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

FORM 8-K/A
(Amendment No. 2)

CURRENT REPORT
Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **February 12, 2020**

Transphorm, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**000-55832**	**82-1858829**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

75 Castilian Drive
Goleta, CA 93117
(Address of principal executive offices, including zip code)

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

Peninsula Acquisition Corporation
2255 Glades Road, Suite 324A
Boca Raton, FL 33431
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act: **None**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR§230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

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. ☐

EXPLANATORY NOTE

On February 14, 2020, Transphorm, Inc. (f/k/a Peninsula Acquisition Corporation) (the "Company") filed a Current Report on Form 8-K (the "Original Form 8-K") with the Securities and Exchange Commission (the "SEC") disclosing the consummation, on February 12, 2020, of a merger between Transphorm Technology, Inc. (f/k/a Transphorm, Inc.), a privately held Delaware corporation ("Transphorm Technology") and Peninsula Acquisition Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company. Pursuant to this transaction (the "Merger"), Transphorm Technology became a wholly-owned subsidiary of the Company. Following the effective time of the Merger, the Company's predecessor, Peninsula Acquisition Corporation, adopted Transphorm Technology's former company name, "Transphorm, Inc.," and has been continuing the existing business operations of Transphorm Technology. As Transphorm Technology is deemed the accounting acquirer in connection with the Merger, the financial statements of Transphorm Technology are deemed to be the historical financial statements of the Company.

The Company previously filed the following as exhibits to the Original Form 8-K:

- Transphorm Technology's audited consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017 (Exhibit 99.1);
- Transphorm Technology's unaudited condensed consolidated financial statements as of September 30, 2019 and for the nine months ended September 30, 2019 and 2018 (Exhibit 99.2); and
- Unaudited pro forma combined financial information of the Company as of and for the nine months ended September 30, 2019 and for the year ended December 31, 2018 (Exhibit 99.3).

On March 25, 2020, the Company filed a Current Report on Form 8-K (Amendment No. 1) to update and refile Exhibits 99.1 and 99.2 to the Original Form 8-K.

In order to prevent a lapse in reporting, the Company is filing this Current Report on Form 8-K/A (Amendment No. 2) (the "Form 8-K/A") to further amend and supplement the Original Form 8-K, as amended on March 25, 2020, to include Transphorm Technology's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2018, as required by Section 12240.4 of the SEC's Division of Corporate Finance Financial Reporting Manual, which covers situations involving reverse acquisitions where the registrant elects to adopt the fiscal year of the accounting acquirer, as well as provide the related Management's Discussion and Analysis of Financial Condition and Results of Operations of Transphorm Technology for the years ended December 31, 2019 and 2018. Accordingly, the Company is hereby amending Item 9.01 of the Original Form 8-K, as amended on March 25, 2020, and filing the following documents as Exhibits 99.4, 99.5 and 99.6, respectively:

- Transphorm Technology's audited consolidated financial statements as of and for the year ended December 31, 2019 and 2018;
- Management's Discussion and Analysis of Financial Condition and Results of Operations of Transphorm Technology for the year ended December 31, 2019; and
- Unaudited pro forma combined financial information of the Company as of and for the year ended December 31, 2019.

No other changes have been made to the Original Form 8-K, as amended on March 25, 2020. This Form 8-K/A should be read in conjunction with the Original Form 8-K, as amended on March 25, 2020, and with our filings with the SEC subsequent to the Original Form 8-K, as amended on March 25, 2020. The Form 8-K/A speaks as of the filing date of the Original Form 8-K, as amended on March 25, 2020, and we have not updated the disclosures contained therein or herein to reflect any events which occurred at a date subsequent to the filing of the Original Form 8-K, as amended on March 25, 2020. Defined terms not otherwise defined herein shall have the meaning ascribed to such terms in the Original Form 8-K, as amended on March 25, 2020, except that all references to the "Report" shall now refer to the Original Form 8-K, as amended on March 25, 2020, as amended by this Form 8-K/A.

Item 9.01 Financial Statements and Exhibits.

(a) Exhibits.

Exhibit Index

Exhibit Number	Exhibit Description
2.1 ‡ ^	Agreement and Plan of Merger and Reorganization, dated February 12, 2020, by and among the Registrant, Peninsula Acquisition Sub, Inc. and Transphorm Technology
3.1 ^	Certificate of Merger relating to the merger of Peninsula Acquisition Sub, Inc. with and into Transphorm Technology, filed with the Secretary of State of Delaware on February 12, 2020
3.2 ^	Certificate of Amendment to Certificate of Incorporation, filed with the Secretary of State of Delaware on February 12, 2020
3.3 ^	Form of Amended and Restated Certificate of Incorporation of the Registrant, to be filed with the Secretary of State of Delaware
3.4 ^	Amended and Restated Bylaws of the Registrant, as currently in effect
4.1 *^	Form of Registration Rights Agreement
4.2 ^	Stockholders Agreement, dated February 13, 2020, by and between the Registrant and KKR
10.1.1 *^	Engagement Letter, dated October 22, 2019, by and between B. Riley FBR, Inc. and Transphorm Technology ("B. Riley Engagement Letter")
10.1.2 *^	Amendment No. 1 and Consent to B. Riley Engagement Letter, dated November 13, 2019, by and between B. Riley FBR, Inc. and Transphorm Technology
10.2 *^	Engagement Letter, dated November 14, 2019, by and between Craig-Hallum Capital Group LLC and Transphorm Technology
10.3.1 #^	2007 Stock Plan
10.3.2 #^	Form of Stock Option Agreement under 2007 Stock Plan
10.4.1 #^	2015 Equity Incentive Plan
10.4.2 #^	Form of Stock Option Agreement under 2015 Equity Incentive Plan
10.5 #^	2020 Equity Incentive Plan
10.6 ^	Form of Lock-Up Agreement
10.7 *^	Form of Subscription Agreement
10.8 #^	Offer Letter, dated as of October 13, 2015, by and between Transphorm Technology and Mario Rivas
10.9 #^	Offer Letter, dated as of March 22, 2007, by and between Transphorm Technology and Primit Parikh
10.10 #^	Offer Letter, dated as of October 14, 2015, by and between Transphorm Technology and Cameron McAulay
10.11.1 †^	Award Contract, dated December 13, 2018, by and between Transphorm Technology and Naval Air Warfare Center Aircraft Division
10.11.2 †^	Amendment of Solicitation, dated February 14, 2019, by and between Transphorm Technology and Naval Air Warfare Center Aircraft Division
10.11.3 †^	Amendment of Solicitation, dated June 6, 2019, by and between Transphorm Technology and Naval Air Warfare Center Aircraft Division
10.11.4 ^	Amendment of Solicitation, dated September 12, 2019, by and between Transphorm Technology and Naval Air Warfare Center Aircraft Division
10.11.5 †^	Amendment of Solicitation, dated November 27, 2019, by and between Transphorm Technology and Naval Air Warfare Center Aircraft Division
10.12.1 †^	Joint Venture Agreement, dated as of May 23, 2017, by and among Aizu Fujitsu Semiconductor Limited, Fujitsu Semiconductor Limited, Transphorm Technology and Transphorm Aizu, Inc.
10.12.2 †^	First Amendment to the Joint Venture Agreement, dated as of September 1, 2018, by and between Aizu Fujitsu Semiconductor Limited, Fujitsu Semiconductor Limited, Transphorm Technology and Transphorm Aizu, Inc.
10.13.1 †^	Supply Agreement, dated April 4, 2018, between Transphorm Technology and Nexperia

Exhibit Number	Exhibit Description
10.13.2 ^	Amendment No. 1 to Supply Agreement, dated February 7, 2020, between Transphorm Technology and Nexperia
10.14.1 †^	Loan and Security Agreement, dated April 4, 2018, between Transphorm Technology and Nexperia
10.14.2 †^	Amendment No. 1 to Loan and Security Agreement, dated March 21, 2019, between Transphorm Technology and Nexperia
10.14.3 ^	Amendment No. 2 to Loan and Security Agreement, dated February 7, 2020, between Transphorm Technology and Nexperia
10.15.1 †^	Development and License Agreement, dated April 4, 2018, between Transphorm Technology and Nexperia
10.15.2 †	Amendment No. 1 to Development and License Agreement, dated March 21, 2019, between Transphorm Technology and Nexperia
10.15.3 ^	Amendment No. 2 to Development and License Agreement, dated February 7, 2020, between Transphorm Technology and Nexperia
10.16.1 ^	Standard Industrial/Commercial Multi-Tenant Lease, dated June 23, 2010, by and between Transphorm Technology and Castilian LLC, for the premises located at 75 Castilian Drive, Goleta, CA 93117
10.16.2 ^	First Amendment to Lease, dated January 22, 2016, by and between Transphorm Technology and Castilian, LLC, for the premises located at 75 Castilian Drive, Goleta, CA 93117
10.17.1 ^	Standard Industrial/Commercial Multi-Tenant Lease, dated October 14, 2008, by and between Transphorm Technology and Frieslander Holdings, LLC and Nederlander Holdings, LLC, for the premises located at 111 Castilian Drive, Suite B, Goleta, CA 93117
10.17.2 ^	First Amendment to Standard Industrial/Commercial Multi-Tenant Lease, dated March 17, 2009, by and between Transphorm Technology and Frieslander Holdings, LLC and Nederlander Holdings, LLC, for the premises located at 111 Castilian Drive, Suite B, Goleta, CA 93117
10.17.3 ^	Second Amendment to Standard Industrial/Commercial Multi-Tenant Lease, dated August 1, 2011, by and between Transphorm Technology and Frieslander Holdings, LLC and Nederlander Holdings, LLC, for the premises located at 115 Castilian Drive, Suite B, Goleta, CA 93117, formerly known as 111 Castilian Drive, Suite B, Goleta, CA 93117
10.17.4 ^	Third Amendment to Standard Industrial/Commercial Multi-Tenant Lease, dated November 24, 2015, by and between Transphorm Technology and Frieslander Holdings, LLC and Nederlander Holdings, LLC, for the premises located at 115 Castilian Drive, Suite B, Goleta, CA 93117, formerly known as 111 Castilian Drive, Suite B, Goleta, CA 93117
10.18 ^	Form of Director and Officer Indemnification Agreement
10.19 ^	Form of Pre-Merger Indemnity Agreement
10.20.1 *^	Warrant to Purchase Stock, dated November 3, 2010, by and between Transphorm Technology and Silicon Valley Bank (“SVB Warrant”)
10.20.2 ^	Letter Amendment to SVB Warrant, dated May 21, 2015, by and between Transphorm Technology and SVB Financial Group
10.20.3 ^	Amendment to SVB Warrant, dated February 4, 2020, by and between Transphorm Technology and SVB Financial Group
10.21.1 *^	Warrant to Purchase Shares of Series Preferred Stock, dated November 3, 2010, by and between Transphorm Technology and Leader Equity, LLC (“Leader Warrant”)
10.21.2 ^	Letter Amendment to Leader Warrant, dated May 21, 2015, by and between Transphorm Technology and Leader Ventures, LLC
10.21.3 ^	Amendment to Leader Warrant, dated February 4, 2020, by and between Transphorm Technology and Leader Ventures, LLC
10.22.1 ^	Plain English Warrant Agreement, dated November 3, 2010, by and between Transphorm Technology and TriplePoint Capital, LLC (“First TriplePoint Warrant”)
10.22.2 ^	Plain English Warrant Agreement, dated December 2, 2010, by and between Transphorm Technology and TriplePoint Capital, LLC (“Second TriplePoint Warrant”)
10.22.3 ^	Letter Amendment to First TriplePoint Warrant and Second TriplePoint Warrant, dated May 20, 2015, by and between Transphorm Technology and TriplePoint Capital LLC
10.22.4 ^	Amendment to First TriplePoint Warrant, dated February 10, 2020, by and between Transphorm Technology and TriplePoint Capital LLC
10.22.5 ^	Amendment to Second TriplePoint Warrant, dated February 10, 2020, by and between Transphorm Technology and TriplePoint Capital LLC

Exhibit Number	Exhibit Description
10.23.1 *^	Subordinated Convertible Promissory Note, dated October 4, 2017, by and between Transphorm Technology and Yaskawa
10.23.2 ^	Waiver, Consent and Amendment Agreement, dated March 16, 2018, by and between Transphorm Technology and Yaskawa
10.23.3 ^	Consent, Guaranty and Amendment Agreement, dated February 10, 2020, by and between Transphorm Technology and Yaskawa
10.24.1 †^	License Agreement dated September 1, 2007, by and between Transphorm Technology and The Regents of the University of California
10.24.2 †^	Eleventh Amendment to License Agreement dated October 29, 2019, by and between Transform Technology and the Regents of the University of California
10.25 †^	Intracompany License Agreement, dated Oct. 14, 2019, by and between Transphorm Japan and Transphorm Technology
10.26 ^	Letter Agreement, dated February 5, 2020, by and between Transphorm and Marelli Corporation
10.27 ^	Letter Agreement, dated February 3, 2020, by and between Transphorm and Yaskawa
10.28 ^	Indemnification Agreement, dated February 12, 2020, by and between Transphorm Technology and KKR
16.1 ^	Letter from Raich Ende Malter & Co. LLP as to the change in certifying accountant, dated as of February 13, 2020
99.1 ¥	Audited financial statements as of and for the years ended December 31, 2018 and 2017
99.2 ¥	Unaudited financial statements as of September 30, 2019 and for the nine months ended September 30, 2019 and 2018
99.3 ^	Pro forma financial information as of September 30, 2019 and for the nine month period ended, and for the year ended December 31, 2018
99.4	Audited financial statements as of and for the years ended December 31, 2019 and 2018
99.5	Management's Discussion and Analysis of Financial Condition and Results of Operations
99.6	Pro forma financial information as of December 31, 2019 and for the Year ended December 31, 2019

‡ Annexes, schedules and/or exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant hereby undertakes to furnish supplementally a copy of any of the omitted schedules and exhibits to the SEC on a confidential basis upon request.

^ Incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 14, 2020.

* Annexes, schedules and/or exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Registrant hereby undertakes to furnish supplementally a copy of any of the omitted schedules and exhibits to the SEC on a confidential basis upon request.

# Indicates management contract or compensatory plan.

† Portions of the exhibit, marked by brackets, have been omitted because the omitted information (i) is not material and (ii) would likely cause competitive harm if publicly disclosed.

¥ Incorporated by reference to the Registrant's Current Report on Form 8-K/A filed on March 25, 2020.

Signature

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 hereunto duly authorized.

Transphorm, Inc.

Dated: March 30, 2020	By:	*/s/ Mario Rivas*
		Mario Rivas
		Chief Executive Officer

Transphorm, Inc.

Consolidated Financial Statements

Table of Contents

	Page Number
Report of Independent Registered Public Accounting Firm	2
Consolidated Balance Sheets as of December 31, 2019 and 2018	3
Consolidated Statements of Operations for the Years Ended December 31, 2019 and 2018	4
Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2019 and 2018	5
Consolidated Statements of Changes in Stockholders' Deficit for the Years Ended December 31, 2019 and 2018	6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019 and 2018	7
Notes to Consolidated Financial Statements	8

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Transphorm, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Transphorm, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, stockholders' deficit and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, the Company has a significant working capital deficiency, has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum LLP
Marcum LLP

We have served as the Company's auditor since 2019.

Chicago, IL
March 30, 2020

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

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 2,875	$ 3,069
Accounts receivable, net, including related parties	709	280
Inventory	990	852
Prepaid expenses and other current assets	783	624
Total current assets	5,357	4,825
Property and equipment, net	1,770	2,132
Goodwill	1,325	1,306
Intangible assets, net	1,313	1,958
Other assets	497	278
Total assets	**$ 10,262**	**$ 10,499**
Liabilities, convertible preferred stock and stockholders' deficit		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,383	$ 1,351
Development loan	5,000	—
Revolving credit facility, including accrued interest	10,458	10,346
Deferred revenue	—	3,000
Unfunded commitment to joint venture	1,688	659
Accrued payroll and benefits	1,159	1,172
Total current liabilities	20,688	16,528
Development loans, net of current portion	10,000	—
Promissory note	16,169	15,852
Total liabilities	**46,857**	**32,380**
Commitments and contingencies (Note 11)		
Convertible preferred stock (Notes 1 and 12):		
Series 1, $0.001 par value; 12,438,704 shares authorized and 12,433,953 shares issued and outstanding as of December 31, 2019 and 2018	39,658	39,658
Series 2, $0.001 par value; 7,507,699 shares authorized and 7,499,996 shares issued and outstanding as of December 31, 2019 and 2018	30,000	30,000
Series 3, $0.001 par value; 4,000,000 shares authorized, issued and outstanding as of December 31, 2019 and 2018	16,000	16,000
Total convertible preferred stock	**85,658**	**85,658**
Stockholders' deficit:		
Common stock, $0.001 par value; 29,012,034 shares authorized; shares issued and outstanding, 4,220,998 and 4,219,606 as of December 31, 2019 and 2018, respectively	4	4
Additional paid-in capital	22,400	21,829
Accumulated deficit	(143,915)	(128,632)
Accumulated other comprehensive loss	(742)	(740)
Total stockholders' deficit	**(122,253)**	**(107,539)**
Total liabilities, convertible preferred stock and stockholders' deficit	**$ 10,262**	**$ 10,499**

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,	
	2019	**2018**
Revenue, net	$ 11,934	$ 1,358
Operating expenses:		
Cost of goods sold	6,492	4,601
Research and development	8,146	9,351
Sales and marketing	2,609	3,626
General and administrative	6,606	5,675
Total operating expenses	23,853	23,253
Loss from operations	(11,919)	(21,895)
Interest expense	758	710
Loss in joint venture	3,703	2,404
Changes in fair value of promissory notes	167	1,060
Other income, net	(1,264)	(271)
Loss before tax expense	(15,283)	(25,798)
Tax expense	—	—
Net loss	**$ (15,283)**	**$ (25,798)**
Net loss per share - basic and diluted	$ (3.62)	$ (6.11)
Weighted average common shares outstanding - basic and diluted	4,219,656	4,219,606

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,	
	2019	**2018**
Net loss	$ (15,283)	$ (25,798)
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(2)	2
Other comprehensive (loss) income, net of tax	(2)	2
Comprehensive loss	**$ (15,285)**	**$ (25,796)**

See accompanying notes to consolidated financial statements

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

	Common Stock					
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Stockholders' Deficit
Balance at January 1, 2018	**4,219,606**	**$ 4**	**$ 21,244**	**$ (102,834)**	**$ (742)**	**$ (82,328)**
Stock-based compensation	—	—	585	—	—	585
Other comprehensive income	—	—	—	—	2	2
Net loss	—	—	—	(25,798)	—	(25,798)
Balance at December 31, 2018	**4,219,606**	**4**	**21,829**	**(128,632)**	**(740)**	**(107,539)**
Stock options exercised	1,392	—	5	—	—	5
Stock-based compensation	—	—	566	—	—	566
Other comprehensive loss	—	—	—	—	(2)	(2)
Net loss	—	—	—	(15,283)	—	(15,283)
Balance at December 31, 2019	**4,220,998**	**$ 4**	**$ 22,400**	**$ (143,915)**	**$ (742)**	**$ (122,253)**

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,	
	2019	**2018**
Cash flows from operating activities:		
Net loss	$ (15,283)	$ (25,798)
Adjustments to reconcile net loss to net cash used in operating activities:		
Capitalized interest cost	608	496
Depreciation and amortization	1,216	1,374
Inventory write-off	155	—
Stock-based compensation	566	585
Loss on disposal of property and equipment	—	75
Loss in joint venture	3,703	2,404
Changes in fair value of promissory notes	167	1,060
Changes in operating assets and liabilities:		
Accounts receivable	(429)	(280)
Inventory	(293)	(669)
Prepaid expenses and other current assets	(154)	396
Other assets	(42)	16
Accounts payable and accrued expenses	509	(323)
Deferred revenue	(3,000)	3,000
Accrued payroll and benefits	(13)	(21)
Net cash used in operating activities	**(12,290)**	**(17,685)**
Cash flows from investing activities:		
Purchases of property and equipment	(203)	(332)
Investment in joint venture	(2,698)	(1,852)
Net cash used in investing activities	**(2,901)**	**(2,184)**
Cash flows from financing activities:		
Proceeds from issuance of development loans	15,000	—
Proceeds from issuance of revolving credit facility	—	10,000
Principal payments on promissory notes	—	(13,000)
Proceeds from issuance of Series 3 convertible preferred stock	—	16,000
Net cash provided by financing activities	**15,000**	**13,000**
Effect of foreign exchange rate changes on cash and cash equivalents	**(3)**	**(35)**
Net decrease in cash and cash equivalents	**(194)**	**(6,904)**
Cash and cash equivalents at beginning of year	3,069	9,973
Cash and cash equivalents at end of year	**$ 2,875**	**$ 3,069**
Supplemental disclosures of cash flow information:		
Interest expense paid	$ 496	$ 328
Supplemental non-cash financing activity:		
Private placement offering cost	$ 177	$ —

See accompanying notes to consolidated financial statements

Transphorm, Inc.

Notes to Consolidated Financial Statements

Note 1 - Business

Transphorm, Inc. develops gallium nitride ("GaN") semiconductor components used in power conversion. Transphorm was incorporated in the state of Delaware on February 22, 2007. Transphorm, Inc'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, Inc. is headquartered in Goleta, California. Transphorm Japan, Inc. was established in February 2014 to secure Transphorm, Inc's production capacity and establish a direct presence in Asian markets. Transphorm Aizu was established to manage the financial transactions around the Joint Venture. Transphorm Epi. was established in 2019 to enable the operational capacity of the reactors held in Aizu. Transphorm, Inc., Transphorm Japan, Inc. and Transphorm Japan Epi, Inc. and Transphorm Aizu are collectively referred to "Transphorm," the "Company" or "our" in these notes.

Stock Conversion

On February 12, 2020, the Company entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"). See Note 18 - Subsequent Events for more information. As a result of the Merger, the Company's stock immediately prior to the closing of the Merger included herein was retroactively restated for the effect of the stock conversion as follows:

- Series 1 convertible preferred stock: 51,700,000 shares authorized and 51,680,254 shares issued and outstanding were converted into 12,438,704 shares authorized and 12,433,953 shares issued and outstanding, respectively, as of December 31, 2019 and 2018;

- Series 2 convertible preferred stock: 38,800,000 shares authorized and 38,760,190 shares issued and outstanding were converted into 7,507,699 shares authorized and 7,499,996 shares issued and outstanding, respectively, as of December 31, 2019 and 2018;

- Series 3 convertible preferred stock: 31,850,304 shares authorized, issued and outstanding were converted into 4,000,000 shares authorized, issued and outstanding as of December 31, 2019 and 2018; and

- Common stock: 350,000,000 shares authorized were converted into 29,012,034 shares authorized as of December 31, 2019 and 2018. 50,921,951 shares issued and outstanding were converted into 4,220,998 shares issued and outstanding as of December 31, 2019 and 50,905,160 shares issued and outstanding were converted into 4,219,606 shares issued and outstanding as of December 31, 2018.

The stock conversion did not change the par value of our stock. Stock price per share was adjusted in proportion to the decrease in shares to maintain equal value. In addition, stock options and stock warrants are reduced at 1 for 12.063959 rate pursuant to the Merger Agreement and the reduced stock options and stock warrants were retroactively restated for the effect of the stock conversion.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As included in the accompanying consolidated financial statements, the Company has generated recurring losses from operations and has an accumulated deficit and has a working capital deficiency. These factors raise substantial doubt about the Company's ability to continue as a going concern for the next twelve months from the issuance of these consolidated financial statements.

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. The Company raised $19.7 million from the sale of commons stock in February 2020 as described in Note 18 - Subsequent Events. However, there is no assurance that the Company will be successful in raising additional capital.

The ability of the Company to continue as a going concern is dependent on its ability to raise adequate capital to fund operating losses until it is able to generate liquidity from its business operations. 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 consolidated financial statements do not reflect any adjustments that might result from the outcome of these uncertainties.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Transphorm, Inc. and its wholly-owned subsidiaries, Transphorm Japan, Inc., Transphorm Japan Epi, Inc. and Transphorm Aizu, Inc. Upon consolidation, all significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with Accounting Principles Generally Accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management bases its estimates and assumptions on historical experience, knowledge of current conditions, and its belief of what could occur in the future, given available information. Actual results could differ from those estimates, and such differences could be material to the consolidated financial statements. Estimates are used for, but not limited to, the determinations of fair value of stock awards and promissory notes, accrual of liabilities, revenue recognition, inventory reserve, and useful lives for property and equipment.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported consolidated statements of operations. An adjustment has been made to the consolidated statements of cash flows for the year ended December 31, 2018, to reclass interest expense of $150 thousand to capitalized interest cost. This change in classification does not affect previously reported net cash used in operating activities in the consolidated statements of cash flows.

Cash and Cash Equivalents

The Company considers all highly-liquid investments with original maturities of 90 days or less at the date of purchase to be cash equivalents. Cash and cash equivalents consist principally of bank deposits and money market funds. Other assets in the consolidated balance sheets as of December 31, 2019 and 2018 include cash of $75 thousand.

Foreign Currency Risk

The Company is exposed to foreign currency risk due to its operations in Japan. Assets and liabilities of the operations are re-measured into U.S. currency at exchange rates in effect at the balance sheet dates through the consolidated statements of comprehensive income. Gains or losses resulting from foreign currency transactions are re-measured using the rates on the dates on which those elements are recognized during the period and are included

in other income or expense in the consolidated statements of operations. As of December 31, 2019 and 2018, the Company had foreign cash and cash equivalents of $55 thousand and $264 thousand, respectively, which represent 1.9 percent and 8.6 percent, respectively, of total cash and cash equivalents.

Concentrations of Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company is exposed to credit risk in the event of default by the financial institution holding its cash. The Company's investment policy restricts investments to high-quality investments and limits the amounts invested with any one issuer, industry or geographic area. Risks associated with cash holdings in excess of insured limits are mitigated by banking with high-quality institutions. To date, the Company has not experienced any significant losses on its cash and cash equivalents. The Company periodically evaluates the relative credit standing of these financial institutions.

The Company is subject to risks common in the power conversion components industry, including, but not limited to, technological obsolescence, dependence on key personnel, market acceptance of its products, the successful protection of its proprietary technologies, compliance with government regulations, and the possibility of not being able to obtain additional financing when needed.

Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes the impact of foreign currency translation adjustments.

Accounts Receivable

Accounts receivable are analyzed and allowances for uncollectible accounts are recorded, as required. Provisions for uncollectible accounts, if any, are recorded as bad debt expense and included in general and administrative expenses in the accompanying consolidated statements of operations. The process for determining the appropriate level of allowances for doubtful accounts involves judgment, and considers such factors as the age of the underlying receivables, historical and projected collection trends, the composition of outstanding receivables, current economic conditions and regulatory changes. An account is fully reserved when reasonable collection efforts have been unsuccessful and it is probable that the receivable will not be recovered. No significant losses on accounts receivable have been recorded as of December 31, 2019 and 2018.

Inventory

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. The Company periodically reviews the value of items in inventory and records write-downs or write-offs based on its assessment of slow moving or obsolete inventory. The Company maintains an inventory reserve for obsolete inventory and generally makes inventory value adjustments against the inventory reserve.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the respective assets, generally ranging from three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the related lease term. Depreciation for equipment commences once it is placed in service, and depreciation for buildings and leasehold improvements commences once they are ready for their intended use. The Company expenses maintenance and repair costs that do not extend the life of the asset as they are incurred.

The Company evaluates the carrying amount of its property and equipment whenever events or changes in circumstances indicate that the assets may not be recoverable. An impairment loss would be recognized when

estimated future cash flows expected to result from the use of an asset or asset group and its eventual disposition is less than the carrying amount of the asset or asset group. To date, there have been no such impairment losses.

Goodwill

Goodwill arose for the acquisition of a business in February 2014 based in Japan and was accounted for as the purchase of a business. Goodwill generated from business combinations and deemed to have indefinite lives are not subject to amortization and instead are tested for impairment at least annually in December unless certain events occur or circumstances change. Goodwill represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. We test for goodwill impairment annually or earlier if events or changes in circumstances indicate goodwill might possibly be impaired. Impairment exists when the carrying value of the goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess as a charge to operations in the consolidated statements of operations. For the years ended December 31, 2019 and 2018, no impairment charge was recorded related to goodwill.

Intangible Assets

Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives, which generally range from three to ten years. Each reporting period, the Company evaluates the estimated remaining useful lives of intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization.

If it is determined that the carrying values might not be recoverable based upon the existence of one or more indicators of impairment, the Company performs a test for recoverability using various methodologies, such as the income approach or cost approach, to determine the fair value of intangible assets depending upon the nature of the assets. If assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their respective fair values. For the years ended December 31, 2019 and 2018, no impairment charges were recorded related to intangible assets.

Revenue Recognition

Revenue Recognition Policy

The Company derives its revenues from sales of high-powered GaN-based products manufactured utilizing their proprietary and patented epiwafer technology and wafer fabrication and other assembly processes, and sales of GaN epiwafers for the RF and power markets, as well as sales of licenses to use such patented proprietary technology. Revenues are recognized when control of these products or licenses are transferred to its customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products and licenses. 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.

Disaggregation of Revenue from Contracts with Customers

Revenue for the years ended December 31, 2019 and 2018 consists of licensing revenue, government contract revenue from our contract with the U.S. Navy and product sales, with such performance obligation satisfied at a point in time. Products are sold to distributors and end-users in various sectors such as, but not limited to, the automotive, gaming, industrial, IT, and consumer products industries.

As part of the Collaboration Arrangement (Note 3 - Nexperia Arrangement) executed with Nexperia on April 4, 2018, the Company agreed to grant Nexperia the perpetual exclusive right to use the Company's existing Gen 3 manufacturing process technology. License fees are received upon satisfaction of contractual milestones and recognized upon delivery of the perpetual license or transferred technology without any remaining performance

obligations. For the year ended December 31, 2019, the Company received the remaining $6.0 million and recognized a total of $9.0 million, including $3.0 million received in 2018, as licensing revenue upon satisfaction of contractual milestones and delivery of the perpetual license and transferred technology without any remaining performance obligations. For the year ended December 31, 2018, the Company did not recognize any revenue related to the process transfer or technology development performance obligations. The $3.0 million contract liability related to cash received in 2018 from Nexperia is included in deferred revenue.

Government contract revenues are principally generated under research and development contracts. Contract revenues are derived primarily from research contracts with agencies of the United States Government. We believe credit risk related to accounts receivable arising from such contracts is minimal. These contracts may include cost-plus fixed fee and fixed price terms. All payments to us for work performed on contracts with agencies of the U.S. Government are subject to adjustment upon audit by the Defense Contract Audit Agency.

Performance Obligations

For performance obligations related to the sale of products, control transfers to the customer at a point in time. The Company’s principal terms of sale are free on board shipping or destination and the Company transfers control and records revenue for product sales upon shipment or delivery to the customer, respectively. For performance obligations related to the licensing for the use of patented technology in perpetuity, control also transfers to the customer at a point in time. The Company transfers control and records revenue for licensing fees once the Company has (i) provided or otherwise makes available the patented technology to the customer and (ii) the customer is able to use and benefit from the patented technology.

Variable Consideration

The nature of the Company’s arrangement with Nexperia gives rise to variable consideration in the form of milestone and royalty payments. 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 are recognized upon the subsequent sale occurring. The variable amounts are received upon satisfaction of contractually agreed upon development targets and sales volume.

Research and Development

The Company is a party to research grant contracts with the U.S. federal government for which the Company is reimbursed for specified costs incurred for its research projects. These projects include energy saving initiatives for which the U.S. federal government offers reimbursement funds. Such reimbursements are recorded as an offset to research and development expenses when the related qualified research and development expenses are incurred. Reimbursable costs are recognized in the same period the costs are incurred up to the limit of approved funding amounts on qualified expenses. There were no material reimbursements during the years ended December 31, 2019 and 2018 related to cost reimbursement contracts.

Stock-Based Compensation

All share-based payments, including grants of stock options, are measured based on the fair value of the share-based awards at the grant date and recognized over their respective vesting periods, which is generally four years. The estimated fair value of stock options at the grant date is determined using the Black-Scholes-Merton pricing model. The Company recognizes the fair value of share-based payments as compensation expense for all expected-to-vest stock-based awards over the vesting period of the award using the straight-line attribution method provided that the amount of compensation cost recognized at any date is no less than the portion of the grant-date fair value of the award that is vested at that date.

The Black-Scholes-Merton option pricing model requires inputs such as the fair value of common stock on date of grant, expected term, expected volatility, dividend yield, and risk-free interest rate. Further, the forfeiture rate also affects the amount of aggregate compensation expense. These inputs are subjective and generally require

significant analysis and judgment to develop. Volatility data is obtained from a study of publicly traded industry peer companies. The forfeiture rate is derived primarily from the Company’s historical data, and the risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon issues commensurate with the expected term. Management generally uses the simplified method to calculate the expected term for employee grants as the Company has limited historical exercise data or alternative information to reasonably estimate an expected term assumption. The simplified method assumes that all options will be exercised midway between the weighted average vesting date and the contractual term of the option.

Stock-based compensation expense recognized in the Company’s consolidated financial statements is based on awards that are expected to vest. These expense amounts have been reduced by using an estimated forfeiture rate. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company evaluates the assumptions used to estimate forfeitures annually in connection of recognition of stock-based compensation expense.

Loss Per Share

Basic loss per share is calculated by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing the net income attributable to common stockholders by the sum of the weighted average number of common shares outstanding plus potential dilutive common shares outstanding during the period. Potential dilutive securities, comprised of the convertible preferred stock, stock warrants and stock options, are not reflected in diluted net loss per share because such shares are anti–dilutive. Dilutive impact of potential common shares resulting from common stock equivalents is determined by applying the treasury stock method.

For the year ended December 31, 2019, there were 26,422,608 shares, consisting of 23,933,949 convertible preferred stocks, 15,461 stock warrants and 2,473,198 stock options, that were not included in the computation of diluted loss per share because their effect would be anti-dilutive. For the year ended December 31, 2018, there were 26,337,286 shares, consisting of 23,933,949 convertible preferred stocks, 26,157 stock warrants and 2,377,180 stock options, that were not included in the computation of diluted loss per share because their effect would be anti-dilutive.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of the Company’s financial instruments such as cash equivalents, accounts receivable, revolving credit facility, accounts payable and accrued liabilities approximate fair values due to the short-term nature of these items. The Company has elected the fair value option for its promissory notes. See Note 4 - Fair Value Measurements for more information.

Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification (“ASC”) 740, *Income Taxes* (“ASC 740”). ASC 740 prescribes the use of the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities and are measured using the enacted statutory tax rates in effect at the balance sheet date. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exists.

Equity Method Investments

The Company uses the equity method to account for investments in entities that it does not control, but in which it has the ability to exercise significant influence over operating and financial policies. The Company's proportionate share of the net income or loss of these companies is included in consolidated net earnings. Judgments regarding the level of influence over each equity method investment include consideration of key factors such as the

Company's ownership interest, representation on the board of directors or other management body and participation in policy-making decisions.

Segment Reporting

The Company's operations and its financial performance is evaluated on a consolidated basis by the chief operating decision maker. Accordingly, the Company considers all of its operations to be aggregated in one reportable operating segment. For the year ended December 31, 2019, total revenue was $11.9 million , of which $11.9 million was from U.S. operations and $28 thousand was from Japan operations. For the year ended December 31, 2018, total revenue was $1.4 million, of which $1.3 million was from U.S. operations and $49 thousand was from Japan operations.

Recently Issued Accounting Standards Adopted

In July 2017, the Financial Accounting Standards Boards ("FASB") issued Accounting Standards Update ("ASU") 2017-11, *Earnings Per Shares (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815).* ASU 2017-11 changes the classification analysis of certain equity-linked financial instruments, such as warrants and embedded conversion features, such that a down round feature is disregarded when assessing whether the instrument is indexed to an entity's own stock under Subtopic 815-40. As a result, a down round feature no longer requires an instrument to be remeasured at fair value through earnings each period, although all other aspects of the indexation guidance under Subtopic 815-40 continue to apply. ASU 2017-11 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company adopted this standard, which did not have a material effect on the consolidated financial statements.

Stock Compensation - In May 2017, the FASB issued ASU 2017-09, *Compensation -Stock Compensation (Topic 718)* ("ASU 2017-09"), which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. ASU 2017-09 is effective for the Company's 2018 fiscal year, although early adoption is permitted. The Company adopted this standard, which did not have a material effect on the consolidated financial statement.

Recently Issued Accounting Standards under Evaluation

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 simplification initiative (i.e., the Board's effort 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 the Company's 2021 fiscal year. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Fair Value - In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (ASC 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes certain disclosures, modifies certain disclosures and adds additional disclosures. ASU 2018-13 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Statement of Cash Flows - In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). This guidance addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. ASU 2016-15 is effective for the Company's 2020 fiscal year. The guidance is to be adopted retrospectively unless impracticable upon which the guidance is to be adopted prospectively. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Financial Instruments - In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). 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's 2021 fiscal year. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Leases - In February 2016, the FASB issued ASU 2016-02, *Leases*, which, for operating leases, requires the lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The guidance also requires a lessee to recognize single lease costs, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. This guidance will be effective for the Company in fiscal year 2021 and must be adopted using a modified retrospective transition approach. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Note 3 - Nexperia Arrangement

Nexperia Transaction

On April 4, 2018, the Company entered into a multi-element commercial arrangement with Nexperia to obtain financing in exchange for 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. Financing under the Collaboration Arrangement is comprised of the following elements:

- $16 million Series 3 preferred stock issuance
- $9 million license fee for transfer of the Gen 3 manufacturing process
- $5 million development loan maturing March 31, 2020 intended to pre-fund the Gen 4 (Tranche A) technology development (the "Tranche A Loan")
- $8 million development loan maturing March 31, 2021 intended to pre-fund the Gen 5 (Tranche B), 1200V (Tranche B1) technology development (the "Tranche B Loan")
- $2 million development loan maturing March 31, 2021 intended to pre-fund the 1200V technology development (the "Tranche B-1 Loan") (together with the Tranche A and Tranche B Loans, the "Development Loans")
- $10 million revolving loan (the "Tranche C Loan")

The Company has to use the funds to operate the business in a manner consistent with or reasonably related to those business activities as carried out on or prior to the Effective Date. In addition to the multiple elements outlined above, the Company and Nexperia entered into a Supply Agreement requiring that the Company be Nexperia's primary supplier of specified components until June 30, 2020 on a best efforts basis. By entering into this Collaboration Arrangement, Nexperia will gain access to technology that allows for production of high power semiconductors for use in electric vehicles.

Further, Nexperia will obtain an exclusive license and market access to automotive customers outside of Japan and a sole license (non-exclusive of the Company), as well as market access, to customers in other parts of the power market. Nexperia has a lien on certain US patents not relating to Metal organic chemical vapor deposition ("MOCVD") or epiwafer technology, per the agreement.

On March 31, 2019, the Company executed Amendment No. 1 to the Loan and Security Agreement (the “First Amendment to the LSA” or the “Amendment”). Under this First Amendment to the LSA, the Tranche B Loan is bifurcated into the following two separate sub-tranches:

- $8 million development loan intended to pre-fund the Gen 5 (Tranche B), 1200V (Tranche B1) (Ron/2) technology development (the “Tranche B Loan”)

- $2 million development loan intended to pre-fund the 1200V technology development (the “Tranche B-1 Loan” and, together with the Tranche B Loan, the “Tranche B Loans”)

All other terms set forth under the original agreement remain unchanged and in full effect. The Tranche A and Tranche B Loans represent pre-funding for Gen 4 (Tranche A), Gen 5 (Tranche B), 1200V (Tranche B1) and 1200V technology development for Nexperia. The specific development activities and associated performance milestones are contained within a Statement of Work (“SoW”) between the Company and Nexperia. The SoW may be modified from time to time based upon mutual business interests. This promise to perform the technology development is a good/service provided to a customer in exchange for consideration in the form of the technology development license fees that offset the Tranche A and Tranche B Loans outstanding. The Development Loans are within the scope of ASC 730-20, *Research & Development Arrangements* and are recognized as a liability equal to the cash proceeds received.

In relation to the transfer of Gen 3 manufacturing process, the Company received $3 million, 1st of the three tranche, in December 2018, $3 million, 2nd of the three tranches, in April 2019, and $3 million, 3rd of the three tranches, in October 2019. Deferred revenue of $3 million was recorded as of December 31, 2018 and the Company recognized this revenue during 2019 upon the completion and mutual sign off between Nexperia and the Company. See Note 17 - Related Party Transactions.

In January 2019, the Company received a $5 million development loan maturing March 31, 2020 intended to pre-fund the Gen 4 (Tranche A) technology development (the Tranche A Loan). In June and July 2019, the Company received a $8 million development loan maturing March 31, 2021 intended to pre-fund the Gen 5 (Tranche B), 1200V (Tranche B1) (Ron/2) technology development (the Tranche B Loan). In December 2019, the Company received a $2 million development loan maturing March 31, 2021 intended to pre-fund the 1200V technology development (the “Tranche B-1 Loan”). The Tranche C revolving loan of the full $10 million available under this credit facility was received during the year ended December 31, 2018. See Note 9 - Debts for more information.

Note 4 - 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 categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table summarizes the Company’s liabilities measured at fair value as of December 31, 2019 and 2018, by level within the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3
December 31, 2019			
Promissory note	$ —	$ —	$ 16,169
December 31, 2018			
Promissory note	$ —	$ —	$ 15,852

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

	2019	2018
Fair value at January 1,	**$ 15,852**	**$ 27,756**
Interest expense accrued	150	364
Principal and interest expense paid	—	(13,328)
Increase in fair value	167	1,060
Fair value at December 31,	**$ 16,169**	**$ 15,852**

There were no changes to our valuation techniques used to measure assets and liability fair values during the year ended December 31, 2019 and 2018. The valuation techniques for the items in the table above are as follows:

Level 3 borrowings, which consist of promissory notes, are measured and reported at fair value using a Monte Carlo simulation valuation model. The models can include assumptions related to the value of the notes that are based on the estimated timing and amounts of future rounds of financing, including the estimated timing of a change in control of the Company, and estimated market interest rates, which represent significant unobservable inputs. Assumptions used are 1) the Company is worth today what it can generate in future cash to the Company, 2) cash received today is more than an equal amount of cash received in the future; and 3) future cash flows can be reasonably estimated.

Note 5 - 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 and are set forth in the following:

	Revenue for the Year Ended December 31,		Accounts Receivable As of December 31,	
	2019	2018	2019	2018
Customer A	*	44.0%	*	22.7%
Customer B	*	17.6%	*	43.7%
Customer C	*	16.0%	*	*
Customer D	79.6%	*	60.0%	19.3%
Customer E	13.3%	*	20.4%	*

* Less than 10% of total

Customer B and D are related parties and customer E is a government agency. See Note 17 - Related Party Transactions for more information.

Note 6 - Inventory

Inventory consists of the following as of December 31, 2019 and 2018 (in thousands):

	As of December 31,	
	2019	2018
Raw materials	$ 412	$ 258
Work in process	258	270
Finished goods	320	324
Total	**$ 990**	**$ 852**

For the year ended December 31, 2019 an inventory write-off of $155 thousand was recorded. For the year ended December 31, 2018, no inventory write-off was recorded.

Note 7 - Property and Equipment

Property and equipment as of December 31, 2019 and 2018 consists of the following (in thousands except years):

	As of December 31,		Estimated Useful Life (in years)
	2019	2018	
Machinery and equipment	$ 14,892	$ 14,551	5
Computer equipment and software	876	787	3
Furniture and fixtures	186	185	7
Leasehold improvements (1)	4,954	4,952	7
Construction in progress	6	263	
Property and equipment	20,914	20,738	
Less: accumulated depreciation and amortization	(19,144)	(18,606)	
Property and equipment, net	**$ 1,770**	**$ 2,132**	

(1) Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the related remaining lease term.

The Company recorded depreciation and amortization expense related to property and equipment of $563 thousand, and $728 thousand for the years ended December 31, 2019 and 2018, respectively.

Note 8 - Intangible Assets

The carrying values of intangible assets as of December 31, 2019 and 2018, respectively, consists of the following (in thousands except years):

	December 31, 2019				
	Gross	Accumulated Amortization	Foreign Exchange Rate Changes	Net	Estimated Useful Life (in years)
Patents	$ 2,963	$ (1,679)	$ —	$ 1,284	10
Developed technology - 150V	560	(519)	(34)	7	6
Developed technology - 600V	1,701	(1,575)	(104)	22	6
Total	**$ 5,224**	**$ (3,773)**	**$ (138)**	**$ 1,313**	

	December 31, 2018				
	Gross	Accumulated Amortization	Foreign Exchange Rate Changes	Net	Estimated Useful Life (in years)
Patents	$ 2,963	$ (1,383)	$ —	$ 1,580	10
Developed technology - 150V	560	(425)	(41)	94	6
Developed technology - 600V	1,701	(1,291)	(126)	284	6
Total	**$ 5,224**	**$ (3,099)**	**$ (167)**	**$ 1,958**	

The Company recorded amortization expenses related to intangible assets of $653 thousand and $646 thousand for the years ended December 31, 2019 and 2018, respectively.

Estimated future amortization expenses related to intangible assets at December 31, 2019 are as follows (in thousands):

Year Ending December 31,	Amount
2020	$ 325
2021	296
2022	296
2023	296
Thereafter	100
Total	**$ 1,313**

Note 9 - Debts

Development Loans

On April 4, 2018, the Company entered into a Loan and Security Agreement ("LSA") with Nexperia. The LSA provided for term loans in an aggregate principal amount of up to $15.0 million, which term loans are available in tranches (Tranche A, Tranche B and Tranche B-1) and subject to the satisfaction of specified conditions. The Tranche A Loan matures on the earlier of the date a specified report is required to be delivered under the DLA or March 31, 2020, subject to extension as provided in the LSA. The Tranche B Loan and Tranche B-1 Loan matures on the earlier of the date a specified report is required to be delivered under the DLA or March 31, 2021, subject to extension as provided in the LSA. See Note 3 - Nexperia Arrangement for more information.

For the year ended December 31, 2019, the Company had drawn the full $15.0 million available under the LSA and, as of December 31, 2019, $15.0 million aggregate principal amount of term loans were outstanding under the LSA.

Revolving Credit Facility

The LSA provided a $10.0 million revolving loan (Tranche C Loan) maturing at the earlier of (i) the third anniversary of April 3, 2018, and (ii) the date a Change of Control (as defined in the Loan and Security Agreement) occurs. Interest payable by the Company will accrue on the outstanding principal amount of the loans during such period at a rate of 6% per annum. The credit facility is secured against certain of our US patents not relating to MOCVD or epiwafer technology. See Note 3 - Nexperia Arrangement for more information.

The Nexperia debt is recorded based on principal of $10.0 million and accrued interest (6% interest per annum). The Company recorded interest expense of $608 thousand and $346 thousand for the years ended December 31, 2019 and 2018, respectively. The Company paid interest expense of $496 thousand and zero for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, total balances of the revolving credit facility were $10.5 million and $10.3 million, respectively.

Promissory Note

The Company’s promissory note obligation at December 31, 2019 and 2018 consists of the following (in thousands):

			Stated Value at December 31,	
	Interest Rate	Due Date	2019	2018
Yaskawa Note	1.00%	September 2022	$ 15,336	$ 15,186

Pursuant to ASC 825-10-15-4, the Company elected to apply the fair value option for the promissory note. As of December 31, 2019 and 2018, the Company determined the fair value for the note, as compared to the face value, including accrued interest, as follows (in thousands):

	Fair Value at December 31,	
	2019	2018
Yaskawa Note	$ 16,169	$ 15,852

The changes in fair value of $167 thousand and $1.1 million were recorded in changes in fair value of promissory notes in the accompanying consolidated statements of operations for the years ended December 31, 2019 and 2018, respectively.

Prior to January 1, 2016, the Company issued promissory notes to Semiconductor Components Industries, LLC, a semiconductor components manufacturer (the SCI Note), for $10.0 million and to IIDA Electronics Co, Ltd., a Japanese electronics company (the IIDA Note) for $3.0 million. The stated interest rate of the SCI Note is 6.0%, and principal plus interest was due on the earlier of October 2, 2017 or the occurrence of an Event of Default or a Change of Control (both terms as defined). The stated interest rate of the IIDA Note is 1.0%, and principal plus interest is due on the earlier of April 1, 2018, or the date of the occurrence of an Event of Default or a Change of Control (both terms as defined). The IIDA Note was convertible at the option of the holder into shares of common shares at an exercise price of $9.82380 per share. The SCI Note and IIDA Note do not have embedded conversion option as they are accounted for at fair value. In April 2018, both the SCI Note and IIDA Note were paid in full, including accrued interest.

In October 2017, the Company issued an unsecured subordinated convertible promissory note to Yaskawa Electric Corporation, (the Yaskawa Note), for $15.0 million. The stated interest rate of the Yaskawa Note is 1.0%,

and principal plus interest is 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). The Yaskawa Note is convertible at the option of the holder into shares of preferred stock upon the consummation of a preferred stock financing, whose aggregate gross proceeds are at least $10.0 million (Qualified Financing), under the terms of such financing, with the following conversion price per share:

a) upon the first Qualified Financing that occurs and prior to a second Qualified Financing, a price per share equal to the price per share paid by the purchasers of the preferred stock and

b) each subsequent Qualified Financing, a price per share equal to eighty percent (80%) of the price paid by the purchasers of the preferred stock, subject to a upper and lower limit of $250.0 million and $160.0 million estimated enterprise value, each, respectively, divided by the Fully Diluted Capitalization, as defined, of the Company.

In connection with its promissory note obligation, the Company recorded interest expense of $150 thousand and $364 thousand for the years ended December 31, 2019 and 2018, respectively. In accordance with the terms of the promissory notes, interest is added to the principal balance and is reflected in the carrying value on the consolidated balance sheet. As of December 31, 2019 and 2018, accrued interest on the promissory notes was $336 thousand and $186 thousand.

As of December 31, 2019, the scheduled maturity on the development loans, revolving credit facility and promissory note was as follows (in thousands):

Year Ending December 31,		**Amount**
2020	$	15,458
2021		10,000
2022		15,748
Total	**$**	**41,206**

Note 10 - Investment in Aizu Fujitsu Semiconductor Wafer Solution Limited ("AFSW")

On May 23, 2017, Transphorm acquired a 49% interest in AFSW for 1,000,000 Japanese Yen ($9,000 USD). In connection with the transaction, Transphorm entered into a Joint Venture Agreement ("JVA") with the 51% owner, Aizu Fujitsu Semiconductor Limited, a subsidiary of Fujitsu Semiconductor Limited. AFSW manufactures semiconductor products exclusively for its owners under manufacturing agreements at prices estimated to cover the cost of production. In connection with the JVA, the Company seconded certain employees from AFSW and entered into a Manufacturing Agreement with AFSW. The JVA provides for certain put and call rights on February 1, 2020 and continue for 180 days thereafter. The 51% owner has the right to put their interest to the Company and the Company can call the other owners interest in AFSW, in either case, for a price, based upon the greater of a formula based upon the increase in net book value or 1 Yen. The Company expects that if either option were to be exercised the price would be 1 Japanese Yen. The Company has determined that the fair value of the put right is not material. The JVA provided that the Company was responsible for the costs and expenses to procure the equipment for wafer processing if solely required for the Company's gallium nitride products. The JVA provided for monthly payments during the term of the manufacturing agreement for specified equipment and at the conclusion of the payments ownership will transfer to the Company.

AFSW was determined to be a variable interest entity ("VIE") as the equity at risk was not believed to be sufficient. AFSW depends on its owners for any additional cash. In 2019 and 2018, the Company extended $2.7 million and $1.9 million, respectively, to AFSW to fund their operations. The Company's known maximum exposure to loss approximated the carrying value of our investment balance, which included the financing. Potential future losses could be higher than the carrying amount of the Company's investment, as they are liable, along with the other owner, for other future operating costs or obligations of AFSW. In addition, because Transphorm is

currently committed to purchasing our GaN wafers and production-related services, at pre-agreed pricing based upon our second generation products, the Company may be required to purchase products at a higher cost for its newer generation products. Unfunded commitment to AFSW was $1.7 million and $659 thousand as of December 31, 2019 and 2018, respectively.

The Company has determined that they do not have the characteristics of a primary beneficiary in the VIE, and therefore, account for our interest in AFSW using the equity method of accounting. On a quarterly basis the Company will reassess whether our interest in AFSW gives us a controlling financial interest in AFSW. The purpose of this quarterly reassessment is to identify the primary beneficiary of AFSW. The Company determined that they were not the primary beneficiary of the VIE, by virtue of shared non-controlling power with the other owner within AFSW's Board of Directors, thereby not having the power to direct the activities of AFSW that most significantly impact its economic performance.

The Company' investment activities in AFSW for the years ended December 31, 2019 and 2018 are summarized below (in thousands):

	2019	2018
Beginning balance at January 1,	$ (659)	$ (98)
Investment	2,698	1,852
Loss	(3,703)	(2,404)
Effect of exchange rate change	(24)	(9)
Ending balance at December 31,	**$ (1,688)**	**$ (659)**

Summarized financial information of AFSW as of December 31, 2019 and 2018 and are as follows (in thousands) as provided by the controlling owner:

	As of December 31,	
	2019	2018
Current assets	$ 3,733	$ 4,096
Long-term assets	$ 5,101	$ 4,194
Other current liabilities	$ 931	$ 961
Due to controlling owner	$ 17,913	$ 12,031
Due to Transphorm	$ 5,349	$ 2,960
Net deficit	$ (15,359)	$ (7,662)

	Year Ended December 31,	
	2019	2018
Sales	$ 11,599	$ 22,283
Gross loss	$ (4,849)	$ (2,523)
Net loss	$ (7,557)	$ (4,906)

Note 11 - Commitments and Contingencies

Operating Leases

The Company leases office and fabrication space in Goleta, California, and office spaces in San Jose, California and in Japan under noncancelable operating lease agreements. The terms of certain leases provide for escalating rental payments through the term of the lease. The Company recognizes rent expense on a straight-line basis over the lease term and accrues for rent expense incurred but not paid.

As of December 31, 2019, future minimum operating lease commitments were as follows (in thousands):

Year Ending December 31,		**Amount**
2020	$	705
2021		489
2022		163
Total	**$**	**1,357**

The Company recorded rent expense, net of rental income, which includes common area maintenance fees in addition to the base rent, of $897 thousand and $915 thousand for the years ended December 31, 2019 and 2018, respectively. Rental income from noncancelable sublease was $182 thousandand $121 thousand for the years ended December 31, 2019 and 2018. As of December 31, 2019, the future minimum rental payments to be received under the noncancelable sublease is $217 thousand through February 2021.

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 estimable. Legal cost is expensed as incurred. The company is not aware of any material legal claims or assessments, although the results of litigation and claims are inherently unpredictable, management believes there was not at least a reasonable possibility that the Company had incurred a material loss with respect to such loss contingencies as of December 31, 2019 and through date of this report.

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 12 - Convertible Preferred Stock

As of December 31, 2019 and 2018, the Company's convertible preferred stock consists of the following (in thousands, except share and per share data on a post conversion basis):

	Authorized Shares	Outstanding Shares	Carrying Value	Par Value per Share	Preference Value
Series 1	12,438,704	12,433,953	$ 39,658	$ 0.001	$ 40,000
Series 2	7,507,699	7,499,996	30,000	$ 0.001	30,000
Series 3	4,000,000	4,000,000	16,000	$ 0.001	16,000
Total	**23,946,403**	**23,933,949**	**$ 85,658**		**$ 86,000**

Series 1 and 2 Preferred Stock

KKR Phorm Investors L.P. (KKR) purchased 12,433,953 shares of Series 1 preferred stock, par value $0.001 per share, at a per share price of 3.217 for an aggregate purchase price of approximately $40 million. KKR and other investors with a small percentage (~0.02%) purchased 7,499,996 shares of Series 2 preferred stock, par value $0.001 per share, at a per share price of $4.00 for an aggregate purchase price of approximately $30 million.

Series 3 Preferred Stock

On March 26, 2018, the Company entered into a stock purchase agreement and related contracts in order to effectuate the issuance of its Series 3 preferred stock to Nexperia. Pursuant to the terms of the stock purchase agreement, Nexperia purchased 4,000,000 shares of Series 3 preferred stock, par value $0.001 per share, at a per share price of $4.00, for an aggregate purchase price of approximately $16 million equating to a total ownership stake of approximately 9.9% on a fully-diluted basis. The Company has reserved shares of common stock, par value $0.001 per share, for issuance upon conversion of the Series 3 preferred stock (the conversion shares). The Series 3 preferred stock issued is substantially pari passu with the Company's Series 1 and Series 2 preferred stock previously issued to KKR with a small percentage (~0.02%) issued to other investors.

Each share of Series 1, Series 2 and Series 3 preferred stock are convertible at the option of the holder into such number of shares of common stock as is determined by dividing the original issue price (OIP) of the Series 1, Series 2 and Series 3 preferred stock by the conversion price in effect at the time of the conversion. The conversion price of the Series 1, Series 2 and Series 3 preferred stock is subject to adjustment for certain events. Each share of Series 1, Series 2 and Series 3 preferred stock automatically converts into common stock immediately upon the closing of an underwritten public offering of the Company's common stock in which the aggregate net proceeds are at least $40 million and the offering price per share is not less than 1.5 times the OIP of the Series 1, Series 2 and Series 3 preferred stock (a Qualifying Public Offering).

The rights, privileges, and preferences of the Series 1, Series 2, and Series 3 convertible preferred stock are as follows:

Liquidation Rights - In the event of any liquidation, dissolution, or winding up of the Company, either voluntary or involuntary, the holders of convertible preferred stock will be entitled to receive, prior and in preference to any distribution of any assets of the Company to the holders of common stock, an amount per share equal to $3.217 per share for Series 1, $4.00 per share for Series 2 and $4.00 per share for Series 3, plus any declared but unpaid dividends. If, upon the occurrence of such an event, the assets and funds thus distributed among the holders of the convertible preferred stock are insufficient to permit the payment of the preferential amounts, the entire assets and funds legally available for distribution will be distributed ratably among the holders of convertible preferred stock in proportion to the full amount to which they would otherwise be respectively entitled. If, upon

satisfaction of the convertible preferred stock preferences, there are any remaining assets and funds available for distribution, they will be ratably distributed among the holders of common stock.

Conversion - The convertible preferred stock is convertible at the option of the holder at any time into common stock on a one-for-one basis, subject to certain adjustments for anti-dilution. Each share of convertible preferred stock automatically converts into common stock in the event of an initial public offering (IPO) in which the proceeds are at least $40 million, net of the underwriting discount and commissions, and the offering price per share is not less than 1.5 times the original issue price of the convertible preferred stock unless otherwise agreed to by the shareholders.

Dividends - The holders of convertible preferred stock are entitled to receive, out of funds legally available, cash dividends at the rate of $0.25736 per annum for Series 1, $0.32 per annum for Series 2 and $0.32 per annum for Series 3 on each outstanding share. Such dividends are payable when, as, and if declared by the Board of Directors and are noncumulative. Through December 31, 2019, no such dividends have been declared.

Voting - The holders of Series 1 convertible preferred stock shall be entitled to the number of votes equal to ten times the number of shares of common stock into which such shares could be converted, and the holders of Series 2 convertible preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which such shares could be converted. Each holder of Series 3 preferred stock shall be entitled to the number of votes equal to ten times the number of shares of common stock into which the shares of Series 3 preferred stock held by such holder could be converted as of the record date.

Due to certain provisions in liquidation and conversion rights the company has presented the convertible preferred stock outside of stockholders deficit as mezzanine equity.

Note 13 - Stockholders’ Equity

Common Stock

In March 2018, the Company amended the Certificate of Incorporation, to increase the number of authorized shares of common stock from 24,867,458 to a new total of 29,012,034 shares of $0.001 par value common stock. Common stockholders are entitled to dividends, as and when declared by the 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.

At December 31, 2019, the Company has reserved shares of common stock for future issuance as follows:

Conversion of convertible preferred stock	23,946,403
Stock option plans	4,023,826
Common stock warrants	15,461
Total	**27,985,690**

Common Stock Warrants

At December 31, 2019, the following warrants to purchase common stock were outstanding:

Number of Shares	Exercise Price	Expiration Date
6,046	$34.74	November 2020
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
15,461		

Note 14 - Stock Option Plans

In 2007, the Board of Directors adopted the 2007 Stock Option Plan (the 2007 Plan). The 2007 Plan provides for the granting of incentive and non-statutory stock options to employees, officers, directors and consultants of the Company. Stock options are generally granted with terms of up to 10 years and with a strike price equal to or greater than the fair value on the date of grant, as determined by the Board of Directors. The 2007 Plan provides for standard vesting of stock options of 25% after 12 months and 1/36th of the remaining balance monthly. Effective June 2015, no additional grants were available under the 2007 Plan. As of December 31, 2019, 165,983 shares were issued and outstanding under the 2007 plan.

In June 2015, the Board of Directors adopted the 2015 Equity Incentive Plan (the 2015 Plan). The 2015 Plan provides for the granting of incentive and nonstatutory stock options to purchase the Company's common stock, stock appreciation rights, restricted stock and restricted stock units to employees, directors and consultants of the Company. Under the terms of the 2015 Plan, stock options and stock appreciation rights may be granted with terms of up to ten years at exercise prices of no less than 100% of the fair market value of the Company's common stock on the grant date. As of December 31, 2019, 2307215 shares were issued and outstanding under the 2015 plan.

The following table summarizes stock option activity under the 2007 Plan and 2015 Plan and related information:

	Number of Shares Available for Grant	Number of Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Balance at January 1, 2018	**1,589,381**	**2,435,837**	**$ 4.80**	**8.38**	**$ —**
Options granted	(46,005)	46,005	$ 4.34		
Options canceled	104,662	(104,662)	$ 4.70		
Balance at December 31, 2018	**1,648,038**	**2,377,180**	**$ 4.79**	**7.46**	**$ —**
Options granted	(209,908)	209,908	$ 3.14		
Options exercised	—	(1,392)	$ 3.86		
Options canceled	112,498	(112,498)	$ 4.34		
Balance at December 31, 2019	**1,550,628**	**2,473,198**	**$ 4.67**	**6.84**	**$ —**
Exercisable at December 31, 2019		**2,079,809**	**$ 4.95**	**6.65**	**$ —**

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 and estimates are made as follows:

- Fair Value of Common Stock - The fair value of the shares of common stock underlying the stock options has been determined by the Board of Directors, utilizing valuation studies performed by third-party advisors. Because there has been no public market for the Company's common stock, the Board of Directors has determined fair value of the common stock at the time of grant of the options by considering a number of objective and subjective factors, including valuations of comparable companies, sales of convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of capital stock, and general and industry-specific economic outlook. The Company has not granted stock options with an exercise price that is less than the fair value of the underlying common stock as determined at the time of grant by the Board of Directors.

- Expected Volatility - The Company utilizes the historical volatility of representative public companies to determine its expected volatility, as there is no public trading of the Company's common stock.

- Estimated Forfeitures - The Company adopted ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting and has elected to account for forfeitures as they occur and therefore, stock-based compensation expense for the year ended December 31, 2019 has been calculated based on actual forfeitures in the statements of operations, rather than our previous approach which was net of estimated forfeitures. The net cumulative effect of this change was not material.

- Expected Dividend Yield - The Company has not issued any common stock dividends; therefore, a dividend yield of zero was used.

- Risk-Free Interest Rate - The Company bases the risk-free interest rate used in the Black- Scholes-Merton option pricing model on the implied yield currently available on United States Treasury zero-coupon issues with an equivalent expected term.

- Expected Term - The expected term of stock options represents the period that the Company's stock options are expected to be outstanding. The Company generally uses the simplified method to calculate the expected term for employee grants.

The assumptions used to value options granted to employees during the year ended December 31, 2019 and 2018, were as follows:

	Year Ended December 31,	
	2019	**2018**
Weighted average expected life (in years)	5.46	5.84
Risk-free interest rate	1.34% - 1.94%	2.51% - 2.52%
Expected volatility	39.4% - 39.8%	38.1% - 38.2%
Weighted average grant date fair value	$1.04	$0.84
Dividend yield	—%	—%

As of December 31, 2019, there was $464 thousand of unrecognized stock-based compensation cost related to stock options granted to employees under the 2007 Plan and the 2015 Plan. The unrecognized compensation cost is expected to be recognized over an estimated weighted average amortization period of 1.2 years.

The accompanying consolidated statement of operations includes stock-based compensation expense as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Cost of revenue	$ 60	$ 41
Research and development	196	186
Sales and marketing	30	45
General and administrative	280	313
Total	**$ 566**	**$ 585**

Note 15 - 401(k) Savings Plan

The Company has a 401(k) savings plan (the 401(k) plan). The 401(k) plan is a defined contribution plan intended to qualify under Section 401(k) of the Internal Revenue Code. All full-time employees of the Company are eligible to participate pursuant to the terms of the 401(k) plan. Contributions by the Company are discretionary, and the Company made no contributions during the years ended December 31, 2019 and 2018.

Note 16 - Income Taxes

For the year ended December 31, 2019, the Company reported a worldwide consolidated pre-tax loss of $15.3 million, which consisted of a pre-tax loss from U.S. operations of approximately $10.6 million and pre-tax loss from Japan operations of approximately $4.7 million. The pre-tax loss from Japan operations consists of a $1.0 million pre-tax loss from Transphorm Japan, Inc., a $3.7 million pre-tax loss from Transphorm Aizu, Inc. and a $1 thousand pre-tax income from Transphorm Epi, Inc.

For the year ended December 31, 2018, the Company reported a worldwide consolidated pre-tax loss of $25.8 million, which consisted of a pre-tax loss from U.S. operations of approximately $22.1 million, pre-tax loss from Transphorm Japan, Inc. operations of approximately $1.3 million and a pre-tax loss from Transphorm Aizu, Inc. operations of approximately $2.4 million.

There is no U.S. federal or foreign provision for income taxes because the Company has incurred operating losses since inception and is in a full valuation allowance position. For the years ended December 31, 2019 and 2018, the Company has recorded a state income tax provision of $1 thousand which represents minimum taxes. Deferred income taxes reflect the net tax effects of the net operating losses and the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and deferred tax liabilities are as follows (in thousands):

	As of December 31,	
	2019	2018
Deferred tax assets:		
Net operating loss carryforwards	$ 43,973	$ 42,181
Tax credits	4,535	3,808
California capitalized research and development	343	290
Depreciation	—	153
Others, net	602	318
Total deferred tax assets	49,453	46,750
Valuation allowance	(49,403)	(46,749)
Deferred tax asset, net of valuation allowance	50	1
Deferred tax liabilities:		
Others, net	—	(1)
Fixed assets	(50)	—
Total deferred tax liabilities	(50)	(1)
Net deferred tax assets	**$ —**	**$ —**

As of December 31, 2019 and 2018, the Company had no assurance that future taxable income would be sufficient to fully utilize the net operating loss carryforwards and other deferred tax assets in the future. Consequently, the Company determined that a valuation allowance of approximately $49.4 million and $47.8 million as of December 31, 2019 and 2018, respectively, was needed to offset the deferred tax assets resulting mainly from the net operating loss carryforwards. As such, for the years ended December 31, 2019 and 2018, the Company recorded an additional valuation allowance of $2.7 million and $6.4 million, respectively.

The Company files income tax returns in the U.S. federal, California, and Oregon jurisdictions and is subject to U.S. federal, state, and local income tax examinations by tax authorities. Generally, the statute of limitations is 3 years for U.S. federal income tax and 4 years for state and local taxes. The statute of limitations may be extended for tax years where a corporation has a net operating loss carryforward or by agreement with the jurisdictional taxing authority. Accordingly, all of the Company's U.S. federal, state and local income tax years since inception remain open to examination by tax authorities. The Company is not currently under audit by any taxing authority.

The Company follows the provisions of uncertain tax positions as addressed in ASC 740-10. The Company recognized no increase or decrease in the liability for unrecognized tax benefits for any period presented. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the period presented. The Company had no accruals for interest and penalties at December 31, 2019 and 2018.

The utilization of the Company's net operating loss and tax credit carryforwards is dependent on the future profitability of the Company. Further, the Internal Revenue Code imposes substantial restrictions on the utilization of such carryforwards in the event of an ownership change of more than 50%, as defined, during any three-year period (Section 382 and 383 limitations). The Company has determined that several ownership changes have occurred, which have resulted in substantial limitations on the Company's ability to utilize its pre-ownership change net operating loss and tax credit carryforwards. These substantial limitations are expected to result in both a permanent loss of certain tax benefits related to net operating loss carryforwards and federal research and

development credits, as well as an annual utilization limitation. The Company performed an analysis through a private placement offering and anticipates no further Section 382 and 383 limitations.

As of December 31, 2019, the Company has federal net operating loss carryforwards of $234.8 million, of which $207.5 million will begin to expire in 2027 unless previously utilized, and the Company has state net operating loss carryforwards of $152.7 million which will begin to expire in 2028 unless previously utilized. The Company also has foreign net operating loss carryforwards of approximately $4.6 million which will begin to expire in 2024. The federal net operating loss generated for the years ended 2019 of $8.8 million and 2018 of $18.5 million can be carried forward indefinitely. However, the federal deduction for net operating losses incurred in tax years beginning after January 1, 2018 is limited to 80% of annual taxable income. The state net operating loss generated for the years ended 2019 of $5.1 million and 2018 of $15.3 million can be carried forward 20 years.

As of December 31, 2019, the Company has federal research and development credit carryforwards of $4.1 million, which will begin to expire in 2032 unless previously utilized, and the Company had California research and development credit carryforwards of $2.7 million, which do not expire.

Deferred tax assets have not been established for net operating and tax credit carryforwards that are deemed to have no value due to the Section 382 and 383 limitations discussed above and, therefore, are not reflected in the table of deferred tax assets presented above. Future ownership changes, if any, may further limit the Company’s ability to utilize its remaining net operating losses and tax credit carryforwards. The Company performed an analysis through a private placement offering and anticipates no further Section 382 and 383 limitations.

Reconciliation between federal statutory tax rate and the effective tax rate is shown in the following table:

	Year Ended December 31,	
	2019	**2018**
Federal statutory income tax rate	21.00%	21.00%
Research and development credit	4.76%	1.61%
Nondeductible expenses	(3.18)%	(1.81)%
Loss in joint venture	(7.44)%	(1.99)%
Foreign income tax rate difference	2.99%	(1.04)%
Others, net	(0.75)%	0.02%
Valuation allowance	(17.38)%	(17.79)%
Effective tax rate	**—%**	**—%**

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act", H.R. 748) was signed into law. The CARES Act repealed the 80% taxable income limitation for the 2018–2020 taxable years and reinstated NOL carrybacks for the 2018–2020 taxable years. In addition, the CARES Act temporarily increases the business interest deduction limitations from 30% to 50% of adjusted taxable income for the 2019 and 2020 taxable year. Lastly, a TCJA technical correction that classifies qualified improvement property as 15-year recovery period, allowing the bonus depreciation deduction to be claimed for such property retroactive as if it was included in the TCJA at the time of enactment. The company does not anticipate a material impact to the consolidated financial statements for the year 2019 due to the recent enactment.

Note 17 - Related Party Transactions

During the year ended December 31, 2019, the Company entered into the following related party transactions:

- Recorded $211 thousand in cost of goods sold for services, recorded research and development expense of $695 thousand, of which $195 thousand was reimbursable, recorded $444 thousand in other expense for commitment for services, and incurred $14 thousand for employees and their related benefits seconded from the joint venture with AFSW;

- Sold $241 thousand of products to non-controlling common stockholders of the Company and incurred $200 thousand of license maintenance fee from a non-controlling common stockholder of the Company;

- Incurred $21 thousand for employees and their related benefits seconded from a common stockholder of the Company; and

- Recorded $9.2 million in license fee income, recorded $195 thousand reimbursement for research and development, and sold $504 thousand of products to a convertible preferred stockholder of the Company. See Note 3 - Nexperia Arrangements.

As of December 31, 2019, total accounts receivable from related parties was $5.8 million, consisting of $5.3 million from the joint venture with AFSW, $38 thousand from non-controlling common stockholders of the Company and $426 thousand from a convertible preferred stockholder and noteholder of the Company. As of December 31, 2019, total accounts payable to related parties was $272 thousand to non-controlling common stockholders of the Company.

During the year ended December 31, 2018, the Company entered into the following related party transactions:

- Recorded $751 thousand in cost of goods sold for services, incurred expenses of $560 thousand for research and development activities, and incurred $175 thousand for employees and their related benefits seconded from the joint venture with AFSW;

- Sold $269 thousand of products to non-controlling common stockholders of the Company and incurred $200 thousand of license maintenance fee from a non-controlling common stockholder of the Company;

- Incurred $71 thousand for employees and their related benefits seconded from a common stockholder of the Company;

- Sold $37 thousand of products to common stockholders and former noteholders of the Company; and

- Recorded $3.0 million in deferred license fee and sold $166 thousand of products to a convertible preferred stockholder of the Company.

As of December 31, 2018, total accounts receivable from related parties was $3.1 million, consisting of $3.0 million from the joint venture with AFSW, $123 thousand from non-controlling common stockholders of the Company, $10 thousand from non-controlling common stockholder and noteholder of the Company and $54 thousand from a convertible preferred stockholder and noteholder of the Company. As of December 31, 2018, total accounts payable to related parties was $122 thousand to non-controlling common stockholders of the Company.

Note 18 - Subsequent Events

The Company has evaluated subsequent events through the issuance of these financial statements, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements except for the following:

Merger Agreement

On February 12, 2020, Peninsula Acquisition Corporation, Acquisition Sub and Transphorm Technology entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"). Pursuant to the terms of the Merger Agreement, on February 12, 2020, Acquisition Sub merged with and into Transphorm Technology, with Transphorm Technology continuing as the surviving corporation and a wholly-owned subsidiary of Peninsula Acquisition Corporation. The Merger was treated as a recapitalization and reverse acquisition for financial reporting purposes. Transphorm Technology is considered the acquirer for accounting purposes. Immediately after completion of the merger, Peninsula Acquisition Corporation adopted Transphorm Technology's former company name, Transphorm, Inc. as its company name.

Private Placement

Following the Merger, the Company sold 5,365,000 shares of common stock pursuant to an initial closing of a private placement offering ("Offering") for up to 12,500,000 shares of common stock at a purchase price of $4.00 per share. The Company held a subsequent closing of the Offering on February 27, 2020, in which it sold an additional 15,000 shares of common stock at a purchase price of $4.00 per share. The aggregate gross proceeds from the closing of the Offering were $21.5 million (before deducting placement agent fees and expenses of $1.8 million of the closing of the Offering). Offering cost of $177 thousand is included in other assets on the consolidated balance sheets as of December 31, 2019.

Yaskawa Letter of Intent

In February, 2020, the Company entered into a letter of intent with Yaskawa that the Company believes will form the basis for a mutually beneficial cooperation agreement between the Company and Yaskawa to be finalized later this year. This letter of intent contemplates the following:

- Yaskawa intends to enter into a long-term cooperation and development agreement with the Company to use our GaN power device products for a variety of industrial power conversion applications, which will initially focus on servo motor drive applications.

- Yaskawa intends to provide at least $4.0 million to fund the Company's development activities, with an expected funding start date of May 2020, from which amount Yaskawa intends to provide $1.0 million in 2020 in connection with ongoing development activities.

Government contract

A cost reimbursable subaward (the "Subaward") grant was made on February 18, 2020 to the Company by Ilinois Institute of Technology (the "IIT") with Advanced Research Projects Agency - Energy (the "ARPA-E") funding up to $646 thousand for the development of 1200V Gan switches and which term expires on December 17, 2020.

Grant of Stock Options

The 2020 Equity Incentive Plan (the "2020 Plan"), which provides for the issuance of incentive awards of up to 5,500,000 shares of our common stock, was approved by the board of directors and stockholders in February 2020. The 2020 Plan provides for the grant of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, and performance shares to our employees, directors, and consultants and our parent and subsidiary corporations' employees and consultants.

On March 26, 2020, the board of directors approved the grant of stock option awards of 1,052,017 shares under the 2020 Plan at an exercise price of $4.00 per share, with a term of ten years, to certain members of management and employees. The stock option awards provide for vesting as follows: 1/3rd after 12 months and 1/36th of the remaining balance monthly or 1/4th after 12 months and 1/48th of the remaining balance monthly.

Commitment with A Government Agency

In connection with a contract with a government agency, the Company entered into a commitment to acquire equipment and services from vendors totaling $4.9 million, all of which is reimbursable. During February and March 2020, the Company purchased equipment for approximately $3.6 million and was reimbursed in full by the government agency. The remaining commitment under the contract to the vendors is approximately $1.3 million.

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 "Special 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

Unless otherwise stated or the context otherwise indicates, references to "Transphorm," the "Company," "we," "our," "us," or similar terms refer to Transphorm, Inc. and its subsidiaries.

We are a pioneer, and a market and technology leader, in the wide-bandgap gallium nitride ("GaN") power electronics field with high performance and high reliability GaN devices 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. 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 IP portfolios with access to over 1,000 world-wide patents, has yielded the industry's first JEDEC and AEC-Q101-qualified high voltage GaN FETs, and to date, the only AEC-Q101-qualified GaN FETs with comprehensive qualification data reports in place. Our innovations are designed to move power electronics beyond the limitations of silicon and provide our customers with the potential to achieve high efficiency (e.g., Titanium-class performance in power supplies), high power density and, in some designs, an overall lower system cost.

We received our first product order "in volume" (e.g., 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 fourth quarter of 2019, we recognized $9.0 million of licensing revenue through our first outbound licensing deal with Nexperia B.V. ("Nexperia").

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 $15.3 million and $25.8 million for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, our accumulated deficit was $143.9 million. Substantially all of our operating losses have resulted from expenses incurred in connection research and development activities and from general and administrative costs associated with our operations.

To date, our revenue has been significantly lower than our expenses. Our revenue was $11.9 million and $1.4 million for the years ended December 31, 2019 and 2018, 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; and
- add financial accounting and management systems and select personnel and incur additional legal and accounting expense as we operate as a public company.

Recent Developments

Reverse Merger

On February 12, 2020, our wholly-owned subsidiary, Peninsula Acquisition Sub, Inc., a corporation formed in the State of Delaware ("Acquisition Sub"), merged with and into Transphorm Technology (formerly known as Transphorm, Inc.), the corporate existence of Acquisition Sub ceased, and Transphorm Technology became our wholly-owned subsidiary (such transaction, the "Merger"). As a result of the Merger, we acquired the business of Transphorm Technology. The Merger was effective as of February 12, 2020, upon the filing of a Certificate of Merger with the Secretary of State of the State of Delaware. Immediately after completion of the Merger, we adopted Transphorm Technology's former company name, "Transphorm, Inc.", as our company name.

The Merger was treated as a recapitalization and reverse acquisition for us for financial reporting purposes, and Transphorm Technology is considered the acquirer for accounting purposes.

As a result of the Merger and the change in our business and operations, a discussion of the past financial results of Peninsula Acquisition Corporation is not pertinent, and under applicable accounting principles, the historical financial results of Transphorm Technology, the accounting acquirer, prior to the Merger are considered our historical financial results.

At the Effective Time, (i) each share of Transphorm Technology's common stock issued and outstanding immediately prior to the closing of the Merger was converted into the right to receive (a) 0.08289152527 shares of our common stock (in the case of shares held by accredited investors) or (b) $4.00 multiplied by the Common Stock Conversion Ratio (in the case of shares held by unaccredited investors), with the actual number of shares of our common stock issued to the former holders of Transphorm Technology's common stock equal to 4,171,571, (ii) 51,680,254 shares of Transphorm Technology's Series 1 preferred stock issued and outstanding immediately prior to the closing of the Merger were converted into 12,433,953 shares of our common stock, (iii) 38,760,190 shares of Transphorm Technology's Series 2 preferred stock issued and outstanding immediately prior to the closing of the Merger were converted into 7,499,996 shares of our common stock, and (iv) 31,850,304 shares of Transphorm Technology's Series 3 preferred stock issued and outstanding immediately prior to the closing of the Merger were converted into 4,000,000 shares of our common stock. As a result, 28,105,520 shares of our common stock were issued to the holders of Transphorm Technology's issued and outstanding capital stock after adjustments due to rounding for fractional shares. Immediately prior to the Effective Time, an aggregate of 682,699 shares of our common stock, owned by the stockholders of Peninsula Acquisition Corporation prior to the Merger, were forfeited and cancelled (the "Stock Forfeiture").

In addition, pursuant to the Merger Agreement, (i) options to purchase 29,703,285 shares of Transphorm Technology's common stock issued and outstanding immediately prior to the closing of the Merger under Transphorm Technology's 2007 Plan and 2015 Plan were assumed and converted into options to purchase 2,461,923 shares of our common stock, (ii) warrants to purchase 186,535 shares of Transphorm Technology's common stock issued and outstanding immediately prior to the closing of the Merger were assumed, amended and converted into warrants to purchase 15,461 shares of our common stock, and (iii) Transphorm Technology's outstanding convertible promissory note was amended to be convertible, at the option of the holder, into shares of our common stock at a conversion price of $5.12 per share, with 3,076,171 being the maximum number of shares of our common stock issuable upon conversion of the convertible promissory note. As of December 31, 2019, there was $15.0 million of principal and $336 thousand of accrued and unpaid interest outstanding on the convertible promissory note.

As discussed in Note 1 to the Consolidated Financial Statements for years ended December 31, 2019 and 2018, all per share and share amounts for all periods presented have been retroactively adjusted to reflect the effect of the Merger.

Private Placement

Following the Merger, the Company sold 5,365,000 shares of common stock pursuant to an initial closing of a private placement offering ("Offering") for up to 12,500,000 shares of common stock at a purchase price of $4.00 per share. The Company held a subsequent closing of the Offering on February 27, 2020, in which it sold an additional 15,000 shares of common stock at a purchase price of $4.00 per share. The aggregate gross proceeds from the closing of the Offering were $21.5 million (before deducting placement agent fees and expenses of $1.8 million of the closing of the Offering). Offering cost of $177 thousand is included in other assets on the consolidated balance sheets as of December 31, 2019.

Key Factors Affecting Our Performance

There are a number of industry factors that affect our business which include, among others:

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 RF markets, the expansion of the use of GaN devices in Infrastructure, IT, Data Centers, Industrial and Consumer adapter applications and our ability to win new designs for these applications. Demand also fluctuates based on various market cycles, continuously evolving industry supply chains, trade and tariff terms, as well as evolving competitive dynamics in each of the respective markets. These uncertainties make demand difficult to forecast for us and our customers.

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 multi-national 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 in existing technologies that could reduce or limit the demand for our products in certain markets.

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, steps such as additional patent applications, confidentiality and non-disclosure agreements, as well as 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 would require significant management time and expenses.

Components of Results of Operations

Revenue

Our revenue currently consists of (1) licensing revenue, (2) government revenue from our contract with the U.S. Navy and (3) revenue from product sales. During the year ended December 31, 2019, we recognized $9.0

million of licensing revenue through the completion and mutual sign-off related to the Gen 3 manufacturing process with Nexperia in the fourth quarter of 2019, $1.5 million of government revenue and $1.4 million of product revenue.

Operating Expenses

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. 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.

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 to remain flat or moderately increase in absolute dollars but to decline 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. We expect sales and marketing expenses to increase in absolute dollars in future periods as we increase our sales and expand our sales force and our marketing organization.

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, 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 to increase in absolute dollars in future periods 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 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 AFSW and the level of operating expenses incurred by AFSW.

Changes in Fair Value of Promissory Notes

Changes in the fair value of promissory notes reflect valuation changes in the notes held by the company. Offering costs are expensed as incurred.

Other Income, Net

Other income, net of other expenses, consists primarily of income generated from renting a component of the research and development facility we have at 115 Castilian Drive, Goleta, California.

Tax Expense

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

Results of Operations

The following table sets forth our historical consolidated statements of operations data for the periods indicated (in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2019	2018	Amount	Percentage
Revenue, net	$ 11,934	$ 1,358	$ 10,576	778.8 %
Operating expenses:				
Cost of goods sold	6,492	4,601	1,891	41.1 %
Research and development	8,146	9,351	(1,205)	(12.9)%
Sales and marketing	2,609	3,626	(1,017)	(28.0)%
General and administrative	6,606	5,675	931	16.4 %
Total operating expenses	23,853	23,253	600	2.6 %
Loss from operations	(11,919)	(21,895)	9,976	(45.6)%
Interest expense	758	710	48	6.8 %
Loss in joint venture	3,703	2,404	1,299	54.0 %
Changes in fair value of promissory notes	167	1,060	(893)	(84.2)%
Other income, net	(1,264)	(271)	(993)	366.4 %
Loss before tax expense	(15,283)	(25,798)	10,515	(40.8)%
Tax expense	—	—	—	— %
Net loss	**$ (15,283)**	**$ (25,798)**	$ 10,515	(40.8)%

Revenue increased $10.6 million, or 778.8 percent, to $11.9 million for the year ended December 31, 2019 from $1.4 million for the same period in 2018. The increase is due primarily to $9.0 million of licensing revenue from Nexperia related to our Gen3 manufacturing process and $1.5 million in sales to the U.S. Navy. In 2018 and 2019, we secured the base portion and the option portion of a contract, respectively, with the U.S. Navy, contemplating a three-year term and an expected total value of $18.5 million.

Operating expenses increased $600 thousand, or 2.6 percent, to $23.9 million for the year ended December 31, 2019 from $23.3 million for the same period in 2018.

Cost of goods sold increased $1.9 million, or 41.1 percent, to $6.5 million for the year ended December 31, 2019, compared with $4.6 million for the same period in 2018, due primarily to costs associated with the government contract revenue, product costs and inventory write-offs, and costs of license and technology transfer costs.

Research and development expense, which represented 34.2 percent and 40.2 percent of total operating expenses for the years ended December 31, 2019 and 2018, respectively, decreased $1.2 million, or 12.9 percent, to $8.1 million for the year ended December 31, 2019 from $9.4 million for the same period in 2018, due primarily to the application of resources to support our contract with the U.S. Navy.

Sales and marketing expense decreased $1.0 million, or 28.0 percent, to $2.6 million for the year ended December 31, 2019 from $3.6 million for the same period in 2018, due primarily to a decrease in salaries, employee benefits and travel costs resulting from a reduced number of employees.

General and administrative expense increased $931 thousand, or 16.4 percent, to $6.6 million for the year ended December 31, 2019 from $5.7 million for the same period in 2018, due primarily to an increase in legal and compliance costs.

Interest expense of $758 thousand consists of $608 thousand for revolving credit facility to Nexperia and $150 thousand for note payable to Yaskawa for the year ended December 31, 2019. Interest expense of $710 thousand consists of $346 thousand for revolving credit facility and $364 thousand for notes payable to Yaskawa, Semiconductor Components Industries, LLC (“SCI”) and IIDA Electronics Co. Ltd.(“IIDA”), for the year ended December 31, 2018. The promissory notes to SCI and IIDA were both paid off in 2018.

Equity loss in joint venture increased $1.3 million, or 54.0 percent, to $3.7 million for the year ended December 31, 2019 from $2.4 million for the same period in 2018, due primarily to an increased loss resulting from the decreased utilization of the AFSW fabrication facility.

The change in fair value of promissory notes decreased $893 thousand, or 84.2 percent, to $167 thousand for the year ended December 31, 2019, compared to $1.1 million for the same period in 2018.

Other income, net of other expenses, increased $993 thousand, or 366.4 percent, to $1.3 million for the year ended December 31, 2019 from $271 thousand for the same period, due primarily to $1.2 million income generated from renting a component of the research and development facility.

Net loss decreased $10.5 million, or 40.8 percent, to $15.3 million for the year ended December 31, 2019 from $25.8 million for the same period in 2018. The decrease was attributable primarily to a $10.6 million increase in revenue, a $893 thousand positive change in fair value of promissory notes and a $993 thousand increase in other income, offset primarily by a $1.3 million increase in equity loss in joint venture and an increase in operating expenses of $600 thousand.

Liquidity and Capital Resources

As of December 31, 2019, we had cash on hand of $2.9 million, other current assets of $2.5 million and current liabilities of $20.7 million, resulting in negative working capital of $15.3 million. As of December 31, 2019, the negative working capital included a development loan of $5.0 million and revolving credit facility, including accrued interest, of $10.5 million.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As included in the accompanying consolidated financial statements, the Company has generated recurring losses from operations and has an accumulated deficit and has a working capital deficiency. These factors raise substantial doubt about the Company’s ability to continue as a going concern for the next twelve months from the issuance of these consolidated financial statements.

We plan 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. On February 12, 2020, we sold an aggregate of 5,380,000 shares of our common stock at a purchase price of $4.00 per share pursuant to the Offering and, on February 27, 2020, we sold an additional 15,000 shares of our common stock at a purchase price of $4.00 per share.

We believe that the net proceeds of $19.7 million from the Offering and our existing cash and cash equivalents will be sufficient to fund our current operating plans through at least December 2020.

Our ability to continue as a going concern is dependent on our ability to raise adequate capital to fund operating losses until we are able to generate liquidity from our business operations. To the extent sufficient financing is not available, we may not be able to, or may be delayed in, developing our offerings and meeting our obligations. We will continue to evaluate our projected expenditures relative to our available cash and evaluate financing alternatives in order to satisfy our working capital and other cash requirements. The accompanying consolidated financial statements do not reflect any adjustments that might result from the outcome of these uncertainties.

Our principal sources of liquidity have been cash generated by issuing new shares and promissory notes and, more recently, cash generated from operations.

On April 4, 2018, we entered into a multi-element commercial arrangement with Nexperia in order to raise an aggregate of $50.0 million in financing with approximately 9.9% equity dilution (on a fully-diluted basis) in exchange for performing certain technology and product development activities for Nexperia. The commercial arrangement includes a Loan and Security Agreement (“LSA”) with Nexperia, which provides for term loans in an aggregate principal amount of up to $15.0 million and an additional $9.0 million loan commitment. During 2018, as a result of the arrangement with Nexperia, we received $29.0 million, consisting of $16.0 million, $10.0 million and $3.0 million from issuing convertible preferred stock, borrowing under a revolving credit facility and recording deferred revenue of license fee, respectively. During 2019, we received the remaining $21.0 million, consisting of $15.0 million from borrowing under the LSA and $6.0 million in licensing revenue. See Note 3 - Nexperia Arrangement to our audited consolidated financial statements for more information.

Our future capital requirements will depend on many factors including our revenue growth rate, billing frequency, the timing and extent of spending to support further sales and marketing and research and development efforts, whether we are able to extend the maturity date of loans under the LSA with Nexperia and whether Yaskawa will elect to convert its convertible promissory note into our common stock in lieu of repayment. Our obligations in connection with AFSW will also impact our capital requirements, especially if FSL exercises its put option and we become the sole owner of AFSW, which would substantially increase our operating expenses and cash requirements, including as a result of our agreement to use our best efforts to maintain and continue the operations of AFSW for at least one year following the date on which we take over full ownership of AFSW. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations and financial condition would be materially and adversely affected.

Cash Flows

As of December 31, 2019, our cash and cash equivalents were $2.9 million. The following table shows a summary of our cash flows for the periods presented (in thousands):

	Year Ended December 31,		
	2019	**2018**	**Increase (Decrease)**
Net cash (used in) provided by:			
Operating activities	$ (12,290)	$ (17,685)	$ 5,395
Investing activities	(2,901)	(2,184)	(717)
Financing activities	15,000	13,000	2,000
Decrease in cash and cash equivalents excluding effect of foreign exchange rate changes	**$ (191)**	**$ (6,869)**	**$ 6,678**

Operating Activities

Net cash used in operating activities was $12.3 million and $17.7 million for the years ended December 31, 2019 and 2018, respectively. The decrease of $5.4 million was attributable primarily to the receipt of $6.0 million in license fees from Nexperia.

Investing Activities

Net cash used in investing activities was $2.9 million and $2.2 million for the years ended December 31, 2019 and 2018, respectively. Cash used in investing activities was attributable primarily to investment in joint venture of $2.7 million and $1.9 million for the years ended December 31, 2019 and 2018, respectively.

Financing Activities

Net cash provided by financing activities was $15.0 million and $13.0 million for the years ended December 31, 2019 and 2018, respectively. Net cash provided by financing activities during the year ended December 31, 2019 relates to net proceeds of $15.0 million from our development loan with Nexperia. Net cash provided by financing activities during the year ended December 31, 2018 relates to net proceeds of $10.0 million from our secured revolving credit facility with Nexperia and $16.0 million from our Series 3 convertible preferred stock offering to Nexperia, offset by principal payments of $13.0 million against promissory notes to SCI and IIDA.

Nexperia Loan and Security Agreement

On April 4, 2018, we entered into a Loan and Security Agreement ("LSA") with Nexperia. The LSA provides for term loans in an aggregate principal amount of up to $15.0 million, which term loans are available in tranches (Tranche A, Tranche B and Tranche B-1) and subject to the satisfaction of specified conditions. As of December 31, 2019, $15.0 million aggregate principal amount of term loans were outstanding under the LSA. The LSA also provides for a $10.0 million Tranche C Loan commitment, which Tranche C Loans may be borrowed, repaid and reborrowed subject to the terms and conditions of the LSA. As of December 31, 2019, $10.0 million aggregate principal amount of Tranche C Loans were outstanding under the LSA. The proceeds of the loans under the LSA may be used as set forth therein for development work related to the Development and License Agreement ("DLA") between us and Nexperia, dated as of April 4, 2018, the repayment of specified debt and for general corporate purposes.

The Tranche A Loans mature on the earlier of the date a specified report is required to be delivered under the DLA or March 31, 2020, subject to extension as provided in the LSA. The Tranche B Loans and Tranche B-1 Loans mature on the earlier of the date a specified report is required to be delivered under the DLA or March 31, 2021, subject to extension as provided in the LSA. The Tranche C commitments terminate, and the Tranche C Loans mature, on April 4, 2021.

Loans under the LSA bear interest at the rate of 6.0% per annum. Interest is payable quarterly, on the date of any prepayment or repayment and on each maturity date for the loans then maturing. A commitment fee on the unused portion of the Tranche C loan commitment accrues at the rate of 0.7% per annum and is payable quarterly.

Our obligations under the LSA are secured by a security interest on certain U.S. patents not relating to MOCVD or epiwafer technology.

The LSA contains customary affirmative covenants, including delivery of financial statements, compliance with laws, and maintenance of insurance and properties, and certain negative covenants, including restrictions on liens on the collateral and restrictions on the disposition and licensing of any patent constituting collateral under the LSA. We obtained a waiver for a non-financial covenant violation in June 2019 in connection with the delivery of our 2018 audited financial statements. The Company expects to deliver the 2019 audited financial statements before the contractual delivery date. The LSA also 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 the patents 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.

Contractual Obligations and Commitments

The following is a summary of our significant contractual obligations as of December 31, 2019 (in thousands).

	Within One Year	More than One Year and Less Than Three Years	More than Three Years and Less Than Five Years	More than Five Years	Total
Operating lease obligation	$ 705	$ 652	$ —	$ —	$ 1,357
Development loans	5,000	10,000	—	—	15,000
Revolving credit facility	10,458	—	—	—	10,458
Promissory note (1)	—	15,748	—	—	15,748
Total	**$ 16,163**	**$ 26,400**	**$ —**	**$ —**	**$ 42,563**

(1) Consists of aggregate principal amount of $15.0 million of the convertible promissory note issued to Yaskawa.

Off-Balance Sheet Transactions

We did not have during the periods presented, and we do not currently have, any off-balance sheet financing arrangements or any relationships with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our consolidated financial statements and the related notes thereto included in this Report are prepared in accordance with GAAP. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. These estimates are developed based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operation, and cash flows will be affected. We believe that the accounting policies described below involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Principles of Consolidation

The consolidated financial statements include the accounts of the Transphorm, Inc. and its wholly-owned subsidiaries, Transphorm Japan, Inc., Transphorm Japan Epi, Inc. and Transphorm Aizu, Inc. Upon consolidation, all significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with Accounting Principles Generally Accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management bases its estimates and assumptions on historical experience, knowledge of current conditions, and its belief of what could occur in the future, given available information. Actual results could differ from those estimates, and such differences could be material to the consolidated financial statements. Estimates are used for, but not limited to, the determinations of fair value of stock awards and promissory notes, accrual of liabilities, revenue recognition, inventory reserve, and useful lives for property and equipment.

Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes the impact of foreign currency translation adjustments.

Accounts Receivable

Accounts receivable are analyzed and allowances for uncollectible accounts are recorded, as required. Provisions for uncollectible accounts, if any, are recorded as bad debt expense and included in general and administrative expenses in the accompanying consolidated statements of operations. The process for determining the appropriate level of allowances for doubtful accounts involves judgment, and considers such factors as the age of the underlying receivables, historical and projected collection trends, the composition of outstanding receivables, current economic conditions and regulatory changes. An account is fully reserved when reasonable collection efforts have been unsuccessful and it is probable that the receivable will not be recovered.

Inventory

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. The Company periodically reviews the value of items in inventory and records write-downs or write-offs based on its assessment of slow moving or obsolete inventory. The Company maintains an inventory reserve for obsolete inventory and generally makes inventory value adjustments against the inventory reserve.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the respective assets, generally ranging from three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the related lease term. Depreciation for equipment commences once it is placed in service, and depreciation for buildings and leasehold improvements commences once they are ready for their intended use. The Company expenses maintenance and repair costs that do not extend the life of the asset as they are incurred.

The Company evaluates the carrying amount of its property and equipment whenever events or changes in circumstances indicate that the assets may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of an asset or asset group and its eventual disposition is less than the carrying amount of the asset or asset group. To date, there have been no such impairment losses.

Goodwill

Goodwill arose for the acquisition of a business in February 2014 based in Japan and was accounted for as the purchase of a business. Goodwill generated from business combinations and deemed to have indefinite lives are not subject to amortization and instead are tested for impairment at least annually in December unless certain events occur or circumstances change. Goodwill represents the excess of the purchase price over the fair value of the net

assets and other identifiable intangible assets acquired. We test for goodwill impairment annually or earlier if events or changes in circumstances indicate goodwill might possibly be impaired. Impairment exists when the carrying value of the goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess as a charge to operations in the consolidated statements of operations.

Intangible Assets

Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives, which generally range from three to ten years. Each reporting period, the Company evaluates the estimated remaining useful lives of intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization.

If it is determined that the carrying values might not be recoverable based upon the existence of one or more indicators of impairment, the Company performs a test for recoverability using various methodologies, such as the income approach or cost approach, to determine the fair value of intangible assets depending upon the nature of the assets. If assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their respective fair values.

Revenue Recognition

Revenue Recognition Policy

The Company derives its revenues from sales of high-powered GaN-based products manufactured utilizing their proprietary and patented epiwafer technology and wafer fabrication and other assembly processes, and sales of GaN epiwafers for the RF and power markets, as well as sales of licenses to use such patented proprietary technology. Revenues are recognized when control of these products or licenses are transferred to its customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products and licenses. 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.

Disaggregation of Revenue from Contracts with Customers

Revenue for the years ended December 31, 2019 and 2018 consists of licensing revenue, government contract revenue from our contract with the U.S. Navy and product sales, with such performance obligation satisfied at a point in time. Products are sold to distributors and end-users in various sectors such as, but not limited to, the automotive, gaming, industrial, IT, and consumer products industries.

As part of the Collaboration Arrangement executed with Nexperia on April 4, 2018, the Company agreed to grant Nexperia the perpetual exclusive right to use the Company's existing Gen 3 manufacturing process technology. License fees are received upon satisfaction of contractual milestones and recognized upon delivery of the perpetual license or transferred technology without any remaining performance obligations. For the year ended December 31, 2019, the Company received the remaining $6.0 million and recognized a total of $9.0 million, including $3.0 million received in 2018, as licensing revenue upon satisfaction of contractual milestones and delivery of the perpetual license and transferred technology without any remaining performance obligations. For the year ended December 31, 2018, the Company did not recognize any revenue related to the process transfer or technology development performance obligations. The $3.0 million contract liability related to cash received in 2018 from Nexperia is included in deferred revenue.

Government contract revenues are principally generated under research and development contracts. Contract revenues are derived primarily from research contracts with agencies of the United States Government. We believe credit risk related to accounts receivable arising from such contracts is minimal. These contracts may include

cost-plus fixed fee and fixed price terms. All payments to us for work performed on contracts with agencies of the U.S. Government are subject to adjustment upon audit by the Defense Contract Audit Agency.

Performance Obligations

For performance obligations related to the sale of products, control transfers to the customer at a point in time. The Company's principal terms of sale are free on board shipping or destination and the Company transfers control and records revenue for product sales upon shipment or delivery to the customer, respectively. For performance obligations related to the licensing for the use of patented technology in perpetuity, control also transfers to the customer at a point in time. The Company transfers control and records revenue for licensing fees once the Company has (i) provided or otherwise makes available the patented technology to the customer and (ii) the customer is able to use and benefit from the patented technology.

Variable Consideration

The nature of the Company's arrangement with Nexperia gives rise to variable consideration in the form of milestone and royalty payments. 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 are recognized upon the subsequent sale occurring. The variable amounts are received upon satisfaction of contractually agreed upon development targets and sales volume.

Research and Development

The Company is a party to research grant contracts with the U.S. federal government for which the Company is reimbursed for specified costs incurred for its research projects. These projects include energy saving initiatives for which the U.S. federal government offers reimbursement funds. Such reimbursements are recorded as an offset to research and development expenses when the related qualified research and development expenses are incurred. Reimbursable costs are recognized in the same period the costs are incurred up to the limit of approved funding amounts on qualified expenses. There were no material reimbursements during the years ended December 31, 2019 and 2018 related to cost reimbursement contracts.

Stock-Based Compensation

All share-based payments, including grants of stock options, are measured based on the fair value of the share-based awards at the grant date and recognized over their respective vesting periods, which is generally four years. The estimated fair value of stock options at the grant date is determined using the Black-Scholes-Merton pricing model. The Company recognizes the fair value of share-based payments as compensation expense for all expected-to-vest stock-based awards over the vesting period of the award using the straight-line attribution method provided that the amount of compensation cost recognized at any date is no less than the portion of the grant-date fair value of the award that is vested at that date.

The Black-Scholes-Merton option pricing model requires inputs such as the fair value of common stock on date of grant, expected term, expected volatility, dividend yield, and risk-free interest rate. Further, the forfeiture rate also affects the amount of aggregate compensation expense. These inputs are subjective and generally require significant analysis and judgment to develop. Volatility data is obtained from a study of publicly traded industry peer companies. The forfeiture rate is derived primarily from the Company's historical data, and the risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon issues commensurate with the expected term. Management generally uses the simplified method to calculate the expected term for employee grants as the Company has limited historical exercise data or alternative information to reasonably estimate an expected term assumption. The simplified method assumes that all options will be exercised midway between the weighted average vesting date and the contractual term of the option.

Stock-based compensation expense recognized in the Company's consolidated financial statements is based on awards that are expected to vest. These expense amounts have been reduced by using an estimated forfeiture rate.

Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company evaluates the assumptions used to estimate forfeitures annually in connection of recognition of stock-based compensation expense.

Loss Per Share

Basic loss per share is calculated by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing the net income attributable to common stockholders by the sum of the weighted average number of common shares outstanding plus potential dilutive common shares outstanding during the period. Potential dilutive securities, comprised of the convertible preferred stock, stock warrants and stock options, are not reflected in diluted net loss per share because such shares are anti–dilutive. Dilutive impact of potential common shares resulting from common stock equivalents is determined by applying the treasury stock method.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of the Company's financial instruments such as cash equivalents, accounts receivable, revolving credit facility, accounts payable and accrued liabilities approximate fair values due to the short-term nature of these items. The Company has elected the fair value option for its promissory notes. See Note 4 - Fair Value Measurements for more information.

Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification ("ASC") 740, *Income Taxes* ("ASC 740"). ASC 740 prescribes the use of the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities and are measured using the enacted statutory tax rates in effect at the balance sheet date. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exists.

Equity Method Investments

The Company uses the equity method to account for investments in entities that it does not control, but in which it has the ability to exercise significant influence over operating and financial policies. The Company's proportionate share of the net income or loss of these companies is included in consolidated net earnings. Judgments regarding the level of influence over each equity method investment include consideration of key factors such as the Company's ownership interest, representation on the board of directors or other management body and participation in policy-making decisions.

Segment Reporting

The Company's operations and its financial performance is evaluated on a consolidated basis by the chief operating decision maker. Accordingly, the Company considers all of its operations to be aggregated in one reportable operating segment. For the year ended December 31, 2019, total revenue was $11.9 million , of which $11.9 million was from U.S. operations and $28 thousand was from Japan operations. For the year ended December 31, 2018, total revenue was $1.4 million, of which $1.3 million was from U.S. operations and $49 thousand was from Japan operations.

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.

Recently Issued Accounting Standards Adopted

In July 2017, the Financial Accounting Standards Boards ("FASB") issued Accounting Standards Update ("ASU") 2017-11, *Earnings Per Shares (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815).* ASU 2017-11 changes the classification analysis of certain equity-linked financial instruments, such as warrants and embedded conversion features, such that a down round feature is disregarded when assessing whether the instrument is indexed to an entity's own stock under Subtopic 815-40. As a result, a down round feature no longer requires an instrument to be remeasured at fair value through earnings each period, although all other aspects of the indexation guidance under Subtopic 815-40 continue to apply. ASU 2017-11 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company adopted this standard, which did not have a material effect on the consolidated financial statements.

Stock Compensation - In May 2017, the FASB issued ASU 2017-09, *Compensation -Stock Compensation (Topic 718)* ("ASU 2017-09"), which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. ASU 2017-09 is effective for the Company's 2018 fiscal year, although early adoption is permitted. The Company adopted this standard, which did not have a material effect on the consolidated financial statement.

Recently Issued Accounting Standards under Evaluation

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 simplification initiative (i.e., the Board's effort 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 the Company's 2021 fiscal year. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Fair Value - In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (ASC 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes certain disclosures, modifies certain disclosures and adds additional disclosures. ASU 2018-13 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Statement of Cash Flows - In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). This guidance addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. ASU 2016-15 is effective for the Company's 2020 fiscal year. The guidance is to be adopted retrospectively unless impracticable upon which the guidance is to be adopted prospectively. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Financial Instruments - In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). 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's 2021 fiscal year. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Leases - In February 2016, the FASB issued ASU 2016-02, *Leases*, which, for operating leases, requires the lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The guidance also requires a lessee to recognize single lease costs, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. This guidance will be effective for the Company in fiscal year 2021 and must be adopted using a modified retrospective transition approach. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Transphorm, Inc.

Unaudited Pro Forma Condensed Combined Consolidated Financial Statements

Table of Contents

	Page Number
Unaudited Pro Forma Condensed Combined Consolidated Financial Information	2
Unaudited Pro Forma Condensed Combined Consolidated Balance Sheets as of December 31, 2019	5
Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations for the Year Ended December 31, 2019	6
Pro Forma Adjustments	6

Unaudited Pro Forma Condensed Combined Consolidated Financial Information

We were incorporated as Peninsula Acquisition Corporation in the State of Delaware on May 31, 2017. Prior to the Merger (as defined below), we were a "shell company" (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended).

On December 6, 2019, our board of directors and our pre-Merger (as defined below) stockholders approved an amended and restated certificate of incorporation, which, among other things, increased our authorized common stock from 50,000,000 shares of common stock, par value $0.0001 per share to 750,000,000 shares of common stock, par value $0.0001 per share, and authorizes 5,000,000 shares of preferred stock, par value $0.0001 per share.

On February 12, 2020, our wholly-owned subsidiary, Peninsula Acquisition Sub, Inc., a corporation formed in the State of Delaware on April 22, 2019 ("Acquisition Sub"), merged with and into Transphorm, Inc., a Delaware corporation ("Transphorm Technology"). Pursuant to this transaction (the "Merger"), each share of Transphorm Technology's common stock issued and outstanding immediately prior to the closing of the Merger was converted into the right to receive (a) 0.08289152527 (the "Common Stock Conversion Ratio") shares of our common stock (in the case of shares held by accredited investors) or (b) $4.00 multiplied by the Common Stock Conversion Ratio (in the case of shares held by unaccredited investors), with the maximum number of shares of our common stock issuable to the former holders of Transphorm Technology's common stock equal to 4,224,382 (ii) 51,680,254 shares of Transphorm Technology's Series 1 preferred stock issued and outstanding immediately prior to the closing of the Merger were converted into 12,433,953 shares of our common stock, (iii) 38,760,190 shares of Transphorm Technology's Series 2 preferred stock issued and outstanding immediately prior to the closing of the Merger were converted into 7,499,996 shares of our common stock, and (iv) 31,850,304 shares of Transphorm Technology's Series 3 preferred stock issued and outstanding immediately prior to the closing of the Merger were converted into 4,000,000 shares of our common stock. As a result, a maximum of 28,158,331 shares of our common stock will be issued to the holders of Transphorm Technology's issued and outstanding capital stock after adjustments due to rounding for fractional shares. Immediately prior to the consummation of the Merger, an aggregate of 682,699 shares of our common stock, owned by the stockholders of Peninsula Acquisition Corporation prior to the Merger, were forfeited and cancelled (the "Stock Forfeiture").

In addition, pursuant to the Merger Agreement, (i) options to purchase 29,703,285 shares of Transphorm Technology's common stock issued and outstanding immediately prior to the closing of the Merger under Transphorm Technology's 2007 Stock Plan and 2015 Equity Incentive Plan were assumed and converted into options to purchase 2,461,923 shares of our common stock, (ii) warrants to purchase 186,535 shares of Transphorm Technology's common stock issued and outstanding immediately prior to the closing of the Merger were assumed and converted into warrants to purchase 15,461 shares of our common stock, and (iii) Transphorm Technology's outstanding convertible promissory note was amended to be convertible, at the option of the holder, into a maximum of 3,076,171 shares of our common stock at a conversion price of $5.12 per share. As of the closing of the Merger, there was $15.0 million of principal and $0.3 million of accrued and unpaid interest outstanding on the convertible promissory note.

Upon filing of the Certificate of Merger on February 12, 2020, Transphorm Technology changed its name to "Transphorm Technology, Inc." and we adopted Transphorm Technology's former company name, "Transphorm, Inc.", as our company name by filing a Certificate of Amendment to our Certificate of Incorporation.

On February 11, 2020, our board of directors and all of our pre-Merger stockholders approved an amended and restated certificate of incorporation, which will be effective upon its filing with the Secretary of State of the State of Delaware on the date that is 20 days after the mailing of a definitive Schedule 14C information statement to our pre-Merger stockholders. On February 11, 2020, our board of directors adopted amended and restated bylaws.

As a result of the Merger, we acquired the business of Transphorm Technology and will continue the existing business operations of Transphorm Technology as a publicly-traded company under the name Transphorm, Inc. On February 12, 2020 and February 27, 2020, we sold 5,365,000 shares and 15,000 shares, respectively, of our common stock in a private placement offering (the "Offering"), at a purchase price of $4.00 per share.

In accordance with “reverse merger” or “reverse acquisition” accounting treatment, our historical financial statements as of period ends, and for periods ended, prior to the Merger will be replaced with the historical financial statements of Transphorm Technology prior to the Merger, in all future filings with the SEC.

Immediately after giving effect to the Merger (and assuming the issuance of an aggregate of 28,158,331 shares of our common stock in the Merger), the Stock Forfeiture, and the closing of the Offering, there will be a maximum of 35,188,331 shares of our common stock issued and outstanding as of the Closing Date, as follows:

- the stockholders of Transphorm Technology prior to the Merger will hold a maximum of 28,158,331 shares of our common stock, excluding any shares purchased by them in the Offering and after adjustments due to rounding for fractional shares (which maximum number may be reduced within 5 days of the Closing Date to the extent a stockholder of Transphorm Technology prior to the Merger is an unaccredited investor and receives a cash payment per share of $4.00 multiplied by the Common Stock Conversion Ratio, in lieu of shares of our common stock);

- investors in the closing of the Offering hold 5,380,000 shares of our common stock, excluding any shares issued to them in connection with the Merger as a result of being a stockholder of Transphorm Technology prior to the Merger; and

- 1,650,000 shares are held by persons who purchased or received such shares for services rendered from pre-Merger Peninsula Acquisition Corporation.

The Merger is being accounted for as a reverse-merger and recapitalization. Transphorm Technology is the acquirer for financial reporting purposes, and Peninsula Acquisition Corporation is the acquired company under the acquisition method of accounting in accordance with Financial Accounting Standards Board’s Accounting Standards Codification Topic 805, *Business Combination*. Consequently, the assets, liabilities and operations that will be reflected in the historical financial statements prior to the Merger will be those of Peninsula Acquisition Corporation and will be recorded at the historical cost basis of Peninsula Acquisition Corporation, and the consolidated financial statements after completion of the Merger will include the assets, liabilities and results of operations of Transphorm Technology up to the day prior to the closing of the Merger and the assets, liabilities and results of operations of the combined company from and after the closing date of the Merger.

The following unaudited pro forma combined financial statements give effect to both the Merger and the Offering and were prepared in accordance with Accounting Principles Generally Accepted in the United States of America (“GAAP”).

Certain fees associated with the acquisition and the Offering that were incurred by Transphorm Technology and Peninsula Acquisition Corporation, such as fees for legal and financial services, are not reflected in these unaudited pro forma combined financial statements. The unaudited pro forma combined statements of operations eliminate any non-recurring charges directly related to the Merger that the combined entities incur upon completion of the Merger.

The unaudited pro forma combined balance sheet as of December 31, 2019 gives effect to the Merger and the closing of the Offering as if they had been consummated on December 31, 2019, and includes adjustments that give effect to events that are directly attributable to the transactions and that are factually supportable. The unaudited pro forma combined statements of operations for the year ended December 31, 2019 gives effect to the transactions as if they had been consummated on January 1, 2019 and include adjustments that give effect to events that are directly attributable to the transactions, are expected to have a continuing impact, and that are factually supportable. The notes to the unaudited pro forma combined financial information describe the pro forma amounts and adjustments presented below.

The unaudited pro forma combined financial information does not purport to represent what the combined company’s results of operations and comprehensive loss or financial position would actually have been had the

transactions occurred on the dates described above or to project the combined company's results of operations and comprehensive loss or financial position for any future date or period.

The unaudited pro forma combined financial information should be read together with (1) Transphorm Technology's audited balance sheets as of December 31, 2019 and 2018 and the related statements of operations, statements of stockholders' deficit and statements of cash flows for the years ended December 31, 2019 and 2018 and the accompanying notes, (2) Peninsula Acquisition Corporation's audited balance sheet as of June 30, 2019 and 2018 and the related statements of operations, statements of cash flows, and statements of stockholder's equity for the years ended June 30, 2019 and 2018 and the accompanying notes, and (3) Peninsula Acquisition Corporation's unaudited interim balance sheet as of December 31, 2019 and the related statements of operations, statements of cash flows, and statements of stockholder's equity for the six months ended December 31, 2019 and the accompanying notes.

Transphorm Technology and Peninsula Acquisition Corporation
Unaudited Pro Forma Condensed Combined Consolidated Balance Sheets
As of December 31, 2019
(in thousands)

	Transphorm Technology	Peninsula Acquisition Corporation	Pro Forma Adjustments - Merger		Pro Forma Adjustments - Private Placement		Transphorm, Inc. Pro Forma Combined
Assets							
Current assets:							
Cash and cash equivalents	$ 2,875	$ 4	$ —		$ 19,743	C	$ 22,572
					(50)	C	
Accounts receivable, net	709	—	—		—		709
Inventory	990	—	—		—		990
Prepaid expenses and other current assets	783	—	—		—		783
Total current assets	5,357	4	—		19,693		25,054
Property and equipment, net	1,770	—	—		—		1,770
Goodwill	1,325	—	—		—		1,325
Intangible assets, net	1,313	—	—		—		1,313
Other assets	497	—	—		(177)	C	320
Total assets	**$ 10,262**	**$ 4**	**$ —**		**$ 19,516**		**$ 29,782**
Liabilities, convertible preferred stock and stockholders' deficit							
Current liabilities:							
Accounts payable and accrued expenses	$ 2,383	$ 13	$ 650	B	$ (177)	C	$ 2,869
Development loan	5,000	—	—		—		5,000
Revolving credit facility	10,458	—	—		—		10,458
Note payable - stockholder	—	117	—		(117)	C	—
Unfunded commitment to joint venture	1,688	—	—		—		1,688
Accrued payroll and benefits	1,159	—	—		—		1,159
Total current liabilities	20,688	130	650		(294)		21,174
Development loans, net of current portion	10,000	—	—		—		10,000
Promissory note	16,169	—	—		—		16,169
Total liabilities	**46,857**	**130**	**650**		**(294)**		**47,343**
Convertible preferred stock							
Series 1	39,658	—	(39,658)	A	—		—
Series 2	30,000	—	(30,000)	A	—		—
Series 3	16,000	—	(16,000)	A	—		—
Total convertible preferred stock	**85,658**	**—**	**(85,658)**		**—**		**—**
Stockholders' deficit:							
Common stock	4	—	(1)	A	1	C	4
Additional paid-in capital	22,400	25	85,659	A	21,519	C	127,675
			(151)	B	(1,777)	C	
Accumulated deficit	(143,915)	(151)	151	B	67	C	(144,498)
			(650)	B			
Accumulated other comprehensive loss	(742)	—	—		—		(742)
Total stockholders' deficit	**(122,253)**	**(126)**	**85,008**		**19,810**		**(17,561)**
Total liabilities, convertible preferred stock and stockholders' deficit	**$ 10,262**	**$ 4**	**$ —**		**$ 19,516**		**$ 29,782**

Transphorm Technology and Peninsula Acquisition Corporation
Unaudited Pro Forma Consolidated Combined Statements of Operations
For the Year Ended December 31, 2019
(in thousands except per share and share data)

	Transphorm Technology	Peninsula Acquisition Corporation	Pro Forma Adjustments		Pro Forma Adjustments - Private Placement		Transphorm, Inc. Pro Forma Combined
Revenue, net	$ 11,934	$ —	$ —		$ —		$ 11,934
Operating expenses:							
Cost of goods sold	6,492	—	—		—		6,492
Research and development	8,146	—	—		—		8,146
Sales and marketing	2,609	—	—		—		2,609
General and administrative	6,606	43	650	B	—		7,299
Total operating expenses	23,853	43	650		—		24,546
Loss from operations	(11,919)	(43)	(650)		—		(12,612)
Interest expense	758	5	—		—		763
Loss in joint venture	3,703	—	—		—		3,703
Changes in fair value of promissory notes	167	—	—		—		167
Other income, net	(1,264)	—	—		—		(1,264)
Loss before tax expense	(15,283)	(48)	(650)		—		(15,981)
Tax expense	—	—	—		—		—
Net loss	**$ (15,283)**	**$ (48)**	**$ (650)**		**$ —**		**$ (15,981)**
Loss per share - basic and diluted	$ (3.62)	$ (0.01)	—		—		$ (0.45)
Weighted average common shares outstanding - basic and diluted	4,219,656	2,307,699	23,276,200	A, D	5,380,000	C	35,183,555

Pro Forma Adjustments

A. To reflect the conversion of convertible preferred stock and common stock of Transphorm Technology into Peninsula Acquisition Corporation as below:

- 51,680,254 shares issued and outstanding of Transphorm Technology Series 1 convertible preferred stock, par value $0.001 per share into 12,433,953 shares of Peninsula Acquisition Corporation common stock, par value $0.0001 per share;
- 38,760,190 shares issued and outstanding of Transphorm Technology Series 2 convertible preferred stock, par value $0.001 per share into 7,499,996 shares of Peninsula Acquisition Corporation common stock, par value $0.0001 per share;
- 31,850,304 shares issued and outstanding of Transphorm Technology Series 3 convertible preferred stock, par value $0.001 per share into 4,000,000 shares of Peninsula Acquisition Corporation common stock, par value $0.0001 per share; and
- 50,905,160 shares issued and outstanding of Transphorm Technology common stock, par value $0.001 per share into 4,219,606 shares of Peninsula Acquisition Corporation common stock, par value $0.0001 per share.

B. To eliminate the accumulated deficit of Peninsula Acquisition Corporation and record cost of the merger.

C. On February 12, 2020, Peninsula Acquisition Corporation (now renamed Transphorm, Inc.) completed a private placement offering and issued 5,365,000 shares of common stock, with a par value of $0.0001 per share, at an offering price of $4.00 per share. On February 27, 2020, we held a second closing of the private placement offering and issued an additional 15,000 shares of our common stock, with a par value of $0.0001 per share, at an offering price of $4.00 per share. The aggregate gross proceeds, net of placement agent and other offering expenses of $1.8 million, are $19.7 million. In addition, accrued private placement offering cost of $177 thousand was reversed and note payable of $117 thousand to stockholder was settled at $50 thousand.

D. To include the forfeiture and cancellation of 682,699 shares of common stock and the issuance of 25,000 shares of common stock to a service provider of Peninsula Acquisition Corporation.