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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from ______ to ______

Commission File Number 001-37900

Everspin Technologies, Inc.
(Exact name of Registrant as specified in its Charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**26-2640654** **(I.R.S. Employer Identification No.)**

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

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

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

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

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

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

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

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

The number of shares of Registrant's Common Stock outstanding as of November 2, 2018 was 17,094,074.

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2018 (Unaudited)	December 31, 2017 (See Note 2)
Assets		
Current assets:		
Cash and cash equivalents	$ 31,438	$ 12,950
Accounts receivable, net	5,582	4,041
Inventory	9,482	9,837
Prepaid expenses and other current assets	436	590
Total current assets	46,938	27,418
Property and equipment, net	4,438	3,946
Other assets	73	73
Total assets	$ 51,449	$ 31,437
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,847	$ 2,920
Accrued liabilities	8,588	3,748
Deferred income on shipments to distributors	—	1,720
Current portion of long-term debt	4,472	3,987
Total current liabilities	15,907	12,375
Long-term debt, net of current portion	7,928	8,178
Total liabilities	23,835	20,553
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value per share; 5,000,000 shares authorized; no shares issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
Common stock, $0.0001 par value per share; 100,000,000 shares authorized; 17,065,846 and 12,817,201 shares issued and outstanding as of September 30, 2018 and December 31, 2017	2	1
Additional paid-in capital	158,125	128,422
Accumulated deficit	(130,513)	(117,539)
Total stockholders' equity	27,614	10,884
Total liabilities and stockholders' equity	$ 51,449	$ 31,437

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Product sales	$ 10,469	$ 8,323	$ 29,283	$ 22,171
Licensing, royalty, and other revenue	1,049	685	7,853	3,642
Total revenue	11,518	9,008	37,136	25,813
Cost of sales	6,109	3,753	17,235	10,549
Gross profit	5,409	5,255	19,901	15,264
Operating expenses:				
Research and development	6,453	6,420	19,706	19,236
General and administrative	2,913	3,031	9,461	8,669
Sales and marketing	1,582	1,112	4,661	3,331
Total operating expenses	10,948	10,563	33,828	31,236
Loss from operations	(5,539)	(5,308)	(13,927)	(15,972)
Interest expense	(229)	(178)	(662)	(584)
Other income, net	139	40	315	83
Loss on extinguishment of debt	—	—	—	(246)
Net loss and comprehensive loss	$ (5,629)	$ (5,446)	$ (14,274)	$ (16,719)
Net loss per common share, basic and diluted	$ (0.33)	$ (0.43)	$ (0.88)	$ (1.35)
Weighted-average shares used to compute net loss per common share, basic and diluted	16,944,660	12,559,812	16,130,882	12,425,390

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

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities		
Net loss	$ (14,274)	$ (16,719)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,069	837
Loss on disposal of property and equipment	19	—
Stock-based compensation	2,064	1,511
Non-cash loss on extinguishment of debt	—	185
Non-cash interest expense	286	188
Compensation expense related to vesting of common stock to GLOBALFOUNDRIES	709	1,224
Changes in operating assets and liabilities:		
Accounts receivable	(1,876)	(527)
Inventory	309	(2,628)
Prepaid expenses and other current assets	154	320
Other assets	—	(11)
Accounts payable	(140)	(333)
Accrued liabilities	4,840	1,109
Deferred income on shipments to distributors	—	323
Shipping term reversal	(39)	—
Net cash used in operating activities	(6,879)	(14,521)
Cash flows from investing activities		
Purchases of property and equipment	(1,513)	(2,170)
Net cash used in investing activities	(1,513)	(2,170)
Cash flows from financing activities		
Proceeds from the issuance of common stock, net of offering costs	24,524	—
Proceeds from debt	1,000	12,000
Payments on debt	(1,000)	(8,356)
Payments of debt issuance costs	—	(49)
Payments on capital lease obligation	(8)	(7)
Proceeds from exercise of stock options and purchase of shares in employee stock purchase plan	2,364	1,218
Net cash provided by financing activities	26,880	4,806
Net increase (decrease) in cash and cash equivalents	18,488	(11,885)
Cash and cash equivalents at beginning of period	12,950	29,727
Cash and cash equivalents at end of period	$ 31,438	$ 17,842
Supplementary cash flow information:		
Interest paid	$ 370	$ 396
Non-cash investing and financing activities:		
Purchase of property and equipment in accounts payable	$ 183	$ 764
Issuance of warrants with debt	$ 43	$ —

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

EVERSPIN TECHNOLOGIES, INC.

Notes to Unaudited Condensed Financial Statements

1. Organization and Nature of Business

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

Ability to continue as a going concern

The Company believes that its existing cash and cash equivalents as of September 30, 2018, coupled with its anticipated growth and sales levels will be sufficient to meet its anticipated cash requirements for at least the next twelve months from the financial statement issuance date. The Company's future capital requirements will depend on many factors, including its growth rate, the timing and extent of its spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, and the introduction of new products. The Company may be required at some point in the future to seek additional equity or debt financing, to sustain operations beyond that point, and such additional financing may not be available on acceptable terms or at all. If the Company is unable to raise additional capital or generate sufficient cash from operations to adequately fund its operations, it will need to curtail planned activities to reduce costs. Doing so will likely harm its ability to execute on its business plan.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP have been condensed or omitted, and accordingly the balance sheet as of December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information required by GAAP for complete financial statements. These unaudited interim condensed financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company's financial information. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any other interim period or for any other future year.

The accompanying condensed financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K filed with the SEC.

Use of Estimates

The preparation of the condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, fair value of assets and liabilities, inventory, income taxes, and stock-based compensation. Actual results could differ from those estimates and assumptions.

Accounts receivable, net

The Company estimates credits to distributors based on the historical rate of credits provided to distributors relative to sales. At September 30, 2018, the allowance for product returns and the allowance for price concessions were $230,000 and $362,000, respectively. At December 31, 2017, the allowance for product returns and the allowance for price concessions were $147,000 and $0, respectively.

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

	September 30, 2018	December 31, 2017
Trade accounts receivable	$ 5,687	$ 4,188
Unbilled accounts receivable	487	—
Allowance for accounts receivable	(592)	(147)
Accounts receivable, net	$ 5,582	$ 4,041

Concentration of Credit Risk

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

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

	Revenue		Revenue		Accounts Receivable, net	
	Three Months Ended September 30,		Nine Months Ended September 30,		As of September 30,	As of December 31,
Customers	2018	2017	2018	2017	2018	2017
Customer A	13 %	*	13 %	*	*	11 %
Customer B	13 %	16 %	13 %	14 %	*	*
Customer C	10 %	18 %	*	17 %	*	*
Customer D	10 %	*	*	*	11 %	*
Customer E	*	*	14 %	*	*	*
Customer F	*	*	*	*	17 %	*
Customer G	*	*	*	*	12 %	*
Customer H	*	*	*	*	*	15 %
Customer I	*	*	*	10 %	*	10 %

* Less than 10%

Fair Value of Financial Instruments

The Company discloses and recognizes the fair value of its assets and liabilities using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (Level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2—Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

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

The carrying value of accounts receivable, accounts payable, and other accruals readily convertible into cash approximate fair value because of the short-term nature of the instruments. As of September 30, 2018, based on Level 2 inputs and the borrowing rates available to the Company for loans with similar terms and consideration of the Company's credit risk, the carrying value of the Company's variable interest rate debt, excluding unamortized debt issuance costs, approximates fair value. The Company's financial instruments consist of Level 1 assets. Where quoted prices are available in an active market, securities are classified as Level 1. Level 1 assets consist of highly liquid money market funds that are included in cash equivalents.

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

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$31,683	$ —	$ —	$31,683
Total assets measured at fair value	$31,683	$ —	$ —	$31,683

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$13,369	$ —	$ —	$13,369
Total assets measured at fair value	$13,369	$ —	$ —	$13,369

Revenue Recognition

The Company recognizes revenue when a customer obtains control of the promised products or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those products or services. Revenue is recognized net of allowances for returns and price concessions, and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Nature of Products and Services

The Company's revenue is derived from the sale of MRAM-based products in discrete unit form, licenses of and royalties on its MRAM and magnetic sensor technology, the sale of backend foundry services and design services to third parties. Sales of products in discrete unit form are recognized at a point in time, revenue related to licensing agreements is recognized when the Company has delivered control of the technology, revenue related to royalty agreements is recognized in the period in which sales generated from products sold using the Company's technology occurs, sales of backend foundry services are recognized over time, and design services to third parties are recognized either at a point in time or over time, depending on the nature of the services.

Product Revenue

For products sold in their discrete form, the Company either sells its products directly to original equipment manufacturers (OEMs), original design manufacturers (ODMs) and contract manufacturers (CMs), or through a network of distributors, who in turn sell to those customers. For sales directly to OEMs, ODMs and CMs, revenue is recognized when the OEM, ODM or CM obtains control of the product, which occurs at a point in time, generally upon shipment to the customer.

The Company sells the majority of its products to its distributors at a uniform list price. However, distributors may resell the Company's products to end customers at a very broad range of individually negotiated price points. Distributors are provided with price concessions subsequent to the delivery of product to them and such amounts are dependent on the end customer and product sales price. The price concessions are based on a variety of factors, including customer, product, quantity, geography and competitive differentiation. Price protection rights grant distributors the right to a credit in the event of declines in the price of the Company's products. Under these circumstances, the Company remits back to the distributor a portion of their original purchase price after the resale transaction is completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits are on a per unit basis and are not given to the distributor until the distributor provides information regarding the sale to their end customer. The Company estimates these credits and records such estimates in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of an allowance for price concessions due to distributors. The Company estimates credits to distributors based on the historical rate of credits provided to distributors relative to sales. Revenue on shipments to distributors is recorded when control of the products has been transferred to the distributor.

The Company estimates the amount of its product sales that may be returned by its customers and records this estimate as a reduction of revenue in the period the related product revenue is recognized. The Company estimates its product return liability by analyzing its historical returns, current economic trends and changes in customer demand and acceptance of products. The Company has received insignificant returns to date and believes that returns of its products will continue to be minimal.

At the time of shipment to distributors, the Company records a trade receivable for the selling price as there is a legally enforceable obligation of the distributor to pay for the product delivered, an allowance is recorded for the estimated discount that will be provided to the distributor, and the net of these amounts is recorded as revenue on the statement of operations.

License Revenue

For licenses of technology, recognition of revenue is dependent upon whether the Company has delivered rights to the technology, and whether there are future performance obligations under the contract. In some instances, the license agreements call for future events or activities to occur in order for milestones amounts to become due from the customer. The terms of such agreements include payment to the Company of one or more of the following: non-refundable upfront fees; and royalties on net sales of licensed products. Historically, these license agreements have not included other future performance obligations for the Company once the license has been transferred to the customer.

The transaction price in each agreement is allocated to the identified performance obligations based on the standalone selling price (SSP) of each distinct performance obligation. Judgment is required to determine SSP. In instances where SSP is not directly observable, such as when a license or service is not sold separately, SSP is determined using information that may include market conditions and other observable inputs.

Revenue from non-refundable up-front payments is recognized when the license is transferred to the customer and the Company has no other performance obligations.

Royalties

Revenue from sales-based royalties from licenses of the Company's technology are recognized at the later of when (1) the sale occurs or (2) the performance obligation to which some or all of the sales-based royalty has been allocated is satisfied (in whole or in part).

Other Revenue

For certain revenue streams, the Company recognizes revenue based on the pattern of transfer of the services. The Company uses the input method of measuring costs incurred to date compared to total estimated costs to be incurred under the contract as this method most faithfully depicts its performance. The Company will record an unbilled receivable (within accounts receivable, net) for the portion of the work that has been completed but not invoiced at the end of each reporting period.

Revenue from milestone payments must be estimated using either the expected value method or the most likely amount method. At the inception of each agreement that includes milestone payments, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price by using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. At the end of each subsequent reporting period, the Company re-evaluates the probability or achievement of each such milestone and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

Net Loss per Common Share

Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period, less shares subject to repurchase, without consideration of potentially dilutive securities. Diluted net loss per common share is the same as basic net loss per common share since the effect of potentially dilutive securities is anti-dilutive.

Prior Period Reclassifications

Certain amounts in the prior period have been reclassified to conform with current period presentation. There was no impact on total revenue or net loss for the prior period.

Recently Adopted Pronouncements

ASU No. 2014-09, Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). Areas of revenue recognition that will be affected include, but are not limited to, transfer of control, variable consideration, allocation of transfer pricing, licenses, time value of money, contract costs and disclosures. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018 using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of its accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Topic 606 permits the application of certain practical expedients. The Company’s billing practices approximate the Company’s performance as measured by an output method, where each output represents the completion of a performance obligation. Accordingly, the Company utilizes the invoice practical expedient as defined in Topic 606, resulting in recognition of revenue in the amount that the Company has the right to invoice.

The Company incurs direct and incremental costs of obtaining contracts and such costs are expensed as incurred, as the life of the underlying contract is less than one year. Accordingly, the Company has concluded, based on the structure of its contracts, no adjustments are necessary under Topic 606.

As a result of the adoption of the new standard, the Company changed its accounting policy for revenue recognition and the details of the significant changes and quantitative impact of the changes are disclosed below.

Distributor sales - Some of the Company's contracts with distributors provide the distributor with certain concessions and price protection credits. Under Topic 605, Revenue, these concessions and price protection credits were not fixed or determinable and, as a result, the associated revenue was deferred until delivery of the product to the end customer. At the time of shipment to distributors, the Company recorded a trade receivable for the selling price as there was a legally enforceable obligation of the distributor to pay for the product delivered, inventory was reduced by the carrying value of goods shipped, and the net of these amounts, the gross profit, was recorded as deferred income on shipments to distributors on the balance sheet. Under Topic 606, the Company recognizes revenue from sales to distributors upon delivery of the product to the distributor and estimates the amount of the concessions and price protection credits at the point of revenue recognition. Accordingly, the balance of the deferred income on shipments to distributors was eliminated as a cumulative effect adjustment of implementing Topic 606 as of January 1, 2018, net of the Company's estimate of concessions and price protection credits for those contracts.

Performance obligations delivered over time –Topic 605 permitted straight-line recognition of revenue for performance obligations that were delivered over time. The new revenue standard requires an entity to recognize revenue based on the pattern of transfer of the services. Entities must use either an input method or an output method to measure progress toward complete satisfaction of a performance obligation. The Company determined that the input method of measuring costs incurred to date compared to total estimated costs to be incurred under the contract most faithfully depicts its performance. Under Topic 606, the Company will record an unbilled receivable (within accounts receivable, net) for the portion of the service that has been completed but not invoiced at the end of each reporting period.

Milestone payments – Topic 605 permitted recognition using the milestone method, whereby revenue was recognized upon the completion of substantive milestones once the customers acknowledge the milestones have been met and the collection of the amounts is reasonably assured. The milestone method no longer exists under the new revenue standard. Revenue from milestone payments must be estimated using either the expected value method or the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. The adoption of Topic 606 did not have an impact on milestone revenue recorded to date as the performance obligations related to such milestones were completed as of the adoption date.

Sales-based royalties – Topic 605 permitted recognition of royalties when reported to the Company, which generally coincided with the receipt of payment. Under the new revenue standard, revenue generated from sales-based royalties from licenses of technology are recognized at the later of when (1) the sale occurs or (2) the performance obligation to which some or all of the sales-based royalty has been allocated is satisfied (in whole or in part).

The change in revenue recognition upon adoption of Topic 606 resulted in a decrease in the accumulated deficit balance of $1.3 million on January 1, 2018.

The following table summarizes the impact of adopting Topic 606 on select unaudited condensed balance sheet line items (in thousands):

September 30, 2018	**As reported**	**Adjustments**	**Balances without the adoption of Topic 606**
Accounts receivable, net	$ 5,582	$ (630)	$ 4,952
Inventory	9,482	58	9,540
Total current assets	46,938	(572)	46,366
Total assets	51,449	(572)	50,877
Deferred income on shipments to distributors	—	2,917	2,917
Total current liabilities	15,907	2,917	18,824
Total liabilities	23,835	2,917	26,752
Accumulated deficit	(130,513)	(3,489)	(134,002)
Total liabilities and stockholders' equity	51,449	(572)	50,877

The following table summarizes the impact of adopting Topic 606 on select unaudited condensed statement of operations line items (in thousands, except per share data):

Three Months Ended September 30, 2018	As reported	Adjustments	Balances without the adoption of Topic 606
Product sales	$ 10,469	$ (1,330)	$ 9,139
Licensing, royalty, and other revenue	1,049	(72)	977
Total revenue	11,518	(1,402)	10,116
Cost of sales	6,109	(541)	5,568
Gross profit	5,409	(861)	4,548
Loss from operations	(5,539)	(861)	(6,400)
Net loss and comprehensive loss	(5,629)	(861)	(6,490)
Net loss per common share, basic and diluted	(0.33)	(0.05)	(0.38)

Nine Months Ended September 30, 2018	As reported	Adjustments	Balances without the adoption of Topic 606
Product sales	$ 29,283	$ (2,748)	$ 26,535
Licensing, royalty, and other revenue	7,853	(169)	7,684
Total revenue	37,136	(2,917)	34,219
Cost of sales	17,235	(728)	16,507
Gross profit	19,901	(2,189)	17,712
Loss from operations	(13,927)	(2,189)	(16,116)
Net loss and comprehensive loss	(14,274)	(2,189)	(16,463)
Net loss per common share, basic and diluted	(0.88)	(0.14)	(1.02)

The following table summarizes the impact of adopting Topic 606 on select unaudited condensed statement of cash flows line items (in thousands):

Nine Months Ended September 30, 2018	As reported	Adjustments	Balances without the adoption of Topic 606
Cash flows from operating activities			
Net loss	$ (14,274)	$ (2,189)	$ (16,463)
Adjustments to reconcile net loss to net cash used in operating activities:			
Accounts receivable	(1,876)	965	(911)
Inventory	309	(12)	297
Shipping term reversal	(39)	1,236	1,197

ASU No. 2017-09, Compensation-Stock Compensation

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting, which is intended to amend the scope of modification accounting for share-based payment arrangements. The amendments in the update provide guidance on types of changes to the terms or conditions of share-based payment awards that would require the Company to apply modification accounting under ASC 718, Compensation-Stock Compensation. This ASU is effective for annual reporting periods beginning after December 15, 2017, and early adoption was permitted. The Company adopted this standard on January 1, 2018, and the impact of its adoption on the Company's financial statements was not material.

ASU No. 2016-15, Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 identifies how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. The standard should be applied retrospectively and early adoption was permitted, including adoption in an interim period. The Company adopted this standard on January 1, 2018, and the impact of its adoption on the Company's financial statements was not material.

Recently Issued Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases, which establishes a comprehensive new lease accounting model. The new standard: (a) clarifies the definition of a lease; (b) requires a dual approach to lease classification similar to current lease classifications; and (c) causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease-term of more than twelve months. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842 Leases and ASU No. 2018-11, Leases (Topic 842) Targeted Improvements. ASU 2018-10 clarifies how to apply certain aspects of ASU 2016-02. ASU 2018-11 provides entities with an additional transition method to adopt Topic 842. Under the new transition method, an entity initially applies the new leases standard at the adoption date, versus at the beginning of the earliest period presented, and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its financial statements and related disclosures along with ASU 2018-10 and ASU 2018-11.

In June 2018, the FASB issued ASU No. 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 is intended to reduce the cost and complexity and to improve financial reporting for nonemployee share-based payments. The ASU expands the scope of Topic 718, (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than a company's adoption date of Topic 606. The Company is currently evaluating the impact that the adoption of ASU 2018-07 will have on its financial statements and related disclosures.

In August 2018, the Securities and Exchange Commission (SEC) adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018; however, in light of the proximity of the effective date to the filing date for most filers' quarterly reports, the SEC will allow a filer's first presentation of the changes in stockholders' equity to be included in its Form 10-Q for the quarter that begins after the effective date. The Company will begin to present a statement of changes in stockholders' equity in its quarterly financial statements beginning on January 1, 2019.

3. Revenue

Adoption of ASU No. 2014-09

On January 1, 2018, the Company adopted ASU No. 2014-09 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Topic 605.

The Company sells the majority of its products to its distributors, but does recognize some revenue under licensing and royalty agreements. The following table presents the Company’s revenues disaggregated by sales channel, (in thousands):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Distributor	$ 9,692	$ 26,223
Non-distributor	1,826	10,913
Total revenue	$ 11,518	$ 37,136

All of the Company's performance obligations and associated revenue are generally transferred to customers at a point in time, with the exception of certain revenue streams which are performed over time commensurate with the delivery of service. The following table presents the Company’s revenues disaggregated by timing of recognition (in thousands):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Point in time	$ 10,613	$ 34,729
Over time	905	2,407
Total revenue	$ 11,518	$ 37,136

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

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Product sales	$ 10,469	$ 29,283
License fees	—	5,000
Royalties	144	446
Other revenue	905	2,407
Total revenue	$ 11,518	$ 37,136

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

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
North America	$ 2,104	$ 6,214
EMEA	2,749	7,896
APJ	6,665	23,026
Total revenue	$ 11,518	$ 37,136

4. Balance Sheet Components

Inventory

Inventory consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Raw materials	$ 232	$ 682
Work-in-process	8,525	7,970
Finished goods	725	1,185
Total inventory	$ 9,482	$ 9,837

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Accrued payroll-related expenses	$ 1,485	$ 1,331
Accrued joint development agreement expenses	4,711	749
Accrued inventory	1,038	897
Deferred rent	382	230
Accrued sales commissions payable to sales representatives	104	75
Other	868	466
Total accrued liabilities	$ 8,588	$ 3,748

5. Commitments and Contingencies

Operating Leases

During 2017, the Company entered into a lease for 27,974 square feet of office space for its corporate headquarters located in Chandler, Arizona. The lease expires in January 2022, however the Company has the option to renew the lease through August 2024. Rent expense is recognized on a straight-line basis over the term of the leases and, accordingly, the Company records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability.

In April 2018, the Company entered into a lease termination agreement that released the Company from any further obligations on its previous headquarters' space in Chandler, Arizona. The remaining unamortized balance of deferred rent of $18,000 was written off and a lease termination fee of $43,000 was recognized as rent expense on the unaudited condensed statement of operations and comprehensive loss.

The Company leases office and lab space for its design facility located in Austin, Texas. The lease expires in January 2022.

The Company has another operating lease for its Arizona manufacturing facility, which includes office and fabrication space. This lease is cancellable upon 24 months' notice by either of the parties. The lease originally expired in January 2020, however it could be further extended through January 2021 if an option to extend was initiated by the lessor. In August 2018, the Company amended its lease agreement for its Arizona manufacturing facility to extend the lease term through January 2021.

6. Debt

2017 Credit Facility

On May 4, 2017, the Company entered into a Loan and Security Agreement with Silicon Valley Bank (2017 Credit Facility) for a $12.0 million term loan. The term loan provided for interest at a floating rate equal to the prime rate minus 0.75%. The term loan provided for a period of interest-only payments through April 30, 2018, followed by fixed principal and interest payments based on either a 24-month amortization schedule or a 36-month amortization schedule if the Company met certain sales milestones. As of December 31, 2017, the Company determined it would not meet the sales milestones and as such the term loan was based on a 24-month amortization schedule. An end of term fee of 6% of the amount borrowed must be made when the loan is prepaid or repaid, whether at maturity or as a result of a prepayment or acceleration or otherwise.

On July 6, 2018, the Company entered into the First Amendment to the 2017 Credit Facility (the Amended Credit Facility). The Amended Credit Facility extends the period of interest-only payments through December 31, 2018, followed by fixed principal and interest payments based on either a 24-month or a 36-month amortization schedule if the Company achieves certain milestones. As of September 30, 2018, the Company determined it would not meet the milestones, as such the Amended Credit Facility will be based on a 24-month amortization schedule. The Amended Credit Facility provides for interest at a floating rate equal to the prime rate minus 0.75%. As of September 30, 2018, the interest rate was 4.50%. The terms of the Amended Credit Facility include the refund of $1.0 million in principal payments previously made by the Company. An end of term fee of 7% of the amount borrowed must be made when the loan is prepaid or repaid, whether at maturity or as a result of a prepayment or acceleration or otherwise. The additional payment is being accreted using the effective interest method. As of September 30, 2018, the effective interest rate under the Amended Credit Facility was 7.52%. Borrowings under the Amended Credit Facility mature in December 2020.

In conjunction with the Amended Credit Facility, outstanding warrants held by SVB to purchase 9,229 shares of the Company's common stock at $26.00 per share were cancelled. The Company subsequently issued a warrant to SVB for the purchase of 9,375 shares of the Company's common stock at an exercise price of $8.91 per share. The warrant can be exercised at any time and expires five years after the date of issuance. The Company estimated the fair value of the warrant as $43,000 on the date of issuance using the Black-Scholes option pricing model. The warrant was recorded as a discount to the debt and will be amortized into interest expense over the remaining term of the loan using the effective interest method.

Security for the Amended Credit Facility includes all of the Company's assets except for intellectual property. The Company is required to comply with certain covenants under the Amended Credit Facility, including requirements to maintain a minimum liquidity ratio, meet certain revenue targets, and restrictions on certain actions without the consent of the lender, such as limitations on its ability to engage in mergers or acquisitions, sell assets, enter into transactions involving related parties, incur indebtedness or grant liens or negative pledges on its assets, make loans or make other investments. Under these covenants, the Company is prohibited from paying cash dividends with respect to its capital stock. The Company was in compliance with all covenants at September 30, 2018. The Amended Credit Facility contains a material adverse effect clause which provides that an event of default will occur if, among other triggers, an event occurs that could reasonably be expected to result in a material adverse effect on the Company's business, operations or condition, or on the Company's ability to perform its obligations under the term loan. As of September 30, 2018, management does not believe that it is probable that the clause will be triggered within the next twelve months, and therefore the term loan is classified as long-term.

The carrying value of the Company's Amended Credit Facility at September 30, 2018 was as follows (in thousands):

	Current Portion	Long-Term Debt	Total
Debt, including end of term fee	$ 4,500	$ 8,340	$ 12,840
Less:			
Discount attributable to end of term fee, warrant, and debt issuance costs	(38)	(425)	(463)
Net carrying value of debt	$ 4,462	$ 7,915	$ 12,377

The carrying value of the Company's 2017 Credit Facility at December 31, 2017 was as follows (in thousands):

	Current Portion	Long-Term Debt	Total
Debt, including end of term fee	$ 4,000	$ 8,720	$ 12,720
Less:			
Discount attributable to end of term fee and debt issuance costs	(23)	(563)	(586)
Net carrying value of debt	$ 3,977	$ 8,157	$ 12,134

The table below includes the principal repayments due under the Amended Credit Facility as of September 30, 2018 (in thousands):

	Principal Repayment
2018 (remaining three months)	$ —
2019	6,000
2020	6,840
Total principal repayments	$ 12,840

7. Stockholders' Equity

In February 2018, the Company completed a follow-on underwritten public offering of its common stock under its Registration Statement filed in November 2017 (File No. 333-221331), selling 3,772,447 shares of its common stock at an offering price of $7.00 per share for proceeds of $24.5 million, net of $1.9 million of underwriting discounts and commissions and other offering costs.

8. Stock-Based Compensation

The following table summarizes the stock option and award activity for the nine months ended September 30, 2018:

		Options Outstanding			
	Options and Awards Available for Grant	Number of Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (In thousands)
Balance—December 31, 2017	83,929	1,593,195	$ 8.88	6.6	$ 1,997
Immaterial prior period adjustment	(1,026)	13,784	4.54		
Options authorized	1,084,516	—	—		
RSUs granted	(75,700)	—	—		
RSUs cancelled/forfeited	1,900	—	—		
Options granted	(384,165)	384,165	8.73		
Options exercised	—	(446,141)	4.95		$ 1,903
Options cancelled/forfeited	44,784	(50,469)	7.68		
Balance—September 30, 2018	754,238	1,494,534	$ 7.70	8.3	$ 992
Options exercisable—September 30, 2018		567,298	$ 6.52	7.2	$ 877

The total grant date fair value of options vested was $510,000 and $236,000 during the three months ended September 30, 2018 and 2017, respectively, and $1.4 million and $1.1 million during the nine months ended September 30, 2018 and 2017, respectively.

The weighted-average grant date fair value of employee options granted during the three months ended September 30, 2018 and 2017 was $4.48 and $9.22 per share, respectively, and during the nine months ended September 30, 2018 and 2017 was $4.56 and $7.80 per share, respectively.

2016 Employee Stock Purchase Plan

In January 2018, there was an increase of 128,172 shares reserved for issuance under the Company's Employee Stock Purchase Plan (ESPP). The Company had 291,659 shares available for future issuance under the Company's ESPP as of September 30, 2018. Employees purchased 20,057 shares for $137,000 during the nine months ended September 30, 2018. Employees purchased 17,924 shares for $122,000 during the nine months ended September 30, 2017.

Modification of Stock Awards

In February 2018, the Company modified the terms of 400,000 vested and unvested stock option awards granted to the Chief Executive Officer, by reducing their exercise price from $16.25 per share to $7.64 per share. There was no change to any of the other terms of the option awards. The modification resulted in an incremental value of $600,000 being allocated to the options, of which $63,000 was recognized to expense immediately based on options that were vested at the time of the modification. The remaining incremental value of $537,000 attributable to unvested options will be recognized over the remaining vesting term through September 2021.

Restricted Stock Units

The following table summarizes Restricted Stock Units (RSUs) activity for the nine months ended September 30, 2018:

	RSUs Outstanding	
	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value Per Share
Balance—December 31, 2017	30,680	$ 10.55
Granted	75,700	8.59
Vested	(10,000)	16.25
Cancelled/forfeited	(1,900)	8.39
Balance—September 30, 2018	94,480	$ 8.42

The fair value of RSUs is determined on the date of grant based on the market price of the Company's common stock on that date. As of September 30, 2018, there was $645,000 of unrecognized stock-based compensation expense related to RSUs to be recognized over a weighted-average period of 3.0 years.

Stock-based Compensation Expense

The Company recognized stock-based compensation expense from awards granted to employees and non-employees under its equity incentive plans and from its ESPP as follows, excluding amounts related to GLOBALFOUNDRIES, Inc. (GF) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Research and development	$ 132	$ 122	$ 378	$ 367
General and administrative	504	499	1,403	938
Sales and marketing	86	51	283	206
Total	$ 722	$ 672	$ 2,064	$ 1,511

As of September 30, 2018, there was $5.5 million of total unrecognized compensation expense related to unvested options which is expected to be recognized over a weighted-average period of 2.8 years.

Employee Stock-based Compensation

Stock-based compensation expense for employees was $716,000 and $685,000 for the three months ended September 30, 2018 and 2017, respectively, and $2.0 million and $1.4 million for the nine months ended September 30, 2018 and 2017, respectively.

The Company estimated the fair value of each option using the Black-Scholes option-pricing model. The fair value of employee stock options is being amortized on a straight-line basis over the requisite service period of the awards. The fair value of employee stock options was estimated using the assumptions below. Each of these inputs is subjective and its determination generally requires significant judgment.

	Option Plan Nine Months Ended September 30,		ESPP Nine Months Ended September 30,	
	2018	2017	2018	2017
Expected volatility	51.9-53.5 %	47.2-61.1 %	59.5 - 87.8 %	49.3 - 66.2 %
Risk-free interest rate	2.64-2.94 %	1.93-2.10 %	0.94-2.11 %	0.5 - 1.0 %
Expected term (in years)	5.7-6.1	5.8-6.1	0.5 - 1.0	0.5 - 0.6
Dividend yield	— %	— %	— %	— %

Non-employee Stock-based Compensation

Stock-based compensation expense related to stock options granted to non-employees is recognized as the stock options vest. During the three and nine months ended September 30, 2018, the Company granted stock options to non-employees to purchase 1,200 and 8,400 shares of common stock, respectively. During the three and nine months September 30, 2017, the Company granted stock option to non-employees to purchase 12,800 shares of common stock. As of September 30, 2018, options to purchase 46,272 shares of common stock were outstanding with a weighted-average exercise price of $9.11 per share. Stock-based compensation expense for non-employees was $6,000 and $(13,000) for the three months ended September 30, 2018 and 2017, respectively, and $50,000 and $86,000 for the nine months ended September 30, 2018 and 2017, respectively.

9. Significant Agreements

GLOBALFOUNDRIES, Inc. Joint Development Agreement

On October 17, 2014, the Company entered into a Joint Development Agreement (JDA) with GF, for the joint development of the Company’s Spin Transfer Torque MRAM (STT-MRAM) technology. The term of the agreement is the later of four years from the effective date or until the completion, termination or expiration of the last statement of work entered into pursuant to the JDA. The JDA also states that the specific terms and conditions for the production and supply of the developed STT-MRAM technology would be pursuant to a separate manufacturing agreement entered into between the parties. In October 2018, the Company entered into the Third Amendment to the JDA with GF (Note 11), which extended the term of the JDA until December 2019.

Under the JDA, each party licenses its relevant intellectual property to the other party. For certain jointly developed works, the parties have agreed to follow an invention allocation procedure to determine ownership. In addition, GF possesses the exclusive right to manufacture the Company’s discrete and embedded STT-MRAM devices developed pursuant to the agreement until the earlier of three years after the qualification of the MRAM device for a particular technology node or four years after the completion of the relevant statement of work under which the device was developed. For the same exclusivity period associated with the relevant device, GF agreed not to license intellectual property developed in connection with the JDA to named competitors of the Company.

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

The Company incurred project costs, recognized as research and development expense, of $1.6 million and $850,000 for the three months ended September 30, 2018 and 2017 respectively, and $5.9 million and $4.1 million for the nine months ended September 30, 2018 and 2017 respectively. The Company entered into a Statement of Work (SOW) and an Amendment to the SOW, under the JDA with GF effective August 2016 and June 2018, respectively. The Company was eligible to receive milestone payments from SOW and its Amendment for an aggregate of $1.6 million and $1.0 million, respectively. The Amendment was accounted for as a separate contract rather than a modification of the SOW, as the Company had completed its performance obligations under the SOW as of December 31, 2017. The Company recognized revenue from GF of $300,000 in the three months ended September 30, 2018. There was no revenue recognized from GF for the three months ended September 30, 2017. The Company recognized revenue from GF of $800,000 and $1.2 million in the nine months ended September 30, 2018 and 2017, respectively.

On October 21, 2014, GF participated, along with other investors, in the Company's Series B redeemable convertible preferred stock financing and purchased 192,307 shares at $26.00 per share. Contemporaneously, the Company sold 461,538 shares of its common stock to GF at a discounted price of $0.00026 per share. The common shares vest upon the achievement of a goal as set forth in the Statement of Work #1 (the SOW) under the JDA. The unvested common shares are subject to repurchase by the Company, if the JDA is terminated for any reason, for a one-year period after such termination, at a price that is the lower of the original price paid by GF or the fair value of the Company's common stock as of the date of repurchase. The Company has determined that the issuance of these shares of common stock to GF represents compensation for services to be provided under the JDA. Accordingly, the shares are accounted for similar to a stock award granted to a non-employee of the Company and are remeasured to their fair value as they vest. A total of 211,538 shares of common stock became vested on August 21, 2016, the designated Initial Measurement Date. The remaining shares vest on a monthly basis thereafter. Subsequent to the Initial Measurement Date through September 30, 2018, an additional 211,538 shares of common stock became vested. As of September 30, 2018, there were 9,615 shares unvested that were subject to repurchase.

The Company recognized non-cash compensation expense of $247,000 and $508,000 during the three months ended September 30, 2018 and 2017, respectively, and $709,000 and $1.2 million during the nine months ended September 30, 2018 and 2017, respectively, in research and development expense related to the vesting of the shares of common stock. The Company recognizes compensation expense based on the estimated fair value of the common stock at each reporting period, which was $7.68 and $7.50 per share as of September 30, 2018 and December 31, 2017, respectively.

Silterra Malaysia Sdn. Bhd. Joint Collaboration Agreement

In September 2018, the Company entered into a Joint Collaboration Agreement (JCA) with Silterra Malaysia Sdn. Bhd. (Silterra), and another third party. The JCA will create additional manufacturing capacity for the Company's Toggle MRAM products. Initial production is expected to start in 2020. Under the JCA the Company will pay non-recurring engineering costs of $1.0 million. During the three and nine months ended September 30, 2018, the Company paid $0.5 million of JCA costs.

License Agreement

In March 2018, the Company entered into a global cross-license agreement with a customer pursuant to which the Company granted a worldwide, non-exclusive, non-transferable, irrevocable, royalty-bearing license under the Company's patents to use, sell, import and export the Company's products. Under the cross-license agreement, the Company received a non-refundable license fee and is entitled to quarterly royalty payments based upon low single digits of the average selling price of products covered under the license agreement. The license was transferred to the customer and the Company recognized the non-refundable license fee during the nine months ended September 30, 2018. The cross-license agreement will remain in effect until the licensed patents have expired, been abandoned, or ruled invalid.

10. Net Loss Per Common Share

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	$ (5,629)	$ (5,446)	$ (14,274)	$ (16,719)
Denominator:				
Weighted-average common shares outstanding	16,970,266	12,700,802	16,185,122	12,595,015
Less: weighted-average unvested common shares subjected to repurchase	(25,606)	(140,990)	(54,240)	(169,625)
Weighted-average common shares outstanding used to calculate net loss per common share, basic and diluted	16,944,660	12,559,812	16,130,882	12,425,390
Net loss per common share, basic and diluted	$ (0.33)	$ (0.43)	$ (0.88)	$ (1.35)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Options to purchase common stock	1,494,534	1,595,415	1,494,534	1,595,415
Restricted stock units	94,480	10,000	94,480	10,000
Common stock subject to repurchase	9,615	125,000	9,615	125,000
Common stock warrants	27,836	27,690	27,836	27,690
Total	1,626,465	1,758,105	1,626,465	1,758,105

11. Subsequent Events

In October 2018, the Company entered into the Third Amendment to the JDA with GF (Third Amendment). The Third Amendment is effective as of January 1, 2018 and extends the term of the JDA to December 2019. In the event a statement of work is executed that extends beyond the term, the JDA will be extended for an additional three months after the statement of work is completed. Under the Third Amendment, the Company has revised the cost structure of the arrangement to allow GF to spend as needed. Additionally, costs for the Company are capped at $5.8 million.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed financial statements and related notes included in Part I, Item 1 of this report and with our audited financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2017.

Forward-Looking Statements

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

Overview

We are the leading provider of MRAM solutions. Our MRAM solutions offer the persistence of non-volatile memory, a type of memory that retains information even in the absence of power, with the speed and endurance of random access memory (RAM). This enables the protection of mission critical data particularly in the event of power interruption or failure. Our MRAM solutions allow our customers in the industrial, automotive, transportation, and enterprise storage markets to design high performance, power efficient and reliable systems without the need for bulky batteries or capacitors.

We derive our revenue from the sale of MRAM-based products in discrete unit form, the sale of services, licenses of and royalties on our MRAM and magnetic sensor technology, the sale of backend foundry services and design services to third parties.

We work directly with our distributors and customers to have our MRAM devices designed into and qualified for their products. Although we maintain direct sales, support, and development relationships with our customers, once our products are designed into a customer's product, we sell a majority of our products to those customers through distributors. We generated 84% and 80% for the three months ended September 30, 2018 and 2017, respectively, and 71% and 75% for the nine months ended September 30, 2018 and 2017, respectively, of our revenue from products sold through distributors.

Our sales team and representatives are organized into three primary regions: North America; Europe, Middle East and Africa (EMEA); and Asia-Pacific and Japan (APJ). We recognize revenue by geography based on the region in which our products are sold, and not to where the end products in which they are assembled are shipped. Our revenue by region for the periods indicated was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
North America	$ 2,104	$ 1,638	$ 6,214	$ 4,495
EMEA	2,749	2,039	7,896	5,434
APJ	6,665	5,331	23,026	15,884
	$11,518	$ 9,008	$37,136	$25,813

We leverage both internal and outsourced capabilities to manufacture our MRAM products. We purchase industry-standard complementary metal-oxide semiconductor (CMOS) wafers from semiconductor foundries and complete the fabrication by inserting our magnetic-bit technology at our 200mm fabrication facility in Chandler, Arizona. We believe this allows us to streamline research and development, rapidly prototype new products, and bring new products to market quickly and cost effectively. This strategy significantly reduces the capital investment that would otherwise be required to operate manufacturing facilities of our own. We utilize leading semiconductor foundry GLOBALFOUNDRIES to support full turnkey high-volume production of our high density MRAM products on 300mm wafers at advanced process nodes.

During the three and nine months ended September 30, 2018, we continued to invest in research and development to support the development and production of our Spin Transfer Torque MRAM (STT-MRAM) technology. We believe our continued investment will allow us to continue to develop and deploy products based on our STT-MRAM technology. Our research and development expenses were $6.5 million and $6.4 million for the three months ended September 30, 2018 and 2017, respectively, and $19.7 million and $19.2 million for the nine months ended September 30, 2018 and 2017, respectively. We expect that our research and development expenses will increase in the future as we continue to develop our MRAM technology internally and through our joint development agreement with GLOBALFOUNDRIES.

We recorded revenue of $11.5 million and $9.0 million for the three months ended September 30, 2018 and 2017, respectively, and $37.1 million and $25.8 million for the nine months ended September 30, 2018 and 2017, respectively; gross margin was 47.0% and 58.3% for the three months ended September 30, 2018 and 2017, respectively and 53.6% and 59.1% for the nine months ended September 30, 2018 and 2017; and our net loss was $5.6 million and $5.4 million for the three months ended September 30, 2018 and 2017, respectively, and $14.3 million and $16.7 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, we had 98 employees, approximately half of whom are engaged in research and development.

Key Metrics

We monitor a variety of key financial metrics to help us evaluate trends, establish budgets, measure the effectiveness of our business strategies and assess operational efficiencies. These financial metrics include revenue, gross margin, operating expenses and operating income determined in accordance with GAAP. Additionally, we monitor and project cash flow to determine our sources and uses for working capital to fund our operations. We also monitor Adjusted EBITDA, a non-GAAP financial measure. We define Adjusted EBITDA as net income or loss adjusted for interest expense, tax, depreciation and amortization, stock-based compensation expense, and compensation expense related to the vesting of common stock held by GLOBALFOUNDRIES resulting from our joint development agreement.

Our management and board of directors use Adjusted EBITDA to understand and evaluate our operating performance and trends, to prepare and approve our annual budget and to develop short-term and long-term operating and financing plans. Accordingly, we believe that Adjusted EBITDA provides useful information for investors in understanding and evaluating our operating results in the same manner as our management and our board of directors.

The following table presents a reconciliation of net loss, the most directly comparable GAAP measure, to Adjusted EBITDA for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Adjusted EBITDA reconciliation:				
Net loss	$ (5,629)	$ (5,446)	$ (14,274)	$ (16,719)
Depreciation and amortization	340	327	1,069	837
Stock-based compensation expense	722	672	2,064	1,511
Compensation expense related to vesting of GLOBALFOUNDRIES common stock	247	508	709	1,224
Interest expense	229	178	662	584
Adjusted EBITDA	$ (4,091)	$ (3,761)	$ (9,770)	$ (12,563)

Factors Affecting Our Results of Operations

Design wins. To continue to grow our revenue, we must continue to achieve design wins for our MRAM products. We consider a design win to occur when an original equipment manufacturer (OEM) or contract manufacturer notifies us that it has qualified one of our products as a component in a product or system for production. Because the life cycles for our customers' products can last for many years, if these products have successful commercial introductions, we expect to continue to generate revenues over an extended period of time for each successful design win. Any delay in the development of our products, or failure of our customers to adopt our products, could inhibit revenue growth or cause declines, which would significantly harm our business. In the fourth quarter of 2017, we recorded revenue for our first sale of 40nm 256Mb STT-MRAM products and we are in process of ramping up production in 2018.

Customer acceptance of our technology and customer product success. For our customers to use our products, they may have to redesign certain components of their existing designs. We have established relationships with several storage controller and Field Programmable Gate Array (FPGA) companies, including Xilinx, Lattice and Rizwan as well as IP core companies, including Cadence, Synopsys, and Northwest Logic, to facilitate the integration of our MRAM solutions into our customers end products. Delays in our customers' design cycles may have adverse effects on the demand, and therefore sales, of our products.

Customer concentration. A relatively small number of end customers have historically accounted for a significant percentage of our revenue. Revenue, including through distributors, from four of our end customers collectively, accounted for approximately 21% and 35% of our total revenue in the three and nine months ended September 30, 2018, respectively. One of these end customers accounted for in excess of 10% of our total revenue in the three months ended September 30, 2018. Two of these end customers accounted for in excess of 10% of our total revenue in the nine months ended September 30, 2018. Revenue, including through distributors, from five of our end customers collectively, accounted for 32% and 34% of our total revenue in the three and nine months ended September 30, 2017, respectively. None of these end customers accounted for in excess of 10% of our total revenue in the three and nine months ended September 30, 2017. It would be difficult to replace lost revenue resulting from the loss, reduction, cancellation or delay in purchase orders by any one of these end customers. Consolidation among our customers may further concentrate our customer base and expose us to increased risks relating to increased customer concentration. In addition, any significant pricing pressure exerted by a significant customer could adversely affect our operating results.

Pricing, product cost and gross margins of our products. Our gross margin has been, and will continue to be, affected by a variety of factors, including the timing of changes in pricing, shipment volumes, new product introductions, changes in product mix, changes in our purchase price of fabricated wafers, assembly and test service expenses, manufacturing yields and inventory write downs, if any. In general, newly introduced products, and products with higher densities and performance, tend to be priced higher than older, more mature products. Average selling prices in the semiconductor industry typically decline as products mature. Consistent with this historical trend, we expect that the average selling prices of our products will decline as they mature. In the normal course of business, we seek to offset the effect of declining average selling prices on existing products by reducing manufacturing expenses and introducing newer, higher value-added products. If we are unable to maintain overall average selling prices or to offset any declines in average selling prices with savings on product costs, our gross margin will decline.

Gross margin impact of licensing revenue. Our licensing revenue, which we collect as licensing fees and royalty payments, generates significantly higher gross margin than product revenue. Due to the high gross margin profile of this revenue stream, fluctuations in licensing revenue may have a greater impact on gross margin than a corresponding change in the demand for our products. Therefore, as licensing revenue fluctuates, we may see significant variations in gross margin.

Technology, process, and product development investment. We invest heavily to develop our MRAM technology, including the core MRAM technology, the joint development agreement with GLOBALFOUNDRIES, and the design of new and innovative products based on MRAM, to provide solutions to our current and future customers. We anticipate that we will continue to invest in our research and development to achieve our technology and product roadmaps. Our product development is targeted to specific segments of the market where we believe the densities and performance of our products can provide the most benefit. We believe our close coordination with our customers regarding their future product requirements enhances the efficiency of our research and development expenditures.

Financial Operations Overview

Revenue

We derive our revenue from the sale of our MRAM-based products in discrete unit form, the licensing of our MRAM and magnetic sensor technology and related royalties, the sale backend foundry services and design services to third parties. We recognize sales of products in discrete unit form at a point in time, we recognize revenue related to licensing agreements when we have delivered rights to the technology, we recognize revenue related to royalty agreements in the period in which sales generated from products sold using our technology occurs, and we recognize sales of backend foundry services and design services to third parties over time.

For some of our products, we provide price protection and product return rights. As such, for sales through distributors of our discrete MRAM products, at the time of revenue recognition, which occurs when control of the products has been transferred to the distributor, we estimate product returns and the expected price concessions that will be provided to the distributor, which is included in the transaction price. We estimate the credits to the distributors based on the historical rate of credits provided to distributors relative to sales or, for some customers the credit is based on a previously negotiated fixed rate. Our licensing revenue is largely dependent on a small number of transactions during a given year.

Cost of Sales and Gross Margin

Cost of sales primarily includes the cost of our products including costs to purchase wafers, costs paid for wafer fabrication, costs associated with the assembly and testing of our products, shipping costs and costs of our manufacturing personnel. Cost of sales also includes indirect costs, such as warranty, inventory valuation reserves and overhead costs.

Gross profit is revenue less cost of sales. Gross margin is gross profit expressed as a percentage of total revenue. We expect that our gross margin may fluctuate from period to period, primarily as a result of changes in average selling price, revenue mix among our products, product yields and manufacturing costs. In addition, we may reserve against the value at which we carry our inventory based upon the product’s life cycle and conditions in the markets in which we sell. Declines in average selling prices may be paired with improvements in our cost of sales, which may offset some of the gross margin reduction that could result from lower selling prices.

Operating Expenses

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

Research and Development Expenses

Our research and development expenses consist primarily of personnel-related expenses for the design and development of our products and technologies, development wafers required to validate and characterize our technology, and expenses associated with our joint development agreement with GLOBALFOUNDRIES. Research and development expenses also include consulting services, circuit design costs, materials and laboratory supplies, fabrication and new packaging technology, and an allocation of related facilities and equipment costs. We recognize research and development expenses as they are incurred. We expect our research and development expenses to increase in connection with our joint development agreement with GLOBALFOUNDRIES.

General and Administrative Expenses

Our general and administrative expenses consist primarily of personnel expenses, allocated facilities costs, expenses for outside professional services, and expenses for personnel and consultants engaged in executive, finance, legal, information technology and administrative activities. We expect our general and administrative expenses to increase as we continue to hire personnel and expand our operations.

Sales and Marketing Expenses

Our sales and marketing expenses consist primarily of compensation for our sales, marketing, and business development personnel, including bonuses and commissions for our sales representatives. We expect our sales and marketing expenses to increase as we hire additional sales personnel and representatives and increase our marketing activities.

Interest Expense

Interest expense consists of cash and non-cash components. The non-cash component consists of interest expense recognized from the amortization of debt discounts derived from the issuance of a warrant, the end of term fee and debt issuance costs capitalized on our balance sheets as a reduction of the debt balance. Interest expense is due to our borrowings under our loan agreements.

Other Income, Net

Other income, net consists primarily of the interest income earned on our cash equivalents and foreign currency exchange gains and losses. Our foreign currency exchange gains and losses relate to transactions and asset and liability balances denominated in currencies other than the U.S. dollar.

Loss on Extinguishment of Debt

In the second quarter of 2017, we repaid the outstanding balance of our revolving loan and term loan at which time we recognized the unamortized balance of the debt discount and a prepayment penalty for the term loan as a loss on extinguishment of debt.

Results of Operations

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

	Three Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
	(In thousands)		(As a percentage of revenue)		(In thousands)		(As a percentage of revenue)	
Product sales	$10,469	$ 8,323	91 %	92 %	$ 29,283	$ 22,171	79 %	86 %
Licensing, royalty, and other revenue	1,049	685	9	8	7,853	3,642	21	14
Total revenue	11,518	9,008	100	100	37,136	25,813	100	100
Cost of sales	6,109	3,753	53	42	17,235	10,549	46	41
Gross profit	5,409	5,255	47	58	19,901	15,264	54	59
Operating expenses:								
Research and development	6,453	6,420	56	71	19,706	19,236	54	75
General and administrative	2,913	3,031	25	34	9,461	8,669	25	34
Sales and marketing	1,582	1,112	14	12	4,661	3,331	13	13
Total operating expenses	10,948	10,563	95	117	33,828	31,236	92	122
Loss from operations	(5,539)	(5,308)	(48)	(59)	(13,927)	(15,972)	(38)	(63)
Interest expense	(229)	(178)	(2)	(2)	(662)	(584)	(2)	(2)
Other income, net	139	40	1	—	315	83	1	—
Loss on extinguishment of debt	—	—	—	—	—	(246)	—	(1)
Net loss	$ (5,629)	$ (5,446)	(49)%	(61)%	$(14,274)	$(16,719)	(39)%	(66)%

Comparison of the Three Months Ended September 30, 2018 and 2017

Revenue

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Product sales	$10,469	$ 8,323	$ 2,146	25.8 %
Licensing, royalty, and other revenue	1,049	685	364	53.1 %
Total revenue	$11,518	$ 9,008	$ 2,510	27.9 %

Product sales increased by $2.1 million or 25.8%, from $8.3 million during the three months ended September 30, 2017, to $10.5 million during the three months ended September 30, 2018. The increase was primarily due to $2.7 million in increased sales volume and mix in our MRAM products partially offset by a $0.6 million decrease in sales of our legacy products as a result of a decrease in demand for our legacy products.

Licensing, royalty, and other revenue is a highly variable revenue item characterized by a small number of transactions annually with revenue based on size and terms of each transaction. Licensing, royalty, and other revenue increased by $0.4 million from $0.7 million during the three months ended September 30, 2017, to $1.0 million during the three months ended September 30, 2018. The increase was primarily due to a $0.3 million increase in milestone payments earned for research and development activity performed on behalf of GLOBALFOUNDRIES services and a $0.1 million increase in royalty revenue.

The increase in revenue is also due in part to our adoption of the new revenue standard whereby revenue from sales to distributors is recognized upon delivery of the product to the distributor. In 2017, revenue from sales where distributors were granted concessions or price protection credits was deferred until the sale of the products to the end customer was completed.

Cost of Sales and Gross Margin

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Cost of sales	$6,109	$3,753	$2,356	62.8 %
Gross margin	47.0 %	58.3 %		

Cost of sales increased by $2.4 million or 62.8%, from $3.8 million during the three months ended September 30, 2017, to $6.1 million during the three months ended September 30, 2018. The increase was primarily due to increased sales volume, product mix, and lower yields on our MRAM products, partially offset by lower sales volume of backend foundry services and legacy products.

Gross margin decreased from 58.3% during the three months ended September 30, 2017, to 47.0% during the three months ended September 30, 2018. The decrease was primarily due to product mix and lower yields on our Toggle and MRAM products.

Operating Expenses

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Research and development	$6,453	$6,420	$ 33	0.5 %
Research and development as a % of revenue	56 %	71 %		

Research and Development Expenses. Research and development expenses remained flat during each of the three months ended September 30, 2017 and September 30, 2018. The slight increase was due to a $0.7 million increase in expenses incurred in our joint development agreement with GLOBALFOUNDRIES and a $0.5 million increase in process engineering costs. These increases were offset by a $0.7 million decrease in spending on direct materials and supplies used in research and development activities due to the timing of purchases, a decrease of $0.3 million in the amount attributable to the vesting of shares of common stock issued to GLOBALFOUNDRIES due to revaluing shares, and a decrease of $0.2 million in employee and contract labor costs. Research and development expenses during the three months ended September 30, 2018 decreased as a percentage of revenue when compared with the corresponding period in 2017 due to the increase in revenue.

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
General and administrative	$2,913	$3,031	$ (118)	(3.9)%
General and administrative as a % of revenue	25 %	34 %		

General and Administrative Expenses. General and administrative spending decreased by $0.1 million or 3.9%, from $3.0 million during the three months ended September 30, 2017, to $2.9 million during the three months ended September 30, 2018. The decrease was due to a $0.1 million decrease in professional services due to costs incurred in 2017 related to becoming a recent public company and a $0.1 million increase in manufacturing credits during the third quarter. These decreases were partially offset by a $0.1 million increase in employee and contract labor costs. General and administrative expenses during the three months ended September 30, 2018 decreased as a percentage of revenue when compared with the corresponding period in 2017 due to the increase in revenue.

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Sales and marketing	$1,582	$1,112	$ 470	42.3 %
Sales and marketing as a % of revenue	14 %	12 %		

Sales and Marketing Expenses. Sales and marketing expenses increased by $0.5 million or 42.3%, from $1.1 million during the three months ended September 30, 2017, to $1.6 million during the three months ended September 30, 2018. The increase was primarily due to a $0.6 million increase in employee and contract labor costs as a result of higher headcount and an increase in salaries, commissions, bonuses and stock-based compensation expense. The increase was offset by a $0.1 million decrease in expenditures on marketing materials. Sales and marketing expense for the three months ended September 30, 2018 slightly increased as a percentage of revenue when compared with the corresponding period in 2017 primarily due to the increase in revenue from product sales not fully offsetting the increase in sales and marketing expense.

Interest Expense

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Interest expense	$ 229	$ 178	$ 51	28.7 %

Interest expense was $0.2 million during each of the three months ended September 30, 2017 and 2018. The slight increase was primarily due to higher interest expense on our Amended Credit Facility with Silicon Valley Bank, compared to our prior facility with Ares Venture Finance, due to an increase in the prime rate.

Other Income, Net

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Other income, net	$ 139	$ 40	$ 99	247.5 %

Other income, net was $0.1 million during the three months ended September 30, 2018 compared to $40,000 during the three months ended September 30, 2017. The increase was primarily related to an increase in interest income earned on our cash balances as a result of the increase in our cash balances from the follow-on public offering in February 2018.

Comparison of the Nine Months Ended September 30, 2018 and 2017

Revenue

	Nine Months Ended September 30,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Product sales	$29,283	$22,171	$ 7,112	32.1 %
Licensing, royalty, and other revenue	7,853	3,642	4,211	115.6 %
Total revenue	$37,136	$25,813	$11,323	43.9 %

Product sales increased by $7.1 million or 32.1%, from $22.2 million during the nine months ended September 30, 2017, to $29.3 million during the nine months ended September 30, 2018. The increase was primarily due to $8.6 million in increased sales volume and mix in our MRAM products partially offset by a $1.5 million decrease in sales of our legacy products as a result of a decrease in demand for our legacy products.

Licensing, royalty, and other revenue is a highly variable revenue item characterized by a small number of transactions annually with revenue based on size and terms of each transaction. Licensing, royalty, and other revenue increased by $4.2 million from $3.6 million during the nine months ended September 30, 2017, to $7.9 million during the nine months ended September 30, 2018. The increase was due to a non-refundable license fee related to a cross-license agreement entered into with a customer in March 2018 and an increase of $0.4 million in royalty revenue, partially offset by a $0.3 million decrease in milestone payments earned for research and development activity performed on behalf of GLOBALFOUNDRIES and a $0.6 million decrease in sales of our backend foundry services.

The increase in revenue is due in part to our adoption of the new revenue standard whereby revenue from sales to distributors is recognized upon delivery of the product to the distributor. In 2017, revenue from sales where distributors were granted concessions or price protection credits was deferred until the sale of the products to the end customer was completed.

Cost of Sales and Gross Margin

	Nine Months Ended September 30,		Change	
	2018	**2017**	**Amount**	**%**
	(Dollars in thousands)			
Cost of sales	$17,235	$10,549	$ 6,686	63.4 %
Gross margin	53.6 %	59.1 %		

Cost of sales increased by $6.7 million or 63.4%, from $10.5 million during the nine months ended September 30, 2017, to $17.2 million during the nine months ended September 30, 2018. The increase was primarily due to $0.8 million of inventory items that were scrapped in the second quarter of 2018, increased sales volume and lower yields on our MRAM products, partially offset by lower sales volume of backend foundry services and legacy products.

Gross margin decreased from 59.1% during the three months ended September 30, 2017, to 53.6% during the three months ended September 30, 2018. The decrease was primarily due to inventory items that were scrapped in the second quarter of 2018, as well as lower yields on our MRAM products that were partially offset by a onetime licensing event in the first quarter of 2018.

Operating Expenses

	Nine Months Ended September 30,		Change	
	2018	**2017**	**Amount**	**%**
	(Dollars in thousands)			
Research and development	$19,706	$19,236	$ 470	2.4 %
Research and development as a % of revenue	53 %	75 %		

Research and Development Expenses. Research and development expenses increased by $0.5 million or 2.4%, from $19.2 million during the nine months ended September 30, 2017, to $19.7 million during the nine months ended September 30, 2018. The increase was due to a $1.9 million increase in expenses incurred in our joint development agreement with GLOBALFOUNDRIES due to the use of more technologically advanced materials, a $0.5 million increase in process engineering costs due to increasing production capacity, a $0.3 million increase in software expenses due to the purchase of software to improve simulations, a $0.2 million increase in rent expense due to increased rent expense for our new headquarters, which we moved into in December 2017, and a $0.3 million dollar increase in depreciation expense. These increases were partially offset by a $0.9 million decrease in spending on direct materials and supplies used in research and development activities due to the timing of purchases, $0.7 million decrease in employee and contract labor costs due to a decrease in headcount and bonuses, a $0.6 million decrease in equipment maintenance due to less repairs on machinery, and a $0.5 million decrease in the amount attributable to the vesting of shares of common stock issued to GLOBALFOUNDRIES due to revaluing shares. Research and development expense during the three months ended September 30, 2018 decreased as a percentage of revenue when compared with the corresponding period in 2017 primarily due to the increase in revenue from product sales and to the non-refundable license fee.

	Nine Months Ended September 30, 2018	2017	Change Amount	%
	(Dollars in thousands)			
General and administrative	$9,461	$8,669	$ 792	9.1 %
General and administrative as a % of revenue	25 %	34 %		

General and Administrative Expenses. General and administrative spending increased by $0.8 million or 9.1%, from $8.7 million during the nine months ended September 30, 2017, to $9.5 million during the nine months ended September 30, 2018. The increase was primarily due a $1.3 million increase in employee and contract labor costs due to an increase in headcount, of which $0.5 million was due to increased stock-based compensation expense and the repricing of certain stock options in the nine months ended September 30, 2018, and a $0.1 million increase in software expenses. These increases were partially offset by a decrease of $0.5 million in professional services due to costs incurred in 2017 related to becoming a recent public company, and a $0.1 million increase in manufacturing credits. General and administrative expense for the three months ended September 30, 2018 decreased as a percentage of revenue when compared with the corresponding period in 2017 primarily due to the increase in revenue from product sales and the non-refundable license fee.

	Nine Months Ended September 30, 2018	2017	Change Amount	%
	(Dollars in thousands)			
Sales and marketing	$4,661	$3,331	$1,330	39.9 %
Sales and marketing as a % of revenue	13 %	13 %		

Sales and Marketing Expenses. Sales and marketing expenses increased by $1.3 million or 39.9%, from $3.3 million during the nine months ended September 30, 2017, to $4.7 million during the nine months ended September 30, 2018. The increase was primarily due to a $1.2 million increase in employee and contract labor costs as a result of higher headcount and an increase in salaries, commissions, bonuses and stock-based compensation expense, and a $0.1 million increase in expenditures on marketing materials.

Interest Expense

	Nine Months Ended September 30, 2018	2017	Change Amount	%
	(Dollars in thousands)			
Interest expense	$ 662	$ 584	$ 78	13.4 %

Interest expense increased by $0.1 million or 13.4%, from $0.6 million during the nine months ended September 30, 2017 compared to $0.7 million during the nine months ended September 30, 2018. The increase was primarily due to higher interest expense on our 2017 Credit Facility and Amended Credit Facility with Silicon Valley Bank, compared to our prior facility with Ares Venture Finance, due to an increase in the principal outstanding and an increase in the prime rate during the period.

Other Income, Net

	Nine Months Ended September 30, 2018	2017	Change Amount	%
	(Dollars in thousands)			
Other income, net	$ 315	$ 83	$ 232	279.5 %

Other income, net was $0.3 million during the nine months ended September 30, 2018 compared to $83,000 during the nine months ended September 30, 2017. The increase was primarily related to an increase in interest income earned on our cash balances as a result of the increase in our cash balances from the follow-on public offering in February 2018.

Loss on Extinguishment of Debt

	Nine Months Ended September 30,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Loss on extinguishment of debt	$ —	$ (246)	$ 246	*

* Not meaningful

Loss on extinguishment of debt was $0.2 million during the nine months ended September 30, 2017 due to the payoff of our prior facility with Ares Venture Finance. There was no such loss during the nine months ended September 30, 2018.

Liquidity and Capital Resources

We have generated significant losses since our inception and had an accumulated deficit of $130.5 million as of September 30, 2018, compared to $117.5 million as of December 31, 2017. As of September 30, 2018, we had $31.4 million of cash and cash equivalents, compared to $13.0 million as of December 31, 2017.

In May 2017, we executed a Loan and Security Agreement with Silicon Valley Bank for a $12.0 million term loan. The term of the loan was three years, which could be extended by one year if we achieved a revenue target of $4.0 million for our Spin Transfer Torque product. The loan bears interest at a floating rate equal to the prime rate minus 0.75% and is payable monthly. In July 2018, we entered into the First Amendment to the Loan and Security Agreement with Silicon Valley Bank to extend the interest only payment period until December 31, 2018. The term of the amended loan is two years following the interest only payment period, which would be extended by one year if we achieve certain milestones. The outstanding balance of the loan is to be repaid monthly beginning on January 1, 2019 over the remaining two-year term of the amended loan with an end of term fee of $0.8 million due upon maturity. The amended loan is secured by a first priority perfected security interest in our assets excluding any intellectual property.

In February 2018, we completed a follow-on underwritten public offering of our common stock under our Registration Statement filed in November 2017 (File No. 333-221331), selling 3,772,447 shares of our common stock at an offering price of $7.00 per share for proceeds of $24.5 million, net of $1.9 million of underwriting discounts and commissions and other offering costs.

We believe that our existing cash and cash equivalents as of September 30, 2018, coupled with our anticipated growth and sales levels will be sufficient to meet our anticipated cash requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, and the introduction of new products. If we need to raise additional capital to fund our operations, we may be required to seek additional equity or debt financing, and such additional financing may not be available to us on acceptable terms or at all. If we are unable to raise additional capital or generate sufficient cash from operations to adequately fund our operations, we will need to curtail planned activities to reduce costs and extend the time period over which our current resources will be able to fund operations. Doing so will likely harm our ability to execute on our business plan.

Cash Flows

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

	Nine Months Ended September 30,	
	2018	2017
	(In thousands)	
Cash used in operating activities	$ (6,879)	$ (14,521)
Cash used in investing activities	(1,513)	(2,170)
Cash provided by financing activities	26,880	4,806

Cash Flows From Operating Activities

During the nine months ended September 30, 2018, cash used in operating activities was $6.9 million, which consisted of a net loss of $14.3 million, adjusted by non-cash charges of $4.1 million and a change of $3.2 million in our net operating assets and liabilities. The non-cash charges primarily consisted of stock-based compensation of $2.1 million, depreciation and amortization of $1.1 million, compensation expense related to vesting of common stock issued to GLOBALFOUNDRIES under our joint development agreement of $0.7 million, and interest expense related to the amortization of debt issuance costs of $0.3 million. The change in our net operating assets and liabilities was primarily due to an increase of $4.8 million in accrued liabilities due to an increase in inventory purchases in connection with the joint development agreement with GLOBALFOUNDRIES and the timing of payments, a decrease of $0.3 million in inventory due to increased sales, and a decrease of $0.2 million in prepaid expenses and other current assets due to the timing of payments. This change was partially offset by an increase in accounts receivable of $1.9 million due to an increased sales volume and timing of cash receipts for outstanding balances.

During the nine months ended September 30, 2017, cash used in operating activities was $14.5 million, which consisted of a net loss of $16.7 million, adjusted by non-cash charges of $3.9 million and a change of $1.7 million in our net operating assets and liabilities. The non-cash charges primarily consisted of stock-based compensation of $1.5 million, compensation expense related to vesting of common stock issued to GLOBALFOUNDRIES under our joint development agreement of $1.2 million, depreciation and amortization of $0.8 million, loss on extinguishment of debt of $0.2 million, and interest expense related to the amortization of debt issuance costs of $0.2 million. The change in our net operating assets and liabilities was primarily due to an increase in inventory of $2.6 million to meet demands of future sales and growing backlog and an increase of $0.5 million in accounts receivable due to timing of cash receipts for outstanding balances. These changes were partially offset by an increase in accounts payable and accrued liabilities of $0.8 million due to the timing of payments, an increase of $0.3 million in deferred income on shipments to distributors, and a decrease of $0.3 million in prepaid and other current assets.

Cash Flows From Investing Activities

Cash used in investing activities during nine months ended September 30, 2018, was $1.5 million for the purchase of manufacturing and computer equipment.

Cash used in investing activities during the nine months ended September 30, 2017, was $2.2 million, for the purchase of manufacturing equipment and capitalized costs related to the move to our new office and laboratory space in Chandler, Arizona.

Cash Flows From Financing Activities

During the nine months ended September 30, 2018, cash provided by financing activities was $26.9 million consisting of net proceeds from the issuance of common stock of $24.5 million, proceeds of $1.0 million in borrowings, and $2.4 million from stock option exercises and purchases of shares in our employee stock purchase plan, offset in part by payments of long-term debt of $1.0 million.

During the nine months ended September 30, 2017, cash provided by financing activities was $4.8 million consisting of proceeds of $12.0 million in borrowings, and $1.2 million from stock option exercises and purchases of shares in employee stock purchase plan, offset in part by payments of long-term debt of $8.4 million.

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2018 (in thousands):

	Payments Due by Period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
	(In thousands)				
Long-term debt, current and non-current, including interest[1]	$ 4,979	$ 8,568	$ —	$ —	$ 13,547
Capital lease obligation	10	13	—	—	23
Operating leases	1,606	2,777	233	—	4,616
	$ 6,595	$11,358	$ 233	$ —	$ 18,186

(1) The interest charges have been calculated using a rate of 4.50%, which was the rate in effect as of September 30, 2018. The debt bears interest at a variable rate and interest charges in future periods may be higher.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Significant Judgments and Estimates

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

Revenue Recognition

On January 1, 2018, we adopted Auditing Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers (Topic 606) using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Topic 605, Revenue.

We recognize revenue when a customer obtains control of the promised products or services, in an amount that reflects the consideration which we expect to receive in exchange for those products or services. Revenue is recognized net of allowances for returns and price concessions, and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Topic 606 permits the application of certain practical expedients. Our billing practices approximate our performance as measured by an output method, where each output represents the completion of a performance obligation. Accordingly, we utilize the invoice practical expedient as defined in Topic 606, resulting in recognition of revenue in the amount that we have the right to invoice.

We incur direct and incremental costs of obtaining contracts and such costs are expensed as incurred, as the life of the underlying contract is less than one year. Accordingly, we have concluded, based on the structure of our contracts, no adjustments are necessary under Topic 606.

Nature of Products and Services

Our revenue is derived from the sale of MRAM-based products in discrete unit form, licenses of and royalties on our MRAM and magnetic sensor technology, the sale of backend foundry services, and design services to third parties. Sales of products in discrete unit form are recognized at a point in time, revenue related to licensing agreements is recognized when we have delivered control of the technology, revenue related to royalty agreements is recognized in the period in which sales generated from products sold using our technology occurs, and sales of backend foundry services are recognized over time, and design services to third parties are recognized either at a point in time or over time, depending on the nature of the services.

Product Revenue

For products sold in their discrete form, we either sell our products directly to OEMs, original design manufacturers (ODMs), contract manufacturers (CMs), or through a network of distributors, who in turn sell to those customers. For sales directly to OEMs, ODMs and CMs, revenue is recognized when the OEM, ODM or CM obtains control of the product, which occurs at a point in time, generally upon shipment to the customer.

We sell a majority of our products to our distributors at a uniform list price. However, distributors may resell our products to end customers at a very broad range of individually negotiated price points. Distributors are provided with price concessions subsequent to the delivery of product to them and such amounts are dependent on the end customer and product sales price. The price concessions are based on a variety of factors, including customer, product, quantity, geography and competitive differentiation. Price protection rights grant distributors the right to a credit in the event of declines in the price of our products. Under these circumstances, we remit back to the distributor a portion of their original purchase price after the resale transaction is completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits are on a per unit basis and are not given to the distributor until the distributor provides information regarding the sale to their end customer. We estimate these credits and record such estimates in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of an allowance for price concessions for amounts due to distributors. We estimate credits to distributors based on the historical rate of credits provided to distributors relative to sales. Revenue on shipments to distributors is recorded when control of the products has been transferred to the distributor.

We estimate the amount of our product sales that may be returned by our customers and record this estimate as a reduction of revenue in the period the related product revenue is recognized. We estimate our product return liability by analyzing our historical returns, current economic trends and changes in customer demand and acceptance of products. We have received insignificant returns to date and believe that returns of our products will continue to be minimal.

At the time of shipment to distributors, we record a trade receivable for the selling price as there is a legally enforceable obligation of the distributor to pay for the product delivered, an allowance is recorded for the estimated discount that will be provided to the distributor, and the net of these amounts is recorded as revenue on the statement of operations.

License Revenue

For licenses of technology, recognition of revenue is dependent upon whether we have delivered rights to the technology, and whether there are future performance obligations under the contract. In some instances, the license agreements call for future events or activities to occur in order for milestones amounts to become due from the customer. The terms of such agreements include payment to us of one or more of the following: non-refundable upfront fees; and royalties on net sales of licensed products. Historically, these license agreements have not included other future performance obligations once the license has been transferred to the customer.

The transaction price in each agreement is allocated to the identified performance obligations based on the standalone selling price (SSP) of each distinct performance obligation. Judgment is required to determine SSP. In instances where SSP is not directly observable, such as when a license or service is not sold separately, SSP is determined using information that may include market conditions and other observable inputs.

Revenue from non-refundable up-front payments is recognized when the license is transferred to the customer and the we have no other performance obligations.

Royalties

Revenue from sales-based royalties from licenses of our technology is recognized at the later of when (1) the sale occurs or (2) the performance obligation to which some or all of the sales-based royalty has been allocated is satisfied (in whole or in part).

Other Revenue

For certain revenue streams, we recognize revenue based on the pattern of transfer of the services. We use the input method of measuring costs incurred to date compared to total estimated costs to be incurred under the contract as this method most faithfully depicts its performance. We record an unbilled receivable (within accounts receivable, net) for the portion of the work that has been completed but not invoiced at the end of each reporting period

Revenue from milestone payments must be estimated using either the expected value method or the most likely amount method. At the inception of each agreement that includes milestone payments, we evaluate whether the milestones are considered probable of being reached and estimate the amount to be included in the transaction price by using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. At the end of each subsequent reporting period, we re-evaluate the probability or achievement of each such milestone and any related constraint, and if necessary, adjust our estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

There have been no other changes to our critical accounting policies and estimates described in the Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission (SEC) on March 15, 2018, that have had a material impact on our condensed financial statements and related notes.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business, including the effects of interest rate changes and foreign currency fluctuations. Information relating to quantitative and qualitative disclosures about these markets risks is described below.

Interest Rate Risk

We are primarily exposed to interest rate risk from variable rate borrowings under our Amended Credit Facility, and to a lesser extent, from our cash position. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. A hypothetical 10% increase in our borrowing rates would not have a material impact on interest expense on our principal balances as of September 30, 2018 and December 31, 2017. A hypothetical 10% change in interest rates would not have a material impact on interest income on our cash and cash equivalent balances as of September 30, 2018 and December 31, 2017.

Foreign Currency Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Substantially all of our revenue is denominated in United States dollars. Our expenses are generally denominated in United States dollars; however, we do incur expenses in the currencies of our subcontracted manufacturing suppliers, which are located in Europe and in Asia. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. The effect of a hypothetical 10% change in foreign currency exchanges rates applicable to our business would not have a material impact on our historical financial statements.

We have not hedged exposures denominated in foreign currencies or used any other derivative financial instruments. Although we transact the substantial majority of our business in U.S. dollars, future fluctuations in the value of the U.S. dollar may affect the competitiveness of our products and thus may impact our results of operations and cash flows.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

Our management, with the participation of our management team, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of September 30, 2018, the end of the period covered by this quarterly report on Form 10-Q.

Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of September 30, 2018, based on the material weakness described below.

Material weakness in internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the preparation of our unaudited condensed financial statements for the quarter ended September 30, 2018, we identified an error in the previously filed financial statements that has caused us to restate and amend the our previously issued condensed financial statements and related financial information as of and for the three and six months ended June 30, 2018. This error was the result of a material weakness in our internal control over financial reporting. Specifically, i) our information technology systems do not currently provide management the ability to accurately monitor inventory movements and quantities at third-party locations, ii) internal processes to provide for clear communication between operational and financial personnel within the Company are insufficient, and iii) we have insufficient personnel with the appropriate level of experience to prevent and detect errors on a timely basis in our financial statements.

Management's plan to remediate the material weakness.

To remediate this material weakness, we plan to take the following actions:

- We are currently updating our information technology tools, including our ERP system, to enhance our ability to monitor inventory and its movement through our manufacturing process and to provide checks and balances to third-party reports.

- We have, and continue to put in place, management dashboard tools to alert all involved as to the performance of inventory against our business goals.

- We are establishing multi-discipline processes to actively manage and make decisions regarding our inventory to support our business objectives.

- We are providing additional training to our Operations Teams and updating procedures with our third-party Assembly Houses.

- We have hired additional qualified personnel to assist management with its financial statement close process and provide oversight of our financial reporting.

We are assessing our accounting policies and internal controls documentation to ensure they are effective in helping us manage the business. Notwithstanding the material weakness that exists, our management has concluded that the financial statements included elsewhere in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows in conformity with GAAP.

If we fail to fully remediate this material weakness or fail to maintain effective internal controls in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis, which could cause investors to lose confidence in our financial information or cause our stock price to decline.

Changes in internal control over financial reporting.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that occurred during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent limitation on the effectiveness of internal control.

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

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

Risk Factors Related to Our Business and Our Industry

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

We have incurred net losses since our inception. We incurred net losses of $21.1 million and $14.3 million for the year ended December 31, 2017, and the nine months ended September 30, 2018, respectively. As of September 30, 2018, we had an accumulated deficit of $130.5 million. We expect to incur significant expenses related to the continued development and expansion of our business, including in connection with our efforts to develop and improve upon our products and technology, maintain and enhance our research and development and sales and marketing activities and hire additional personnel. While our products offer unique benefits over other industry memory technologies, our per-bit cost to product our product is currently higher than competing technologies. As a result, our ability to capture market share and generate sufficient revenue to transition to profitability and generate consistent positive cash flows is uncertain. We do not know whether our revenue will grow rapidly enough to absorb these costs, and our limited operating history makes it difficult to assess the extent of these expenses, or their impact on our results of operations.

Further, our revenue may not increase or may decline for a number of possible reasons, many of which are outside our control, including a decline in demand for our products, increased competition, business conditions that adversely affect the semiconductor memory industry, including reduced demand for products in the end markets that we serve, or our failure to capitalize on growth opportunities. If we fail to generate sufficient revenue to support our operations, we may not be able to achieve or sustain profitability.

Our limited history of making our STT-MRAM products makes it difficult to evaluate our current business and future prospects.

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

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

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

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

We may require additional capital to fund our business, which may not be available to us on favorable terms or at all.

We believe that our existing cash and cash equivalents as of September 30, 2018, coupled with our anticipated growth and sales levels will be sufficient to meet our anticipated cash requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, and the introduction of new products. We may be required to seek additional equity or debt financing, and we cannot assure you that any such additional financing will be available to us on acceptable terms or at all. If we are unable to raise additional capital or generate sufficient cash from operations to adequately fund our operations, we will need to curtail planned activities to reduce costs. Doing so will likely harm our ability to execute on our business plan.

If we raise additional funds through issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

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

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

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

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

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

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

We currently do not have long-term supply contracts with some of our third-party contract manufacturers for our MRAM products, including NXP, United Microelectronics Corporation, Taiwan Semiconductor Manufacturing Company, Limited (TSMC), United Test and Assembly Center (UTAC), Global Testing Corporation (GTC), ChipMos, OSE Taiwan, and Amkor, and we typically negotiate pricing on a per-purchase order basis and in some cases on an annual basis. Therefore, they are not obligated to perform services or supply components to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. During periods of high demand and tight inventories, our third-party foundries and packaging, assembly and testing contractors may allocate capacity to the production of other companies' products while reducing deliveries to us, or significantly raise their prices. In particular, they may allocate capacity to other customers that are larger and better financed than us or that have long-term agreements, decreasing the capacity available to us. Shortages of capacity available to us may be caused by the actions of their other, large customers that may be difficult to predict, such as major product launches.

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

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

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

Our joint development agreement and strategic relationships involve numerous risks.

We have entered into strategic relationships to manufacture products and develop new manufacturing process technologies and products. These relationships are subject to various risks that could adversely affect the value of our investments and our results of operations. These risks include the following:

- our interests could diverge from those of our foundries, or we may not be able to agree with them on ongoing development, manufacturing and operational activities, or on the amount, timing, or nature of further investments in our joint development;

- we may experience difficulties in transferring technology to a foundry;

- we may experience difficulties and delays in getting to and/or ramping production at foundries;

- our control over the operations of foundries is limited;

- due to financial constraints, our joint development collaborators may be unable to meet their commitments to us and may pose credit risks for our transactions with them;

- due to differing business models or long-term business goals, our collaborators may decide not to join us in funding capital investment, which may result in higher levels of cash expenditures by us;

- our cash flows may be inadequate to fund increased capital requirements;

- we may experience difficulties or delays in collecting amounts due to us from our collaborators;

- the terms of our arrangements may turn out to be unfavorable;

- we are migrating toward a fabless model as 300mm production becomes required and this increases risks related to less control over our critical production processes; and

- changes in tax, legal, or regulatory requirements may necessitate changes in our agreements.

In addition, under the terms of our joint development agreement with GLOBALFOUNDRIES, we are responsible for half of the costs incurred by GLOBALFOUNDRIES, and we are not able to control the expenses incurred by GLOBALFOUNDRIES. If GLOBALFOUNDRIES were to incur expenses greater than we expect, our expenses would increase by more than we expect. GLOBALFOUNDRIES may terminate the joint development agreement with us if we materially breach a term of the agreement, such as, but not limited to, by our failing to pay any undisputed sum which has been outstanding for 45 or more days from the date of invoice, and fail to remedy the breach within 60 days after receiving notice from GLOBALFOUNDRIES. Further, our joint development agreement expires in December 2019 unless a statement of work is in place at that time, in which case it expires on the date the last statement of work is finished. If GLOBALFOUNDRIES fails to extend or terminates the joint development agreement, our ability to continue to develop our MRAM technology will be significantly impaired.

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

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

Our customers for some of our products may see the average selling price of competitive products decrease year-over-year and we expect this trend to continue. When such pricing declines occur, we may not be able to mitigate the effects by selling more or higher margin units, or by reducing our manufacturing costs. In such circumstances, our operating results could be materially and adversely affected. Our stand-alone and embedded MRAM products have experienced declining average selling prices over their life cycle. The rate of decline may be affected by a number of factors, including relative supply and demand, the level of competition, production costs and technological changes. As a result of the decreasing average selling prices of our products following their launch, our ability to increase or maintain our margins depends on our ability to introduce new or enhanced products with higher average selling prices and to reduce our per-unit cost of sales and our operating costs. We may not be able to reduce our costs as rapidly as companies that operate their own manufacturing, assembly and testing facilities, and our costs may even increase because we rely in part on third parties to manufacture, assemble and test our products, which could also reduce our gross margins. In addition, our new or enhanced products may not be as successful or enjoy as high margins as we expect. If we are unable to offset any reductions in average selling prices by introducing new products with higher average selling prices or reducing our costs, our revenue and margins will be negatively affected and may decrease.

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

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

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

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

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

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

We sell to customers that incorporate MRAM into their products. A design win occurs after a customer has tested our product, verified that it meets the customer's requirements and qualified our solutions for their products. We believe we are dependent on the adoption of our 256Mb and 1Gb MRAM products by our customers to secure design wins. In the fourth quarter of 2017, we recorded revenue for our first sale of 40nm 256Mb STT-MRAM products and we have been ramping up production in 2018. To date we have not sold any of our 1Gb MRAM products. Our customers may need several months to years to test, evaluate and adopt our product and additional time to begin volume production of the product that incorporates our solution. Due to this generally lengthy design cycle, we may experience significant delays from the time we increase our operating expenses and make investments in our products to the time that we generate revenue from sales of these products. Moreover, even if a customer selects our solution, we cannot guarantee that this will result in any sales of our products, as the customer may ultimately change or cancel its product plans, or efforts by our customer to market and sell its product may not be successful. We may not generate any revenue from design wins after incurring the associated costs, which would cause our business and operating results to suffer. Any further delay in the development of our 1Gb MRAM products, or failure of our customers to adopt our 256Mb and 1Gb MRAM products, could inhibit revenue growth or cause declines, which would significantly harm our business and prevent us from becoming profitable.

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

We rely on our relationships with OEMs and original design manufacturers (ODMs) to enhance our solutions and market position, and our failure to continue to develop or maintain such relationships in the future would harm our ability to remain competitive.

We develop our products for leading OEMs and ODMs that serve a variety of end markets and are developing devices for automotive, transportation, industrial and storage applications. For each application, manufacturers create products that incorporate specialized semiconductor technology, which makers of memory products use as the basis for their products. These manufacturers set the specifications for many of the key components to be used on each generation of their products and, in the case of memory components, generally qualify only a few vendors to provide memory components for their products. As each new generation of their products is released, vendors are validated in a similar fashion. We must work closely with OEMs and ODMs to ensure our products become qualified for use in their products. As a result, maintaining close relationships with leading OEMs and ODMs that are developing devices for automotive, transportation, industrial and storage applications is crucial to the long-term success of our business. We could lose these relationships for a variety of reasons, including our failure to qualify as a vendor, our failure to demonstrate the value of our new solutions, declines in product quality, or if OEMs or ODMs seek to work with vendors with broader product suites, greater production capacity or greater financial resources. If our relationships with key industry participants were to deteriorate or if our solutions were not qualified by our customers, our market position and revenue could be materially and adversely affected.

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

We have derived and expect to continue to derive a significant portion of our revenues from a small group of customers during any particular period due in part to the concentration of market share in the semiconductor industry. Our four largest end customers together accounted for 35% of our total revenue for the nine months ended September 30, 2018, and two of these customers accounted for more than 10% of our revenue during the period. Our four largest end customers together accounted for 28% of our total revenue for the year ended December 31, 2017, but none of these customers individually accounted for more than 10% of our total revenue during the period. The loss of a significant customer, a business combination among our customers, a reduction in orders or decrease in price from a significant customer or disruption in any of our commercial or distributor arrangements may result in a significant decline in our revenues and could have a material adverse effect on our business, liquidity, results of operations, financial condition and cash flows.

Our results of operations can fluctuate from period to period, which could cause our share price to fluctuate.

Our results of operations have fluctuated in the past and may fluctuate from period to period in the future due to a variety of factors, many of which are beyond our control. Factors relating to our business that may contribute to these fluctuations include the following factors, as well as other factors described elsewhere in this report:

- the receipt, reduction, delay or cancellation of orders by large customers;
- the gain or loss of significant customers or distributors;
- the timing and success of our launch of new or enhanced products and those of our competitors;
- market acceptance of our products and our customers’ products;
- the level of growth or decline in the industrial, automotive and transportation, enterprise storage and other markets;
- the timing and extent of research and development and sales and marketing expenditures;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;

- changes in our product mix;
- our ability to reduce the manufacturing costs of our products;
- competitive pressures resulting in lower than expected average selling prices;
- fluctuations in sales by and inventory levels of OEMs and ODMs that incorporate our memory products in their products;
- cyclical and seasonal fluctuations in our markets;
- fluctuations in the manufacturing yields of our third-party manufacturers;
- quality issues that arise from manufacturing issues at our third-party manufacturers;
- events that impact the availability of production capacity at our third-party subcontractors and other interruptions in the supply chain including due to geopolitical events, natural disasters, materials shortages, bankruptcy or other causes;
- supply constraints for and changes in the cost of the other components incorporated into our customers' products;
- the timing of expenses related to the acquisition of technologies or businesses;
- product rates of return or price concessions in excess of those expected or forecasted;
- costs associated with the repair and replacement of defective products;
- unexpected inventory write-downs or write-offs;
- costs associated with litigation over intellectual property rights and other litigation;
- changes in accounting standards, such as revenue recognition, which we were required to adopt beginning in 2018;
- changes in tax laws, such as the Tax Cuts and Jobs Act of 2017 recently enacted;
- the length and unpredictability of the purchasing and budgeting cycles of our customers;
- loss of key personnel or the inability to attract qualified engineers; and
- geopolitical events, such as war, threat of war or terrorist actions, or the occurrence of natural disasters.

The semiconductor memory industry is highly cyclical and our markets may experience significant cyclical fluctuations in demand as a result of changing economic conditions, budgeting and buying patterns of customers and other factors. As a result of these and other factors affecting demand for our products and our results of operations in any given period, the results of any prior quarterly or annual periods should not be relied upon as indicative of our future revenue or operating performance. Fluctuations in our revenue and operating results could also cause our stock price to decline.

If sales of our customers' products decline or if their products do not achieve market acceptance, our business and operating results could be adversely affected.

Our revenue depends on our customers' ability to commercialize their products successfully. The markets for our customers' products are extremely competitive and are characterized by rapid technological change. Competition in our customers’ markets is based on a variety of factors including price, performance, product quality, marketing and distribution capability, customer support, name recognition and financial strength. As a result of rapid technological change, the markets for our customers’ products are characterized by frequent product introductions, short product life cycles, fluctuating demand and increasing product capabilities. As a result, our customers’ products may not achieve market success or may become obsolete. We cannot assure you that our customers will dedicate the resources necessary to promote and commercialize their products, successfully execute their business strategies for such products, or be able to manufacture such products in quantities sufficient to meet demand or cost-effectively manufacture products at a high volume. Our customers do not have contracts with us that require them to manufacture, distribute or sell any products. Moreover, our customers may develop internally, or in collaboration with our competitors, technology that they may utilize instead of the technology available to them through us. Our customers’ failure to achieve market success for their products, including as a result of general declines in our customers’ markets or industries, could negatively affect their willingness to utilize our products, which may result in a decrease in our revenue and negatively affect our business and operating results.

Our revenue also depends on the timely introduction, quality and market acceptance of our customers’ products that incorporate our solutions. Our customers’ products are often very complex and subject to design complexities that may result in design flaws, as well as potential defects, errors and bugs. We incur significant design and development costs in connection with designing our solutions for customers’ products. If our customers discover design flaws, defects, errors or bugs in their products, or if they experience changing market requirements, failed evaluations or field trials, or issues with other vendors, they may delay, change or cancel a project. If we have already incurred significant development costs, we may not be able to recoup those costs, which in turn would adversely affect our business and financial results.

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

The global semiconductor market in general, and the semiconductor memory market in particular, are highly competitive. We expect competition to increase and intensify as other semiconductor companies enter our markets, many of which have greater financial and other resources with which to pursue technology development, product design, manufacturing, marketing and sales and distribution of their products. Increased competition could result in price pressure, reduced profitability and loss of market share, any of which could materially and adversely affect our business, revenue and operating results. Currently, our competitors range from large, international companies offering a wide range of traditional memory technologies to companies specializing in other alternative, specialized emerging memory technologies. Our primary memory competitors include Cypress, Fujitsu, Integrated Silicon Solution, Macronix, Microchip, Micron, Renesas, Samsung, and Toshiba. The main competition for sensor products includes AMR, Crocus, GMR and Hall Effect. These technologies directly compete with our products and are supplied by ALPS Electric, Asahi Kasei Microdevices, Fairchild, Invensys (now Schneider), Kionix and Micronas. In addition, as the MRAM market opportunity grows, we expect new entrants such as Avalanche Technologies may enter this market and existing competitors, including leading semiconductor companies, may make significant investments to compete more effectively against our products. These competitors could develop technologies or architectures that make our products or technologies obsolete.

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

- the functionality and performance of our products and those of our competitors;
- our relationships with our customers and other industry participants;
- prices of our products and prices of our competitors’ products;
- our ability to develop innovative products;
- our competitors’ greater resources to make acquisitions;
- our ability to obtain adequate capital to finance operations;
- our ability to retain high-level talent, including our management team and engineers; and

- the actions of our competitors, including merger and acquisition activity, launches of new products and other actions that could change the competitive landscape.

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

Our customers require our products and our third-party contractors to undergo a lengthy and expensive qualification process. If we are unsuccessful or delayed in qualifying any of our products with a customer, our business and operating results would suffer.

Prior to selecting and purchasing our products, our customers typically require that our products undergo extensive qualification processes, which involve testing of our products in the customers' systems, as well as testing for reliability. This qualification process may continue for several months or years. However, obtaining the requisite qualifications for a memory product does not assure any sales of the product. Even after successful qualification and sales of a product to a customer, a subsequent revision in our third-party contractors' manufacturing process or our selection of a new contract manufacturer may require a new qualification process, which may result in delays and excess or obsolete inventory. After our products are qualified and selected, it can and often does take several months or years before the customer commences volume production of systems that incorporate our products. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, to qualify our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, sales of those products may be precluded or delayed, which may impede our growth and harm our business.

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

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

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

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

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

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

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

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

We aim to use the most advanced manufacturing process technology appropriate for our solutions that is available from our third-party foundries. As a result, we periodically evaluate the benefits of migrating our solutions to other technologies to improve performance and reduce costs. These ongoing efforts require us from time to time to modify the manufacturing processes for our products and to redesign some products, which in turn may result in delays in product deliveries. We may face difficulties, delays and increased expense as we transition our products to new processes, and potentially to new foundries. We will depend on our third-party foundries as we transition to new processes. We cannot assure you that our third-party foundries will be able to effectively manage such transitions or that we will be able to maintain our relationship with our third-party foundries or develop relationships with new third-party foundries. If we or any of our third-party foundries experience significant delays in transitioning to new processes or fail to efficiently implement transitions, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, any of which could harm our relationships with our customers and our operating results.

As smaller line width geometry manufacturing processes become more prevalent, we intend to move our future products to increasingly smaller geometries to integrate greater levels of storage capacity and/or functionality into our products. This transition will require us and our third-party foundries to migrate to new designs and manufacturing processes for smaller geometry products. We may not be able to achieve smaller geometries with higher levels of design integration or to deliver new integrated products on a timely basis. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to increase product value. We are dependent on our relationships with our third-party foundries to transition to smaller geometry processes successfully. We cannot assure you that our third-party foundries will be able to effectively manage any such transition. If we or our third-party foundries experience significant delays in any such transition or fail to implement a transition, our business, financial condition and results of operations could be materially harmed.

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

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

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

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

Our success and ability to compete depend in part upon our ability to protect our intellectual property. We rely on a combination of intellectual property rights, including patents, mask work protection, copyrights, trademarks, trade secrets and know-how, in the United States and other jurisdictions. The steps we take to protect our intellectual property rights may not be adequate, particularly in foreign jurisdictions such as China. Any patents we hold may not adequately protect our intellectual property rights or our products against competitors, and third parties may challenge the scope, validity or enforceability of our issued patents, which third parties may have significantly more financial resources with which to litigate their claims than we have to defend against them. In addition, other parties may independently develop similar or competing technologies designed around any patents or patent applications that we hold. Some of our products and technologies are not covered by any patent or patent application, as we do not believe patent protection of these products and technologies is critical to our business strategy at this time. A failure to timely seek patent protection on products or technologies generally precludes us from seeking future patent protection on these products or technologies.

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

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

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

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

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

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

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

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

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

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

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

Our success depends on our ability to attract and retain our key employees, including our management team and experienced engineers. Competition for personnel in the semiconductor memory technology field, and in the MRAM space in particular, is intense, and the availability of suitable and qualified candidates is limited. We compete to attract and retain qualified research and development personnel with other semiconductor companies, universities and research institutions. Given our experience as an early entrant in the MRAM space, our employees are frequently contacted by MRAM startups and MRAM groups within larger companies seeking to employ them. The members of our management and key employees are at-will employees and although we issued refresh equity awards to our personnel in connection with our initial public offering, and repriced options in mid-December 2016 to reflect our then current stock price, there can be no assurance that these awards will be effective to retain our key employees. If we lose the services of any key senior management member or employee, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely impact our business and prospects. The loss of the services of one or more of our key employees, especially our key engineers, or our inability to attract and retain qualified engineers, could harm our business, financial condition and results of operations.

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

As we continue to expand our business, we expect our headcount and overall size of our operations to grow significantly. To effectively manage our growth, we must continue to expand our operational, engineering and financial systems, procedures and controls and to improve our accounting and other internal management systems, such as our ERP system. This may require substantial managerial and financial resources, and our efforts in this regard may not be successful. Our current systems, procedures and controls may not be adequate to support our future operations. If we fail to adequately manage our growth, or to improve our operational, financial and management information systems, or fail to effectively motivate or manage our new and future employees, the quality of our products and the management of our operations could suffer, which could adversely affect our operating results.

We may engage in acquisitions of, or investments in, other companies, each of which may divert our management's attention, result in additional dilution to stockholders or use resources that are necessary to operate our business.

We may in the future seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our business, enhance our technical capabilities or otherwise offer growth opportunities. However, our term loan and revolving credit facility prohibits our ability to merge with or acquire any other entity, and so we could only do so with the lender's consent. If we were to pursue such acquisitions or investments, they could create risks for us, including:

- difficulties in assimilating acquired personnel, operations and technologies or realizing synergies expected in connection with an acquisition, particularly with acquisitions of companies with large and widespread operations, complex products or that operate in markets in which we historically have had limited experience;
- unanticipated costs or liabilities, including possible litigation, associated with the acquisition;
- incurrence of acquisition-related costs;
- diversion of management's attention from other business concerns;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate an acquisition.

A significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill, which must be assessed for impairment at least annually. If such acquisitions do not yield expected returns, we may be required to take charges to our earnings based on this impairment assessment process, which could harm our results of operations.

We may be unable to complete acquisitions at all or on commercially reasonable terms, which could limit our future growth. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of additional debt, which could adversely affect our operating results and result in a decline in our stock price and further restrict our ability to pursue business opportunities, including potential acquisitions. In addition, if an acquired business fails to meet our expectations, our operating results may suffer.

We maintain operations outside of the United States and intend to expand our international operations, which exposes us to significant risks.

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

- difficulties, inefficiencies and costs associated with staffing and managing foreign operations;
- longer and more difficult customer qualification and credit checks;
- greater difficulty collecting accounts receivable and longer payment cycles;
- the need for various local approvals to operate in some countries;
- difficulties in entering some foreign markets without larger-scale local operations;
- compliance with local laws and regulations;
- unexpected changes in regulatory requirements, including the elimination of tax holidays;
- reduced protection for intellectual property rights in some countries;
- adverse tax consequences as a result of repatriating cash generated from foreign operations to the United States;
- adverse tax consequences, including potential additional tax exposure if we are deemed to have established a permanent establishment outside of the United States;
- the effectiveness of our policies and procedures designed to ensure compliance with the Foreign Corrupt Practices Act of 1977 and similar regulations;
- fluctuations in currency exchange rates, which could increase the prices of our products to customers outside of the United States, increase the expenses of our international operations by reducing the purchasing power of the U.S. dollar and expose us to foreign currency exchange rate risk if, in the future, we denominate our international sales in currencies other than the U.S. dollar;
- new and different sources of competition; and
- political and economic instability, and terrorism.

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

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

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

Some of the facilities of our suppliers are located near known earthquake fault zones, and the occurrence of an earthquake or other catastrophic disaster could damage our facilities, which could cause us to curtail our operations.

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

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

Borrowings under our existing credit facility are secured by substantially all of our assets, except for intellectual property. Our term loan facility prohibits our ability to, among other things:

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

These restrictions are subject to certain exceptions. In addition, our existing credit facility requires that we meet certain operating covenants, such as maintaining insurance on the collateral and meeting certain financial covenants, such as a minimum liquidity ratio. The operating restrictions and covenants in the term loan facility, as well as any future financing agreements that we may enter into, may restrict our ability to finance our operations, engage in business activities or expand or fully pursue our business strategies. Our ability to comply with these covenants may be affected by events beyond our control, and we may not be able to meet those covenants. A breach of any of these covenants could result in a default under the credit facility, which could cause all of the outstanding indebtedness thereunder to either become immediately due and payable or increase by five percent of the interest rate charged during the period of the unremedied breach.

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

In general, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income, and tax credits to offset tax. As of December 31, 2017, we had federal net operating loss carryforwards of approximately $100.1 million which will begin to expire in 2028 if not utilized, and state net operating loss carryforwards of approximately $39.3 million which will begin to expire in 2023 if not utilized. The federal NOLs generated prior to 2018 will continue to be governed by the NOL tax rules as they existed prior to the adoption of the new Tax Act, which means that generally they will expire 20 years after they were generated if not used prior thereto. We may experience an ownership change in the future, and our ability to utilize our NOLs and tax credits could be further limited by Section 382 of the Code. Future changes in our stock ownership, many of which are outside of our control, could result in an ownership change under Section 382 of the Code. Our net operating losses and tax credits could also be impaired under state laws. As a result, we might not be able to utilize a material portion of our state NOLs and tax credits.

The recently enacted tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (2017 Tax Act), which significantly amends the Internal Revenue Code of 1986. The 2017 Tax Act, among other things, reduces the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limits the tax deduction for interest expense to 30% of adjusted earnings, eliminates net operating loss carrybacks, imposes a one-time tax on offshore earnings at reduced rates regardless of whether they are repatriated, allows immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifies or repeals many business deductions and credits. The rate reduction took effect on January 1, 2018.

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

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

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

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

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

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

We have a material weakness in our internal control over financial reporting, and if we fail to remediate this material weakness or experience any additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls in the future, we may not be able to accurately report our financial condition or results of operations, which may adversely affect investor confidence in our financial reporting and, as a result, the value of our common stock.

We are required, under Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting which cause a reasonable possibility that a material misstatement of our annual and interim financial statements will not be detected or prevented on a timely basis.

Our management has determined that we have a material weakness in our internal control over financial reporting as of September 30, 2018 relating to the design and operation of our financial reporting processes over inventory management. We have concluded that this material weakness in our internal controls is due to gaps in management and reporting of our inventory from third parties.

We are enhancing our internal controls, processes and related documentation necessary to remediate our material weakness and to perform the evaluation needed to comply with Section 404. We may not be able to complete our remediation, evaluation and testing in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, such as the one we identified as described above, we will be unable to conclude that our internal controls are effective. The effectiveness of our controls and procedures may be limited by a variety of factors, including:

- faulty human judgment and simple errors, omissions or mistakes
- fraudulent action of an individual or collusion of two or more people;
- inappropriate management override of procedures; and
- the possibility that any enhancements to controls and procedures may still not be adequate to assure timely and accurate financial control.

When we cease to be an “emerging growth company” under the federal securities laws, our auditors will be required to express an opinion on the effectiveness of our internal controls. If we are unable to confirm that our internal control over financial reporting is effective, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline.

The issuance of new accounting standards or future interpretations of existing accounting standards could adversely affect our operating results.

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP. A change in those principles could have a significant effect on our reported results and might affect our reporting of transactions completed before a change is announced. GAAP is issued and subject to interpretation by the Financial Accounting Standards Board, the SEC and various other bodies formed to promulgate and interpret accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. For example, beginning with our first quarter of 2018, we will adopt the new revenue recognition standard, which will change the way we recognize revenue. We do not expect the adoption of the standard to have a material impact on our quarterly and/or annual statement of operations, however the exact impact will be dependent on facts and circumstances that could vary from quarter to quarter. The issuance of new accounting standards or future interpretations of existing accounting standards, or changes in our business practices or estimates, could result in future changes in our revenue recognition or other accounting policies that could have a material adverse effect on our results of operations.

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

Pursuant to the Dodd-Frank Act, the SEC has adopted requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. These requirements will require companies to perform diligence and disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. The implementation of these requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of our products, and affect our costs and relationships with customers, distributors and suppliers as we must obtain additional information from them to ensure our compliance with the disclosure requirement. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free and these customers may discontinue, or materially reduce, purchases of our products, which could result in a material adverse effect on our results of operations and our financial condition may be adversely affected.

Risks Related to Our Common Stock

An active trading market may not be sustained.

Although our stock is currently traded on the Nasdaq Stock Market, an active trading market may not be sustained. The lack of an active market may impair the value of your shares and your ability to sell your shares at the time you wish to sell them. An inactive market may also impair our ability to both raise capital by selling shares and acquire other complementary products, technologies or businesses by using our shares as consideration.

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

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

- the introduction of new products or product enhancements by us or others in our industry;
- disputes or other developments with respect to our or others' intellectual property rights;
- product liability claims or other litigation;
- quarterly variations in our results of operations or those of others in our industry;
- sales of large blocks of our common stock, including sales by our executive officers and directors;
- changes in earnings estimates or recommendations by securities analysts; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

Stock markets generally have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may significantly affect the market price of our common stock, regardless of our actual operating performance. These fluctuations may be even more pronounced in the trading market for our common stock.

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

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

Securities analysts may not publish favorable research or reports about our business or may publish no information at all, which could cause our stock price or trading volume to decline.

The trading market for our common stock will be influenced to some extent by the research and reports that industry or financial analysts publish about us and our business. We do not control these analysts. As a relatively new public company, we may be slow to attract research coverage and the analysts who publish information about our common stock will have had relatively little experience with our company or industry, which could affect their ability to accurately forecast our results and could make it more likely that we fail to meet their estimates. In the event we obtain securities or industry analyst coverage, if any of the analysts who cover us provide inaccurate or unfavorable research or issue an adverse opinion regarding our stock price, our stock price could decline. If one or more of these analysts cease coverage of our company or fail to publish reports covering us regularly, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

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

We are an "emerging growth company," as defined in the JOBS Act, and we may take advantage of certain exemptions and relief from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." In particular, while we are an "emerging growth company" (1) we will not be required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, (2) we will be exempt from any rules that may be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotations or a supplement to the auditor's report on financial statements, (3) we will be subject to reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and (4) we will not be required to hold nonbinding advisory votes on executive compensation or stockholder approval of any golden parachute payments not previously approved.

We may remain an "emerging growth company" until as late as December 31, 2021, though we may cease to be an "emerging growth company" earlier under certain circumstances, including (1) if the market value of our common stock that is held by nonaffiliates exceeds $700 million as of any June 30, in which case we would cease to be an "emerging growth company" as of the following December 31, or (2) if our gross revenue exceeds $1.07 billion in any fiscal year.

Investors may find our common stock less attractive if we rely on the exemptions and relief granted by the JOBS Act. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may decline or become more volatile.

Sales of a substantial number of shares of our common stock in the public market by our existing stockholders could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market by our existing stockholders, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

Our directors, officers and principal stockholders have significant voting power and may take actions that may not be in the best interests of our other stockholders.

Our officers, directors and principal stockholders each holding more than 5% of our common stock, collectively, control a significant percentage of our outstanding common stock. As a result, these stockholders, if they act together, will be able to control the management and affairs of our company and most matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change of control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of our other stockholders.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

We are subject to the periodic reporting requirements of the Exchange Act. We have designed our disclosure controls and procedures to provide reasonable assurance that information we must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

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

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

- our board of directors has the right to expand the size of our board of directors and to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- our stockholders may not act by written consent or call special stockholders’ meetings; as a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions other than at annual stockholders’ meetings or special stockholders’ meetings called by the board of directors, the chairman of the board, the chief executive officer or the president;

- our certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

- the affirmative vote of holders of at least 66-2/3% of the voting power of all of the then outstanding shares of voting stock, voting as a single class, will be required (a) to amend certain provisions of our certificate of incorporation, including provisions relating to the size of the board, removal of directors, special meetings, actions by written consent and cumulative voting and (b) to amend or repeal our bylaws, although our bylaws may be amended by a simple majority vote of our board of directors;

- stockholders must provide advance notice and additional disclosures to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders’ meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror’s own slate of directors or otherwise attempting to obtain control of our company; and

- our board of directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

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

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

Recent Sales of Unregistered Securities

On July 6, 2018, we issued a warrant to Silicon Valley Bank to purchase 9,375 shares of our common stock at an exercise price of $8.91 per share. The warrant can be exercised at any time and expires five years after the date of issuance. The warrant was issued in connection with an amendment to our Loan and Security Agreement with Silicon Valley Bank. The warrant was issued in reliance on Section 4(2) of the Securities Act of 1933, as amended, in that it was issued to a single accredited investor.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description	Incorporation By Reference Form	SEC File No.	Exhibit/ Reference	Filing Date
3.1	Amended and Restated Certificate of Incorporation.	8-K	001-37900	3.1	10/13/2016
3.2	Bylaws.	S-1	333-213569	3.6	9/09/2016
4.1	Form of Common Stock Certificate of the Company.	S-1	333-213569	4.1	9/09/2016
4.2	Warrant to Purchase Common Stock, dated as of July 6, 2018, between the Company and Silicon Valley Bank	10-Q	333-213569	4.2	8/09/2018
4.3	Reference is made to Exhibits 3.1 and 3.2.				
10.1*	Amendment No. 7 to Lease effective as of June 30, 2018 by and between the Company and NXP USA, Inc.				
10.2	First Amendment to Loan and Security Agreement, dated as of July 6, 2018, between the Company and Silicon Valley Bank	10-Q	001-37900	10.2	8/09/2018
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1**	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

	Everspin Technologies, Inc.
Date: November 14, 2018	By: /s/ Kevin Conley
	Kevin Conley President and Chief Executive Officer (Duly Authorized Officer and Principal Executive Officer)
	Everspin Technologies, Inc.
Date: November 14, 2018	By: /s/ Jeffrey Winzeler
	Jeffrey Winzeler Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.1

AMENDMENT NO. 7 TO LEASE

This **AMENDMENT No. 7 TO LEASE** (“***Amendment No. 7***”), effective as of June 30, 2018 (“***Amendment No. 7 Effective Date***”) is entered into by and between **NXP USA, Inc.** (formerly FREESCALE SEMICONDUCTOR, INC.). a Delaware corporation and 100% affiliated company of NXP Semiconductors N.V. (“***Landlord***”), and EVERSPIN TECHNOLOGIES, INC., a Delaware corporation (“***Tenant***”), with reverence to the following facts:

A. Landlord and Tenant are parties that Certain Lease dated as of June 5, 2008 (“***Original Lease***”), as amended by Amendment No. 1 to Lease executed by Tenant on February 2, 2009 (“***Amendment No. 1***”), Amendment No. 2 to Lease dated March 1, 2010 (“***Amendment No. 2***”), Amendment No 3. to Lease dated July 20, 2011 (“***Amendment No. 3***”), Amendment No.4 to Leases dated June 10, 2014 (“***Amendment No. 4***”), Amendment No. 5 dated January 13, 2017 (“***Amendment No. 5***”), and Amendment No. 6 dated October 31, 2017 (“***Amendment No. 6***”), (the Original Lease as amended by Amendment No. 1, Amendment No. 2, Amendment No. 3, Amendment No. 4, Amendment No. 5, and Amendment No. 6, is referred to as the “***Lease***”), pursuant to which the Landlord leases to Tenant certain space (“***Premises***”) located at 1300 North Alma School Road, Chandler Arizona as further described in the Lease.

B. As of the Amendment No. 7 Effective Date, the parties desi re to amend the Lease to extend the Term.

NOW, THEREFORE, in consideration of the above recitals which are hereby incorporated herein, the mutual covenants and conditions contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree, effective as of the Amendment No. 7 Effective Date, to amend the Lease as follows:

1. **Term.** Section 2 of the Lease is hereby deleted in its entirety and replaced with the following:

"The term of this Lease shall commence on June 5, 2008 (the “***Commencement Date****")* and end on January 31, 2021 (the *"****Term****").* For consideration in part of this lease extension, Tenant will discontinue processing on Landlord tool FJ01PVS and move this processing to equipment, whether existing or procured by Tenant, located within Tenant Fab Space. Tenant processing on FJ01PVS will be terminated by June 30, 2019 and any costs required to move the processing will be incurred by the Tenant.”

2. **Brokers.** Tenant hereby represents to Land lord that Tenant has deal with no broke in connection with this Amendment No. 7. Tenant agrees to indemnify and hold Landlord harmless from all claims of any brokers claiming to have represented Tenant in connection with this Amendment No. 7. Landlord agrees to indemnify and hold Tenant harmless from all claims of any broker claiming *to* have represented Landlord in connection with this Amendment No. 7.

3. **Miscellaneous.** This Amendment No. 7 sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged an in full force and effect. In the case of any inconsistency between the provisions of the Lease and this Amendment No. 7, the provisions of this Amendment No. 7 shall govern and control. Each signatory of this Amendment No. 7, represents hereby that he or she has the authority to execute and deliver the same on behalf of the patty hereto for which such signatory is acting. This Amendment No. 7 may be executed in multiple counterparts each of which is deemed an original but together constitute one and the same instrument. This Amendment No. 7 may be executed in so-called "PDF" format, and each party has the right to rely upon a PDF counterpart of this Amendment No. 7 signed by the other party to the same extent as if such party had received an original counterpart.

IN W ITNESS WHER EOF, Land lord and Tenant have duly executed this Amendment No. 7.

LANDLORD: **NXP USA, INC.** a Delaware corporation	**TENANT:** **EVERSPIN TECHNOLOGIES, INC.** a Delaware corporation
/s/ Jennifer B. Wuamett *(Signature)*	/s/ Angelo Ugge *(Signature)*
By Jennifer B. Wuamett	By Angelo Ugge
Title: President	Title: V.P. Corporate Business Development
Date: August 2, 2018	Date: July 31, 2018

Exhibit 31.1

Certification of the Principal Executive Officer

I, Kevin Conley, certify that:

1. I have reviewed this Form 10-Q of Everspin Technologies, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 14, 2018

/s/ Kevin Conley

Kevin Conley

(Principal Executive Officer)

Exhibit 31.2

Certification of Principal Financial Officer

I, Jeffrey Winzeler, certify that:

1. I have reviewed this Form 10-Q of Everspin Technologies, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 14, 2018

/s/ Jeffrey Winzeler

Jeffrey Winzeler

(Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

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

1. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2018, to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

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

Date: November 14, 2018

/s/ Kevin Conley
Kevin Conley
(Principal Executive Officer)

/s/ Jeffrey Winzeler
Jeffrey Winzeler
(Principal Financial Officer)

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