also creates the potential for infringement or misappropriation of our intellectual property. If we are unable to manage our relationships with third-party manufacturers effectively, or if our third-party manufacturers experience delays or disruptions for any reason, increased manufacturing lead-times, capacity constraints or quality control problems in their manufacturing operations, or if they otherwise fail to meet our future requirements for timely delivery, our ability to ship products to our customers would be severely impaired, and our business and results of operations would be seriously harmed.

Our business could be adversely affected by the effects of health epidemics or pandemics in regions where we or third parties on which we rely have manufacturing or other business operations.

The effects of health epidemics or pandemics could materially affect our operations globally, including at our headquarters in California and at our subsidiaries in Japan. For example, government authorities implemented numerous measures to try to contain the COVID-19 virus, such as travel bans and restrictions, quarantines, shelter-in-place or stay-at-home orders, and business shutdowns. As a result of the COVID-19 pandemic, some of our customers experienced delays in their internal development programs and design cycles with our GaN products, which led to postponements of their orders of our products and postponements of determinations that our products will be used in their designs for new products under development with corresponding delays in their market introduction and our achievement of revenues.

Since the beginning of the COVID-19 pandemic, we have taken precautionary measures intended to minimize the risk of the virus to our employees, our customers, and the communities in which we operate. For example, we have at times required our employees to work remotely unless they could not perform their essential functions remotely and temporarily suspended all non-essential travel, which negatively impacted our customer success efforts and sales and marketing efforts. Furthermore, if a natural disaster, power outage, connectivity issue, or other event occurred that impacted our employees' ability to work remotely, it may be difficult or, in certain cases, not possible, for us to continue our business for a substantial period of time.

There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19, and, as a result, the ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and will depend on developments, including the duration and spread of the virus and its variants, its impact on our employees, customers, partners, suppliers and other third-party providers, and actions that may be taken by governmental authorities. Some of our suppliers of certain materials used in the production of our products are located in areas impacted by the COVID-19 pandemic, which could limit our ability to obtain sufficient materials for our products. Furthermore, the pandemic may negatively impact our ability to secure additional business for AFSW. Even after the COVID-19 pandemic has subsided, we may continue to experience an adverse impact to our business as a result of the continued global economic impact of the pandemic. Any of the foregoing could significantly harm our business, and we cannot anticipate all of the ways in which catastrophic events such as the COVID-19 pandemic could adversely impact our business.

An earthquake, terrorist attack or other man-made or natural disaster could negatively impact our business and operating results.

The occurrence of any catastrophic event, including an earthquake, fire, flood, tsunami, the effects of climate change, or other weather event, power loss, telecommunications failure, software or hardware malfunctions, epidemic or pandemic diseases, cyber-attack, military conflict or war, or terrorist attack, could materially impair our operations globally. For example, our principal executive offices and primary epiwafer operating facilities are situated near Santa Barbara, California, and most of our major suppliers, which are wafer foundries and assembly houses, are located in areas that have been subject to severe earthquakes and are susceptible to other disasters such as tropical storms, typhoons or tsunamis. In the event of a disaster, such as an earthquake and tsunami in Japan, we or one or more of our major suppliers may be temporarily unable to continue operations and may suffer significant property damage. Any interruption in our ability, or that of our major suppliers, to continue operations could delay the development and shipment of our products and have a substantial negative impact on our financial results. As part of our risk management policy, we maintain insurance coverage at levels that we believe are appropriate for our business. However, in the event of an accident or incident at these facilities, we cannot assure you that the amounts or coverage of insurance will be sufficient to satisfy any damages and losses, particularly as climate change continues to increase the risk of climate-related natural disasters.

We rely on our management team and other key employees and will need additional personnel to grow our business. The loss of one or more key employees or our inability to attract and retain qualified personnel could harm our business.

Our future success is substantially dependent on our ability to attract, retain and motivate the members of our management team and other key employees throughout our organization. The loss of one or more members of our management team or other key employees could materially impact our sales or our research and development programs and materially harm our business, financial condition, results of operations and prospects. We do not maintain key person life insurance policies on any of our management team members or key employees. Competition for highly skilled personnel is intense. We may not be successful in attracting or retaining qualified personnel to fulfill our current or future needs. For positions in our offices near Santa Barbara, California in particular, we may experience challenges hiring new and mid-level employees in part due to the high local housing costs. Our competitors may be successful in recruiting and hiring members of our management team or other key employees, and it may be difficult for us to find suitable replacements on a timely basis, on competitive terms, or at all.

If we fail to effectively manage our growth, our business, financial condition and results of operations would be harmed.

We are a development stage company with 118 employees as of December 31, 2022 and are subject to the strains of ongoing development and growth, which has placed significant demands on our management and our operational and financial infrastructure. To manage any growth effectively, we must continue to improve our operational, financial and management systems and controls by, among other things:

- effectively attracting, training and integrating new employees, particularly members of our sales, applications and research and development teams;
- further improving our key business applications, processes and IT infrastructure to support our business needs;
- enhancing our information and communication systems to ensure that our employees and offices around the world are well coordinated and can effectively communicate with each other and our channel partners and customers; and
- appropriately documenting and testing our IT systems and business processes.

These and other improvements in our systems and controls will require significant capital expenditures and the allocation of valuable management and employee resources. If we fail to implement these improvements effectively, our ability to manage growth and ensure ongoing operation of key business systems would be impaired, and our business, financial condition and results of operations would be harmed.

We are subject to a number of risks associated with international sales and operations.

We have small teams that are engaged in marketing, selling and supporting our products internationally. As a result, we must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing and retaining international employees, particularly managers and other members of our international sales team, we may experience difficulties in sales productivity in, or market penetration of, foreign markets. We also enter into strategic distributor and reseller relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful strategic distributor and reseller relationships with our international channel partners or recruit additional channel partners, our future success in these international markets could be limited.

Investments in us may be subject to U.S. foreign investment regulations which may impose conditions on or limit certain investors' ability to purchase or hold our common stock, potentially limiting our ability to enter into or maintain strategic relationships and making our common stock less attractive to investors.

Under section 721 of the U.S. Defense Production Act of 1950, as amended (the "DPA"), the U.S. President has the power to disrupt or block certain foreign investments in U.S. businesses if the President determines that such a transaction threatens U.S. national security. The Committee on Foreign Investment in the United States ("CFIUS") has the authority to conduct national security reviews of certain foreign investments. CFIUS may clear a transaction, negotiate or impose mitigation measures as a perquisite to granting clearance of a transaction, or recommend that the President impose conditions or block the transaction or force divestment if the transaction has closed. The Foreign Investment Risk Review Modernization Act ("FIRRMA"), enacted in 2018, amended the DPA to, among other things, expand CFIUS's jurisdiction beyond acquisitions of control of U.S. businesses. Now, CFIUS also has jurisdiction over certain foreign non-controlling investments in U.S. businesses that involve critical technology or critical infrastructure, or that collect and maintain sensitive personal data of U.S. citizens ("TID U.S. Businesses"). We are a TID U.S. Business because we develop and design technologies that would be considered critical technologies. Certain foreign investments in TID U.S. Businesses are subject to mandatory filing with CFIUS. We have received and may continue to receive foreign investments, some of which may be subject to CFIUS jurisdiction. The enhanced scrutiny and potential restrictions on the ability of foreign persons to invest in us could limit our ability to engage in strategic transactions that could benefit our stockholders, including a change of control, and could also affect the price that an investor may be willing to pay for our common stock.

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.

Our products and technology are subject to U.S. export controls, including the U.S. Department of Commerce's Export Administration Regulations 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 may 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. Export or import laws or sanctions policies are subject to rapid change and have been the subject of recent U.S. and non-U.S. government actions. 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 adversely affect our business, financial condition and results of operations.

Our sales to government customers subject us to uncertainties regarding fiscal funding approvals, renegotiations or terminations at the discretion of the government, as well as audits and investigations, which could result in litigation, penalties and sanctions including early termination, suspension and debarment.

Our multi-year contracts signed with agencies and departments of the U.S. government are generally subject to annual fiscal funding approval and may be renegotiated or terminated at the discretion of the government. Termination, renegotiation or the lack of funding approval for a contract could adversely affect our sales, revenue and reputation. Additionally, our government contracts are generally subject to requirements that are not typically present in commercial contracts, such as various Federal Acquisition Regulation or Defense Federal Acquisition Regulation clauses. These clauses place certain requirements upon us such as compliance with equal opportunity employment, safeguarding of contractor information systems, executive compensation restrictions and reporting of certain lobbying activities. Government contracts are also subject to audits and investigations. Failure to meet contractual requirements could result in various civil and criminal actions and penalties, and administrative sanctions, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government, any of which could materially adversely affect our business, financial condition and results of operations.

Failure to comply with anti-bribery, anti-corruption and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the U.S. Foreign Corrupt Practices Act ("FCPA") and other anti-corruption, anti-bribery, and anti-money laundering laws in the jurisdictions in which we do business, both domestic and abroad. These laws generally prohibit us and our employees from improperly influencing government officials or commercial parties in order to obtain or retain business, direct business to any person or gain any improper advantage. The FCPA and similar applicable anti-bribery and anti-corruption laws also prohibit our third-party business partners, representatives and agents from engaging in corruption and bribery. We and our third-party business partners, representatives and agents may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners and agents, even if we do not explicitly authorize such activities. These laws also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. Any violation of the FCPA or other applicable anti-bribery, anti-corruption laws and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, imposition of significant legal fees, loss of export privileges, severe criminal or civil sanctions or suspension or debarment from U.S. government contracts, substantial diversion of management's attention, drop in stock price or overall adverse consequences to our business, all of which may have an adverse effect on our reputation, business, financial condition, and results of operations.

Our business may be affected by litigation and government investigations.

We may from time to time receive inquiries and subpoenas and other types of information requests from government authorities and others and we may become subject to claims and other actions related to our business activities. While the ultimate outcome of investigations, inquiries, information requests and legal proceedings is difficult to predict, defense of litigation claims can be expensive, time-consuming and distracting, and adverse resolutions or settlements of those matters may result in, among other things, modification of our business practices, costs and significant payments, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Related to Our Intellectual Property

Any failure by us to protect our proprietary technologies or maintain the right to use certain technologies may negatively affect our ability to compete.

To compete effectively, we must protect our intellectual property. We rely on a combination of patents, trademarks, copyrights, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. We hold numerous patents and have a number of pending patent applications. However, our portfolio of patents evolves as new patents are issued and older patents expire and the expiration of patents could have a negative effect on our ability to prevent competitors from duplicating certain or all of our products.

We might not succeed in obtaining patents from any of our pending applications. Even if we are awarded patents, they may not provide any meaningful protection or commercial advantage to us, as they may not be of sufficient scope or strength, or may not be issued in all countries where our products can be sold. In addition, our competitors may be able to design around our patents.

There can be no assurance that an issued patent will remain valid and enforceable in a court of law through the entire patent term. Should the validity of a patent be challenged, the legal process associated with defending the patent can be costly and time consuming. Issued patents can be subject to oppositions, interferences and other third party challenges that can result in the revocation of the patent or limit patent claims such that patent coverage lacks sufficient breadth to protect subject matter that is commercially relevant. Competitors may be able to circumvent our patents. In cases where market ramp of our products may encounter delays it is possible that some patents or licensed patents covering the product has expired or will be in force for only a short period of time following such market ramp. We cannot predict with any certainty if any third party U.S. or foreign patent rights, or other proprietary rights, will be deemed infringed by the use of our technology. Nor can we predict with certainty which, if any, of these rights will or may be asserted against us by third parties.

To protect our product technology, documentation and other proprietary information, we enter into confidentiality agreements with our employees, customers, consultants and strategic partners. We require our employees to acknowledge their obligation to maintain confidentiality with respect to our products. Despite these efforts, we cannot guarantee that these parties will maintain the confidentiality of our proprietary information in the course of future employment or working with other business partners. We develop, manufacture and sell our products in Asia and other countries that may not protect our intellectual property rights to the same extent as the laws of the United States. This makes piracy of our technology and products more likely. Steps we take to protect our proprietary information may not be adequate to prevent theft of our technology. We may not be able to prevent our competitors from independently developing technologies and products that are similar to or better than ours.

Vigorous protection and pursuit of intellectual property rights or positions characterize the semiconductor industry. This often results in expensive and lengthy litigation. We, and our customers or suppliers, may be accused of infringing patents or other intellectual property rights owned by third parties in the future. An adverse result in any litigation against us or a customer or supplier could force us to pay substantial damages, stop manufacturing, using and selling the infringing products, spend significant resources to develop non-infringing technology, discontinue using certain processes or obtain licenses to use the infringing technology. In addition, we may not be able to develop non-infringing technology or find appropriate licenses on reasonable terms or at all.

Patent disputes in the semiconductor industry between industry participants are often settled through cross-licensing arrangements. Our portfolio of patents may not have the breadth to enable us to settle an alleged patent infringement claim through a cross-licensing arrangement, especially for patent disputes brought by non-practicing entities (patent holders who do not manufacture products but only seek to monetize patent rights) that cannot be settled through cross-licensing and cannot be avoided through cross-licensing with industry practitioners. We may therefore be more exposed to third-party claims than some of our larger competitors and customers.

Customers may make claims against us in connection with infringement claims made against them that are alleged to relate to our products or components included in our products, even where we obtain the components from a supplier. In such cases, we may incur monetary losses due to cost of defense, settlement or damage award and non-monetary losses as a result of diverting valuable internal resources to litigation support. To the extent that claims against us or our customers relate to third-party intellectual property integrated into our products, there is no assurance that we will be fully or even partially indemnified by our suppliers against any losses.

Furthermore, we may initiate claims or litigation against third parties for infringing our proprietary rights or to establish the validity of our proprietary rights. This could consume significant resources and divert the efforts of our technical and management personnel, regardless of the litigation's outcome.

If we fail to comply with our obligations under any license, collaboration or other agreements, we may be required to pay damages and could lose certain intellectual property rights.

Our current licenses impose, and any future licenses we enter into are likely to impose, various development, commercialization, funding, milestone, royalty, diligence, sublicensing, insurance, patent prosecution and enforcement and other obligations on us. If we breach any of these obligations, or use the intellectual property licensed to us in an unauthorized manner, we may be required to pay damages and the licensor may have the right to terminate the license, which could result in us being unable to develop, manufacture and sell products that are covered by the licensed technology or could enable a competitor to gain access to the licensed technology. Moreover, our licensors may own or control intellectual property that has not been licensed to us and, as a result, we may be subject to claims, regardless of their merit, that we are infringing or otherwise violating the licensor's rights in such unlicensed intellectual property. The amount of our future royalty obligations will depend on the technology and intellectual property we use in products that we successfully develop, manufacture and commercialize, if any. Therefore, even if we successfully develop and commercialize products, we may be unable to achieve or maintain profitability.

For example, our cooperation agreement with Nexperia, which is key to our business, contains certain terms that, if triggered, could have a material adverse effect on our business, financial condition, results of operations and prospects. For instance, the LSA contains customary events of default including, among others, payment defaults, breaches of covenants defaults, the occurrence of a material adverse change, bankruptcy and insolvency defaults, cross defaults with certain material indebtedness, judgment defaults, and the occurrence of a change of control. In addition, an event of default will occur if the DLA is terminated under certain circumstances or we fail to timely deliver reports related to statements of work under the DLA. Upon the occurrence and during the continuance an event of default, Nexperia may declare all or a portion of our outstanding obligations to be immediately due and payable and exercise other rights and remedies provided for under the LSA. If specified events of default occur and remain continuing for more than 30 consecutive days, we are required to assign a portion of our patent portfolio constituting collateral to Nexperia in satisfaction of our obligations under the LSA. During the existence of an event of default, interest on the obligations could be increased to 3.0% above the otherwise applicable interest rate. Additionally, pursuant to an intracompany license agreement with our wholly owned subsidiary, Transphorm Japan Epi, Inc. ("TJE"), if certain events (some of which may be beyond our control) occur, we could be forced to sell TJE at fair market value to a third party that is approved by us and Nexperia. While TJE's epiwafer capacity currently is not required for production of our products, if such a "forced sale" event were to happen in the future, we could be required to purchase a portion of our epiwafer requirements from the third party that purchases TJE. This could impact our epiwafer costs, reduce any overall profits, or cause us to lose a portion of our capacity, requiring us to generate more epiwafer capacity earlier than planned. This would result in greater capital expenditure than anticipated, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Related to Our Financial Control Environment

Being a public company can be administratively burdensome and expensive.

As a public reporting company, we are subject to the information and reporting requirements of the Securities Act, the Exchange Act and other federal securities laws, rules and regulations related thereto, including compliance with the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), and the Dodd-Frank Wall Street Reform and Consumer Protection Act. In addition, we are subject to the listing standards of the Nasdaq Capital Market. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Among other things, we are required to:

- maintain and evaluate a system of internal controls over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board;
- maintain policies relating to disclosure controls and procedures;
- prepare and distribute periodic reports in compliance with our obligations under federal securities laws;
- institute a more comprehensive compliance function, including with respect to corporate governance; and
- involve, to a greater degree, our outside legal counsel and accountants in the above activities.

The costs of preparing and filing annual and quarterly reports, proxy statements and other information with the SEC and furnishing audited reports to stockholders is expensive and compliance with these rules and regulations will require us to hire additional financial reporting, internal controls and other finance personnel, and will involve a material increase in regulatory, legal and accounting expenses and the attention of our board of directors and management. In addition, being a public company makes it more expensive for us to obtain director and officer liability insurance. In the future, we may be required to accept reduced coverage or incur substantially higher costs to obtain this coverage. These factors could also make it more difficult for us to attract and retain qualified executives and members of our board of directors.

Any failure to maintain effective internal controls over our financial reporting could materially and adversely affect us.

Section 404 of the Sarbanes-Oxley Act requires us to include in our annual reports on Form 10-K an assessment by management of the effectiveness of our internal controls over financial reporting. However, while we remain an emerging growth company, we will not be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm.

We are continuing to develop and refine our disclosure controls and other procedures that 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. We are also continuing to improve our internal control over financial reporting. We have expended, and anticipate that we will continue to expend, significant resources in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to conclude that our internal control over financial reporting is effective as required by Section 404. For example, in connection with the audit of our consolidated financial statements for the year ended March 31, 2022, the three month transition period ended March 31, 2021 and the year ended December 31, 2020, we identified material weaknesses in our internal control over financial reporting. We cannot predict the outcome of our testing in future periods. If we identify additional material weaknesses in the future or are unable to remediate the material weakness we currently have, our financial statements may be inaccurate and investors could lose confidence in the reliability of our financial statements, which in turn could negatively affect the market 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 on the Nasdaq Capital Market.

We have identified a material weakness in our internal control over financial reporting that, if not properly remediated, could result in material misstatements in our consolidated financial statements in future periods.

We have limited accounting and financial reporting personnel and other resources with which to address our internal controls and related procedures. In connection with the audit of our consolidated financial statements for the year ended March 31, 2022, we identified one material weakness in our internal control over financial reporting related to insufficient personnel with technical accounting knowledge and financial reporting experience and inadequate performance of review controls with respect to certain areas of the financial statements. Accordingly, we were not able to assert that our internal control over financial reporting was effective as of March 31, 2022. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Remediation of the material weakness will require management attention and cause us to incur additional expenses. If we fail to remediate the material weakness, or if we are unable to maintain effective controls and procedures in the future, our ability to record, process, summarize and report financial information accurately and within the time periods specified in SEC rules and forms could be adversely affected. This failure could negatively affect the market price and trading liquidity of our common stock, cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties, and generally materially and adversely impact our business and financial condition.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below the expectations of investors, resulting in a decline in the market price of our common stock.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in our financial statements. Significant assumptions and estimates used in preparing our financial statements include those related to assets, liabilities, revenue, expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of investors, resulting in a decline in the market price of our common stock.

Changes in accounting rules and regulations, or interpretations thereof, could result in unfavorable accounting charges or require us to change our compensation policies.

Accounting methods and policies for companies such as ours, including policies governing revenue recognition, leases, research and development and related expenses, and accounting for stock-based compensation, are subject to review, interpretation and guidance from our auditors and relevant accounting authorities, including the SEC. Changes to accounting methods or policies, or interpretations thereof, may require us to reclassify, restate or otherwise change or revise our historical financial statements, including those contained in this Report.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

We have incurred substantial losses during our history, do not expect to become profitable in the near future and may never achieve profitability. To the extent that we continue to generate taxable losses, unused losses will carry forward to offset future taxable income, if any, until such unused losses expire. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an "ownership change," generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period, the corporation's ability to use its pre-change net operating loss carryforwards ("NOLs"), and other pre-change tax attributes (such as research tax credits) to offset its post-change income or taxes may be limited. The Merger, our prior equity offerings and other changes in our stock ownership may have resulted in ownership changes. In addition, we may experience ownership changes in the future as a result of subsequent shifts in our stock ownership, some of which are outside of our control. As a result, if we earn net taxable income, our ability to use our pre-change NOLs to offset U.S. federal taxable income may be subject to limitations, which could potentially result in increased future tax liability to us. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. For example, California's 2020 Budget Act temporarily suspended the use of NOLs and limited the utilization of the research credit to $5 million annually for 2020, 2021 and 2022.

Risks Related to Ownership of Our Common Stock

We are an "emerging growth company" and we cannot be certain if the reduced reporting 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. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including (1) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, (2) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and (3) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company until the last day of our fiscal year ending March 31, 2026, although circumstances could cause us to lose that status earlier.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to use the extended transition period under the JOBS Act 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 financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

Even after we no longer qualify as an emerging growth company, we may still qualify as a "smaller reporting company" which would allow us to take advantage of many of the same exemptions from disclosure requirements including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation. If we rely on these exemptions, investors may find our common stock less attractive, which could result in a less active trading market, if any, for our common stock and more volatility or a decline in our stock price.

We are a smaller reporting company, and we cannot be certain if the reduced disclosure requirements applicable to smaller reporting companies will make our common stock less attractive to investors.

We are currently a "smaller reporting company," meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company and the market value of our stock held by non-affiliates, or our public float, is less than $250 million. In the event our public float increases, we will remain a smaller reporting company if we continue to have annual revenues of less than $100 million during our most recently completed fiscal year and our public float is less than $700 million. If we are still considered a smaller reporting company at such time as we cease being an "emerging growth company," we will be required to provide additional disclosure in our SEC filings. However, similar to emerging growth companies, smaller reporting companies are able to provide simplified executive compensation disclosures in their filings; are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting; and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited financial statements in annual reports. Decreased disclosures in our SEC filings due to our status as a smaller reporting company may make it harder for investors to analyze our results of operations and financial prospects, and may cause some investors not to invest in or hold our stock.

Our principal stockholders and management have substantial control over us and could delay or prevent a change in corporate control.

As of February 16, 2023, KKR Phorm Investors L.P. ("Phorm") beneficially owned approximately 40.1% of our outstanding common stock, and our executive officers and directors, together with holders of ten percent or more of our outstanding common stock and their respective affiliates, beneficially owned approximately 42.2% of our outstanding common stock. As a result, these stockholders, acting together, or Phorm individually, have the ability to significantly impact the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. In addition, these stockholders, acting together or Phorm individually, have the ability to significantly impact the management and affairs of our company. Pursuant to the terms of a stockholders agreement with Phorm (the "Phorm Stockholders Agreement"), Phorm has the right to nominate (i) a majority of the board so long as it beneficially owns at least 40% of our then-outstanding shares of common stock, (ii) 33% of the directors (rounded up to the nearest whole number) so long as it beneficially owns at least 20% but less than 40% of our then-outstanding shares of common stock, and (iii) 10% of the directors (rounded up to the nearest whole number) so long as it beneficially owns at least 10% but less than 20% of our then-outstanding shares of common stock. Further, pursuant to the Phorm Stockholders Agreement, so long as Phorm beneficially owns 20% or more of the outstanding shares of our common stock, we will take all necessary action to cause a director nominated by Phorm to serve as chair of our board of directors.

The interests of these stockholders may not be the same as or may even conflict with your interests. The concentration of ownership and Phorm's rights under the Phorm Stockholders Agreement might decrease the market price of our common stock by:

- delaying, deferring, or preventing a change in control of the company, which could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company or our assets and might affect the prevailing market price of our common stock;

- impeding a merger, consolidation, takeover, or other business combination involving us; or

- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of the company.

The significant concentration of stock ownership may also adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

Sales of substantial amounts of our common stock in the public markets, or the perception that such sales might occur, could cause the market price of our common stock to decline significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock into the public market, particularly sales by our directors, executive officers and principal stockholders, or the perception that these sales might occur in large quantities, could cause the market price of our common stock to decline. If our stockholders sell, or the market perceives that our stockholders intend to sell, a substantial amount of our common stock in the public market, the market price of our common stock could decline significantly.

We could be subject to certain liquidated damages pursuant to the registration rights agreement we entered into with certain holders of our securities.

Pursuant to registration statements that were declared effective by the SEC on June 19, 2020, January 27, 2021, December 1, 2021, December 27, 2021 and July 13, 2022 (collectively, the "Resale Registration Statements"), we registered shares of our common stock for resale by the stockholders named therein. Pursuant to the registration rights agreements we entered into with certain holders of our securities, subject to certain exceptions, if (i) the Resale Registration Statements cease to remain continuously effective or such holders are otherwise not permitted to utilize the Resale Registration Statements to resell their registrable securities for a period of more than 15 consecutive trading days, or (ii) trading of our common stock is suspended or halted for more than three full, consecutive trading days, we could be subject to certain liquidated damages up to a maximum amount equal to the aggregate purchase price paid by the holders for their registrable securities.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. We cannot assure you that brokerage firms will provide analyst coverage of our company in the future, or continue such coverage if started. In addition, investment banks may be less likely to agree to underwrite secondary offerings on our behalf than they might if we became a public reporting company by means of an underwritten initial public offering, because they may be less familiar with our company as a result of more limited coverage by analysts and the media, which could harm our ability to raise additional funding in the future. The failure to receive research coverage or support in the market for our shares will have an adverse effect on our ability to develop a liquid market for our common stock, which will negatively impact the trading price of our common stock.

If any of the analysts who cover us issue an adverse or misleading opinion regarding us or if our operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Anti-takeover provisions in our charter documents could make an acquisition of us more difficult and may prevent attempts by our stockholders to replace or remove our management.

Provisions in our amended and restated certificate of incorporation and in our amended and restated bylaws may delay or prevent an acquisition of us or a change in our management. These provisions include a classified board of directors, a prohibition on actions by written consent of our stockholders, supermajority voting requirements to amend certain provisions of our certificate of incorporation and bylaws, and the ability of our board of directors to issue preferred stock without stockholder approval. Although we believe these provisions collectively will provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board of directors, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove then-current management by making it more difficult for stockholders to replace members of the board of directors, which is responsible for appointing the members of management. In addition, we have opted out of the provisions of Section 203 of the Delaware General Corporation Law ("DGCL"), which generally prohibit a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder. However, our amended and restated certificate of incorporation provides substantially the same limitations as are set forth in Section 203 but also provides that Phorm and its affiliates and any of their direct or indirect transferees and any group as to which such persons are a party do not constitute interested stockholders for purposes of this provision.

Our bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, and also provide that the federal district courts will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, each of which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our bylaws provide that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware, or if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware, will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, stockholders, officers or other employees to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL or our certificate of incorporation or bylaws (as either may be amended from time to time) or (iv) any action asserting a claim that is governed by the internal affairs doctrine, in each case subject to the Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein and the claim not being one which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery or for which the Court of Chancery does not have subject matter jurisdiction. Our bylaws also provide that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States will be the exclusive forum for 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 any of our securities shall be deemed to have notice of and to have consented to these provisions of our bylaws. These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and our directors, officers, employees and agents even though an action, if successful, might benefit our stockholders. Stockholders who do bring a claim in the Court of Chancery could face additional litigation costs in pursuing any such claim, particularly if they do not reside in or near Delaware. The Court of Chancery or a federal district court may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments or results may be more favorable to us than to our stockholders. Alternatively, if a court were to find either of these provisions of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could have a material adverse effect on our business, financial condition or results of operations.

We do not intend to pay dividends for the foreseeable future so any returns will be limited to changes in the value of our common stock.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Any future determination about the payment of dividends will be made at the discretion of our board of directors and will depend upon our results of operations, cash flows and financial condition, operating and capital requirements, contractual restrictions, including any loan or debt financing agreements, and such other factors as our board of directors deems relevant. As a result, stockholders must rely on sales of their common stock after price appreciation as the only way to realize any future gains on their investment, which may never occur.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Filed with this Report	Incorporated by Reference			
			Form	Exhibit No.	Filing Date	SEC File No.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002	X				
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	Inline XBRL Instance Document	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	X				

SIGNATURES

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

Transphorm, Inc.

Date:	February 21, 2023	By:	/s/ Mario Rivas
			Mario Rivas Chief Executive Officer (Principal Executive Officer)
		By:	/s/ Cameron McAulay
			Cameron McAulay Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Mario Rivas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Transphorm, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	February 21, 2023	By:	/s/ Mario Rivas
			Mario Rivas
			Chief Executive Officer
			(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Cameron McAulay, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Transphorm, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:	February 21, 2023	By:	/s/ Cameron McAulay
			Cameron McAulay
			Chief Financial Officer
			(Principal Financial and Accounting Officer)

Exhibit 32.1

Certifications of Chief Executive Officer and Chief Financial Officer
Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Mario Rivas, Chief Executive Officer of Transphorm, Inc. (the "registrant"), and Cameron McAulay, Chief Financial Officer of the registrant, each hereby certifies that, to the best of their knowledge:

1. The registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2022 to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: February 21, 2023

By: /s/ Mario Rivas
Mario Rivas
Chief Executive Officer
(Principal Executive Officer)

/s/ Cameron McAulay
Cameron McAulay
Chief Financial Officer
(Principal Financial and Accounting Officer)