

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, 2019

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: 001-38273

ACM Research, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

94-3290283

(I.R.S. Employer Identification No.)

42307 Osgood Road, Suite I

Fremont, California

(Address of Principal Executive Offices)

94539

(Zip Code)

Registrant's telephone number, including area code: (510) 445-3700

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on which Registered</u>
Class A Common Stock, \$0.0001 par value per share	ACMR	Nasdaq Global Market

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 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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Number of Shares Outstanding</u>
Class A Common Stock, \$0.0001 par value	16,333,879 shares outstanding as of November 5, 2019
Class B Common Stock, \$0.0001 par value	1,862,608 shares outstanding as of November 5, 2019

TABLE OF CONTENTS

PART I.	FINANCIAL INFORMATION	3
Item 1.	Financial Statements (unaudited)	3
	Condensed Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018	3
	Condensed Consolidated Statements of Operations and Comprehensive Income for the Three and Six Months Ended June 30, 2019 and 2018	4
	Condensed Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended June 30, 2019 and 2018	5
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2019 and 2018	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures about Market Risks	33
Item 4.	Controls and Procedures	34
PART II.	OTHER INFORMATION	35
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 6.	Exhibits	36
	SIGNATURE	36

We conduct our business operations principally through ACM Research (Shanghai), Inc., or ACM Shanghai, a subsidiary of ACM Research, Inc., or ACM Research. Unless the context requires otherwise, references in this report to “our company,” “our,” “us,” “we” and similar terms refer to ACM Research, Inc. (including its predecessor prior to its redomestication from California to Delaware in November 2016) and its subsidiaries (including ACM Shanghai), collectively.

For purposes of this report, certain amounts in Renminbi, or RMB, have been translated into U.S. dollars solely for the convenience of the reader. The translations have been made based on the conversion rates published by the State Administration of Foreign Exchange of the People's Republic of China.

SAPS, TEBO and ULTRA C are our trademarks. For convenience, these trademarks appear in this report without TM symbols, but that practice does not mean that we will not assert, to the fullest extent under applicable law, our rights to the trademarks. This report also contains other companies' trademarks, registered marks and trade names, which are the property of those companies.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this report regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans and objectives of management are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “might,” “will,” “objective,” “intend,” “should,” “could,” “can,” “would,” “expect,” “believe,” “anticipate,” “project,” “target,” “design,” “estimate,” “predict,” “potential,” “plan” or the negative of these terms, and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on our management's belief and assumptions and on information currently available to our management. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements relate to future events or our future operational or financial performance, and involve known and unknown risks, uncertainties and other factors, including those described or incorporated by reference in “Item 1A. Risk Factors” of Part II of this report, that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Except as required by law, we assume no obligation to update these statements publicly or to update the reasons actual results could differ materially from those anticipated in these statements, even if new information becomes available in the future.

You should read this report, and the documents that we reference in this report and have filed as exhibits to this report, completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

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

ACM RESEARCH, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)
(Unaudited)

Assets	September 30, 2019	December 31, 2018
Current assets:		
Cash and cash equivalents	\$ 47,264	\$ 27,124
Restricted cash	26,582	-
Accounts receivable, less allowance for doubtful accounts of \$0 as of September 30, 2019 and \$0 as of December 31, 2018 (note 3)	43,144	24,608
Other receivables	2,152	3,547
Inventories (note 4)	43,506	38,764
Prepaid expenses	1,006	1,985
Total current assets	163,654	96,028
Property, plant and equipment, net (note 5)	3,573	3,708
Operating lease right-of-use assets, net (note 8)	4,205	-
Intangible assets, net	285	274
Deferred tax assets (note 16)	2,309	1,637
Long-term investments (note 10)	5,968	1,360
Other long-term assets	222	40
Total assets	180,216	103,047
Liabilities, Redeemable Non-controlling Interests and Stockholders' Equity		
Current liabilities:		
Short-term borrowings (note 6)	15,665	9,447
Accounts payable	15,440	16,673
Advances from customers	8,397	8,417
Income taxes payable	1,326	1,193
Other payables and accrued expenses (note 7)	13,970	10,410
Current portion of operating lease liability (note 8)	1,350	-
Total current liabilities	56,148	46,140
Long-term operating lease liability (note 8)	2,855	-
Other long-term liabilities (note 9)	2,980	4,583
Total liabilities	61,983	50,723
Commitments and contingencies (note 17)		
Redeemable non-controlling interests (note 14)	26,888	-
Stockholders' equity:		
Common stock – Class A, par value \$0.0001: 50,000,000 shares authorized as of September 30, 2019 and December 31, 2018; 16,179,058 shares issued and outstanding as of September 30, 2019 and 14,110,315 shares issued and outstanding as of December 31, 2018 (note 13)	2	1
Common stock–Class B, par value \$0.0001: 2,409,738 shares authorized as of September 30, 2019 and December 31, 2018; 1,862,608 shares issued and outstanding as of September 30, 2019 and 1,898,423 shares issued and outstanding as of December 31, 2018 (note 13)	-	-
Additional paid in capital	82,857	56,567
Accumulated surplus (deficit)	11,563	(3,387)
Accumulated other comprehensive loss	(3,077)	(857)
Total stockholders' equity	91,345	52,324
Total liabilities, redeemable non-controlling interests, and stockholders' equity	\$ 180,216	\$ 103,047

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

ACM RESEARCH, INC.
Condensed Consolidated Statements of Operations and Comprehensive Income
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 33,427	\$ 23,179	\$ 82,916	\$ 53,795
Cost of revenue	17,173	12,892	44,705	29,662
Gross profit	16,254	10,287	38,211	24,133
Operating expenses:				
Sales and marketing	3,886	3,229	8,679	7,766
Research and development	3,492	2,264	9,598	6,224
General and administrative	1,846	1,390	5,992	6,312
Total operating expenses, net	9,224	6,883	24,269	20,302
Income from operations	7,030	3,404	13,942	3,831
Interest income	95	3	128	20
Interest expense	(205)	(112)	(538)	(364)
Other income, net	1,850	902	2,132	1,213
Equity income (loss) in net income (loss) of affiliates	(9)	117	260	235
Income before income taxes	8,761	4,314	15,924	4,935
Income tax (expense) benefit (note 16)	328	(461)	(667)	(647)
Net income	9,089	3,853	15,257	4,288
Less: Net income attributable to redeemable non-controlling interests	307	-	307	-
Net income attributable to ACM Research, Inc.	\$ 8,782	\$ 3,853	\$ 14,950	\$ 4,288
Comprehensive income:				
Net income	9,089	3,853	15,257	4,288
Foreign currency translation adjustment	(2,591)	(746)	(2,902)	(1,077)
Comprehensive Income (note 2)	6,498	3,107	12,355	3,211
Less: Comprehensive income attributable to redeemable non-controlling interests	307	-	307	-
Comprehensive income attributable to ACM Research, Inc.	\$ 6,191	\$ 3,107	\$ 12,048	\$ 3,211
Net income attributable to ACM Research, Inc. per common share (note 2):				
Basic	\$ 0.52	\$ 0.24	\$ 0.91	\$ 0.27
Diluted	\$ 0.45	\$ 0.21	\$ 0.80	\$ 0.24
Weighted average common shares outstanding used in computing per share amounts (note 2):				
Basic	16,999,746	15,915,864	16,381,944	15,714,310
Diluted	19,354,214	18,169,807	18,699,010	17,816,101

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

ACM RESEARCH, INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Three Months Ended September 30, 2019 and 2018
(In thousands, except share and per share data)
(Unaudited)

	Common Stock Class A		Common Stock Class B		Additional Paid-in Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at July 1, 2019	14,229,942	\$ 1	1,883,423	\$ -	\$ 58,101	\$ 2,781	\$ (1,168)	\$ 59,715
Net income attributable to ACM Research, Inc.	-	-	-	-	-	8,782	-	8,782
Foreign currency translation adjustment	-	-	-	-	-	-	(1,909)	(1,909)
Exercise of stock options	89,015	-	-	-	140	-	-	140
Cancellation of stock options	-	-	-	-	(576)	-	-	(576)
Stock-based compensation	-	-	-	-	1,557	-	-	1,557
Issuance of Class A common stock in connection with public offering	2,053,572	1	-	-	26,462	-	-	26,463
Share repurchases	(214,286)	-	-	-	(2,827)	-	-	(2,827)
Conversion of Class B common stock to Class A common stock	20,815	-	(20,815)	-	-	-	-	-
Balance at September 30, 2019	16,179,058	\$ 2	1,862,608	\$ -	\$ 82,857	\$ 11,563	\$ (3,077)	\$ 91,345

	Common Stock Class A		Common Stock Class B		Additional Paid-in Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at July 1, 2018	13,957,339	\$ 1	1,920,173	\$ -	\$ 55,331	\$ (9,526)	(209)	45,597
Net income attributable to ACM Research, Inc.	-	-	-	-	-	3,853	-	3,853
Foreign currency translation adjustment	-	-	-	-	-	-	(746)	(746)
Exercise of stock options	110,976	-	-	-	217	-	-	217
Stock-based compensation	-	-	-	-	411	-	-	411
Conversion of Class B common stock to Class A common stock	1,750	-	(1,750)	-	-	-	-	-
Balance at September 30, 2018	14,070,065	\$ 1	1,918,423	\$ -	\$ 55,959	\$ (5,673)	\$ (955)	49,332

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

ACM RESEARCH, INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity (Continued)
For the Nine Months Ended September 30, 2019 and 2018
(In thousands, except share and per share data)
(Unaudited)

	Common Stock Class A		Common Stock Class B		Additional Paid-in Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2019	14,110,315	\$ 1	1,898,423	\$ -	\$ 56,567	\$ (3,387)	\$ (857)	\$ 52,324
Net income attributable to ACM Research, Inc.	-	-	-	-	-	14,950	-	14,950
Foreign currency translation adjustment	-	-	-	-	-	-	(2,220)	(2,220)
Exercise of stock options	193,642	-	-	-	312	-	-	312
Cancellation of stock options	-	-	-	-	(576)	-	-	(576)
Stock-based compensation	-	-	-	-	2,919	-	-	2,919
Issuance of Class A common stock in connection with public offering	2,053,572	1	-	-	26,462	-	-	26,463
Share repurchase	(214,286)	-	-	-	(2,827)	-	-	(2,827)
Conversion of Class B common stock to Class A common stock	35,815	-	(35,815)	-	-	-	-	-
Balance at September 30, 2019	16,179,058	\$ 2	1,862,608	\$ -	\$ 82,857	\$ 11,563	\$ (3,077)	\$ 91,345

	Common Stock Class A		Common Stock Class B		Additional Paid-in Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2018	12,935,546	\$ 1	2,409,738	\$ -	\$ 49,695	\$ (9,961)	122	\$ 39,857
Net income attributable to ACM Research, Inc.	-	-	-	-	-	4,288	-	4,288
Foreign currency translation adjustment	-	-	-	-	-	-	(1,077)	(1,077)
Exercise of stock options	245,702	-	-	-	512	-	-	512
Stock-based compensation	-	-	-	-	2,771	-	-	2,771
Conversion of Class B common stock to Class A common stock	491,315	-	(491,315)	-	-	-	-	-
Exercise of common stock warrant issued to SMC	397,502	-	-	-	2,981	-	-	2,981
Balance at September 30, 2018	14,070,065	\$ 1	1,918,423	\$ -	\$ 55,959	\$ (5,673)	\$ (955)	\$ 49,332

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

ACM RESEARCH, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 15,257	\$ 4,288
Adjustments to reconcile net income from operations to net cash used in operating activities:		
Depreciation and amortization	586	380
Loss on disposals of property, plant and equipment	296	-
Equity income in net income of affiliates	(260)	(235)
Deferred income taxes	(757)	-
Stock-based compensation	2,919	2,771
Net changes in operating assets and liabilities:		
Accounts receivable	(19,634)	(5,526)
Other receivables	1,187	781
Inventory	(5,889)	(15,157)
Prepaid expenses	323	(1,653)
Other long-term assets	(182)	12
Accounts payable	(417)	5,165
Advances from customers	746	3,818
Income tax payable	162	645
Other payables and accrued expenses	2,352	2,658
Other long-term liabilities	(1,441)	(680)
Net cash used in operating activities	(4,752)	(2,733)
Cash flows from investing activities:		
Purchase of property and equipment	(832)	(1,598)
Purchase of intangible assets	(114)	(350)
Investments in unconsolidated affiliates	(4,348)	-
Net cash used in investing activities	(5,294)	(1,948)
Cash flows from financing activities:		
Proceeds from short-term borrowings	18,267	13,065
Repayments of short-term borrowings	(11,770)	(7,962)
Proceeds from stock option exercise to common stock	312	511
Proceeds from issuance of Class A common stock in connection with public offering, net of direct issuance expenses of \$2,287	26,463	-
Payment for repurchase of Class A common stock	(785)	-
Payment for cancellation of stock option	(576)	-
Proceeds from issuance of common stock to redeemable Non-controlling interest	27,264	-
Net cash provided by financing activities	59,175	5,614
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,407)	(376)
Net increase in cash, cash equivalents and restricted cash	\$ 46,722	\$ 557
Cash, cash equivalents and restricted cash at beginning of period	27,124	17,681
Cash, cash equivalents and restricted cash at end of period	\$ 73,846	\$ 18,238
Supplemental disclosure of cash flow information:		
Interest paid	\$ 538	\$ 364
Reconciliation of cash, cash equivalents and restricted cash in condensed consolidated statements of cash flows:		
Cash and cash equivalents	47,264	18,238
Restricted cash	26,582	-
Cash, cash equivalents and restricted cash	\$ 73,846	\$ 18,238

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

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

NOTE 1 – DESCRIPTION OF BUSINESS

ACM Research, Inc. (“ACM”) and its subsidiaries (collectively with ACM, the “Company”) develop, manufacture and sell single-wafer wet cleaning equipment used to improve the manufacturing process and yield for advanced integrated chips. The Company markets and sells its single-wafer wet-cleaning equipment, under the brand name “Ultra C,” based on the Company’s proprietary Space Alternated Phase Shift (“SAPS”) and Timely Energized Bubble Oscillation (“TEBO”) technologies. These tools are designed to remove random defects from a wafer surface efficiently, without damaging the wafer or its features, even at increasingly advanced process nodes.

ACM was incorporated in California in 1998, and it initially focused on developing tools for manufacturing process steps involving the integration of ultra low-K materials and copper. The Company’s early efforts focused on stress-free copper-polishing technology, and it sold tools based on that technology in the early 2000s.

In 2006 the Company established its operational center in Shanghai in the People’s Republic of China (the “PRC”), where it operates through ACM’s subsidiary ACM Research (Shanghai), Inc. (“ACM Shanghai”). ACM Shanghai was formed to help establish and build relationships with integrated circuit manufacturers in the PRC, and the Company initially financed its Shanghai operations in part through sales of non-controlling equity interests in ACM Shanghai.

In 2007 the Company began to focus its development efforts on single-wafer wet-cleaning solutions for the front-end chip fabrication process. The Company introduced its SAPS megasonic technology, which can be applied in wet wafer cleaning at numerous steps during the chip fabrication process, in 2009. It introduced its TEBO technology, which can be applied at numerous steps during the fabrication of small node two-dimensional conventional and three-dimensional patterned wafers, in March 2016. The Company has designed its equipment models for SAPS and TEBO solutions using a modular configuration that enables it to create a wet-cleaning tool meeting the specific requirements of a customer, while using pre-existing designs for chamber, electrical, chemical delivery and other modules. In August 2018, the Company introduced its Ultra-C Tahoe wafer cleaning tool, which can deliver high cleaning performance with significantly less sulfuric acid than typically consumed by conventional high-temperature single-wafer cleaning tools. The Company also offers a range of custom-made equipment, including cleaners, coaters and developers, to back-end wafer assembly and packaging factories, principally in the PRC.

In 2011 ACM Shanghai formed a wholly owned subsidiary in the PRC, ACM Research (Wuxi), Inc. (“ACM Wuxi”), to manage sales and service operations.

In November 2016 ACM redomesticated from California to Delaware pursuant to a merger in which ACM Research, Inc., a California corporation, was merged into a newly formed, wholly owned Delaware subsidiary, also named ACM Research, Inc.

In June 2017 ACM formed a wholly owned subsidiary in Hong Kong, CleanChip Technologies Limited (“CleanChip”), to act on the Company’s behalf in Asian markets outside the PRC by, for example, serving as a trading partner between ACM Shanghai and its customers, procuring raw materials and components, performing sales and marketing activities, and making strategic investments.

In August 2017 ACM purchased 18.77% of ACM Shanghai’s equity interests held by Shanghai Science and Technology Venture Capital Co., Ltd. On November 8, 2017, ACM purchased the remaining 18.36% of ACM Shanghai’s equity interest held by third parties, Shanghai Pudong High-Tech Investment Co., Ltd. (“PDHTI”) and Shanghai Zhangjiang Science & Technology Venture Capital Co., Ltd. (“ZSTVC”). At December 31, 2017, ACM owned all of the outstanding equity interests of ACM Shanghai, and indirectly through ACM Shanghai, owned all of the outstanding equity interests of ACM Wuxi.

On September 13, 2017, ACM effectuated a 1-for-3 reverse stock split of Class A and Class B common stock. Unless otherwise indicated, all share numbers, per share amount, share prices, exercise prices and conversion rates set forth in these notes and the accompanying condensed consolidated financial statements have been adjusted retrospectively to reflect the reverse stock split.

In December 2017 ACM formed a wholly owned subsidiary in the Republic of Korea, ACM Research Korea CO., LTD. (“ACM Korea”), to serve customers based in Republic of Korea and perform sales, marketing, research and development activities for new products and solutions.

In March 2019 ACM Shanghai formed a wholly owned subsidiary in the PRC, Shengwei Research (Shanghai), Inc., to manage activities related to addition of future long-term production capacity. The subsidiary was formed with registered capital of RMB 5,000 (\$727). As of September 30, 2019, no capital had been injected into this subsidiary.

In June 2019 Cleanchip formed a wholly owned subsidiary in California, ACM Research (CA), Inc., to provide procurement services on behalf of ACM Shanghai.

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

On June 17, 2019 ACM announced plans to complete over the next three years a listing (the “Listing”) of shares of ACM Shanghai on the Shanghai Stock Exchange’s new Sci-Tech innovAtion boARd, known as the STAR Market, and a concurrent initial public offering (the “STAR IPO”) of ACM Shanghai shares in the PRC. ACM Shanghai is currently ACM’s primary operating subsidiary, and at the time of announcement, was wholly owned by ACM. As an initial step in qualifying for the Listing and STAR IPO, on June 12, 2019 ACM Shanghai entered into agreements with seven investors (the “Investors”), pursuant to which the Investors agreed to pay a purchase price totaling RMB 187,900 (equivalent to \$27,300) to ACM Shanghai for shares representing 4.2% of the then-outstanding ACM Shanghai shares (see note 14).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated accounts include ACM and its subsidiaries ACM Shanghai, ACM Wuxi, CleanChip, ACM Korea, ACM Research (CA), Inc. and Shengwei Research (Shanghai), Inc. Subsidiaries are those entities in which ACM, directly and indirectly, controls more than one half of the voting power. All significant intercompany transactions and balances have been eliminated upon consolidation.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the rules and regulations of the SEC for reporting on Form 10-Q. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements herein. The unaudited condensed consolidated financial statements herein should be read in conjunction with the historical consolidated financial statements of the Company for the year ended December 31, 2018 included in ACM’s Annual Report on Form 10-K for the year ended December 31, 2018.

The accompanying condensed consolidated balance sheet as of September 30, 2019, the condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2019 and 2018, the condensed consolidated statements of changes in stockholders’ equity for the three and nine months ended September 30, 2019 and 2018, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018 are unaudited. In the opinion of management, the unaudited condensed consolidated financial statements of the Company reflect all adjustments that are necessary for a fair presentation of the Company’s financial position and results of operations. Such adjustments are of a normal recurring nature, unless otherwise noted. The balance sheet as of September 30, 2019 and the results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for any future period.

Use of Estimates

The preparation of condensed consolidated 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 at the balance sheet date and the reported revenue and expenses during the reported period in the condensed consolidated financial statements and accompanying notes. The Company’s significant accounting estimates and assumptions include, but are not limited to, those used for the valuation and recognition of stock-based compensation arrangements and warrant liability, realization of deferred tax assets, assessment for impairment of long-lived assets, allowance for doubtful accounts, inventory valuation for excess and obsolete inventories, lower of cost and market value or net realizable value of inventories, depreciable lives of property and equipment, and useful life of intangible assets. Management of the Company believes that the estimates, judgments and assumptions are reasonable, based on information available at the time they are made. Actual results could differ materially from those estimates.

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

Basic and Diluted Net Income per Common Share

Basic and diluted net income per common share is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net income	\$ 9,089	\$ 3,853	\$ 15,257	\$ 4,288
Net income attributable to redeemable non-controlling interests	307	-	307	-
Net income available to common stockholders, basic and diluted	<u>\$ 8,782</u>	<u>\$ 3,853</u>	<u>\$ 14,950</u>	<u>\$ 4,288</u>
Weighted average shares outstanding, basic	16,999,746	15,915,864	16,381,944	15,714,310
Effect of dilutive securities	2,354,468	2,253,943	2,317,066	2,101,791
Weighted average shares outstanding, diluted	<u>19,354,214</u>	<u>18,169,807</u>	<u>18,699,010</u>	<u>17,816,101</u>
Net income per common share:				
Basic	<u>\$ 0.52</u>	<u>\$ 0.24</u>	<u>\$ 0.91</u>	<u>\$ 0.27</u>
Diluted	<u>\$ 0.45</u>	<u>\$ 0.21</u>	<u>\$ 0.80</u>	<u>\$ 0.24</u>

ACM has been authorized to issue Class A and Class B common stock since redomesticating in Delaware in November 2016. The two classes of common stock are substantially identical in all material respects, except for voting rights. Since ACM did not declare any dividends during the three and nine months ended September 30, 2019 and 2018, the net income per common share attributable to each class is the same under the “two-class” method. As such, the two classes of common stock have been presented on a combined basis in the condensed consolidated statements of operations and comprehensive income and in the above computation of net income per common share.

Diluted net income per common share reflects the potential dilution from securities that could share in ACM’s earnings. ACM’s potential dilutive securities consist warrants and stock options for the three and nine months ended September 30, 2019 and 2018. Certain potential dilutive securities were excluded from the net income per share calculation because the impact would be anti-dilutive.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The amendments in ASU 2016-02 create Topic 842, *Leases*, and supersede the leases requirements in Topic 840, *Leases*. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between Topic 842 and Topic 840 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under Topic 840. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous lease guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP.

Effective January 1, 2019, the Company adopted ASU 2016-02. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, *Targeted Improvements to ASC 842, Leases*, which included an option to not restate comparative periods in transition and elect to use the effective date of Accounting Standards Codification (“ASC”) 842 as the date of initial application of transition, which the Company elected. As a result of its adoption of ASC 842 as of January 1, 2019, the Company recorded operating lease right-of-use assets of \$5,109 and lease liabilities of \$5,109. The adoption of ASC 842 had no impact on the Company’s profit or cash flows for the three and nine months ended September 30, 2019. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Company to carry forward the historical lease classification. Additional information and disclosures required by this new standard are contained in note 8.

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

In June 2018, the FASB issued ASU 2018-07, *Compensation—Stock Compensation (Topic 718)—Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, *Compensation—Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. Some of the areas for simplification apply only to nonpublic entities. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under the new revenue recognition standard set forth in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Effective January 1, 2019, the Company adopted ASU 2018-07, which did not have a material impact on the Company’s consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*, which eliminates, adds and modifies certain disclosure requirements for fair value measurements. The modified standard eliminates the requirement to disclose changes in unrealized gains and losses included in earnings for recurring Level 3 fair value measurements and requires changes in unrealized gains and losses be included in other comprehensive income for recurring Level 3 fair value measurements of instruments. The standard also requires the disclosure of the range and weighted average used to develop significant unobservable inputs and how weighted average is calculate for recurring and nonrecurring Level 3 fair value measurements. The amendment is effective for fiscal years beginning after December 15, 2019 and interim periods within that fiscal year, with early adoption permitted. The Company is evaluating the impact of the adoption of ASU 2018-13 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which removes Step 2 from the goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 does not amend the optional qualitative assessment of goodwill impairment. A business entity that files periodic reports with the Securities and Exchange Commission must adopt the amendments in ASU 2017-04 for its annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the impact of the adoption of ASU 2017-04 on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaced the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 requires use of a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Adoption of the standard requires using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align existing credit loss methodology with the new standard. The Company will adopt ASU 2016-13 effective January 1, 2020. The Company is evaluating the impact of this standard on its consolidated financial statements, including accounting policies, processes, and systems, but does not expect the standard will have a material impact on its consolidated financial statements.

NOTE 3 – ACCOUNTS RECEIVABLE

At September 30, 2019 and December 31, 2018, accounts receivable consisted of the following:

	September 30, 2019	December 31, 2018
Accounts receivable	\$ 43,144	\$ 24,608
Less: Allowance for doubtful accounts	-	-
Total	\$ 43,144	\$ 24,608

The Company reviews accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. No allowance for doubtful accounts was considered necessary at September 30, 2019 or December 31, 2018. At September 30, 2019 and December 31, 2018, accounts receivable of \$0 and \$1,457, respectively, were pledged as collateral for borrowings from financial institutions.

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

NOTE 4 – INVENTORIES

At September 30, 2019 and December 31, 2018, inventory consisted of the following:

	September 30, 2019	December 31, 2018
Raw materials	\$ 14,313	\$ 12,646
Work in process	10,610	9,631
Finished goods	18,583	16,487
Total inventory, gross	43,506	38,764
Inventory reserve	-	-
Total inventory, net	<u>\$ 43,506</u>	<u>\$ 38,764</u>

At September 30, 2019 and December 31, 2018, the Company did not have an inventory reserve and no inventory was pledged as collateral for borrowings from financial institutions. System shipments of first-tools to an existing or prospective customer, for which ownership does not transfer until customer acceptance, are classified as finished goods inventory and carried at cost until ownership is transferred.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT, NET

At September 30, 2019 and December 31, 2018, property, plant and equipment consisted of the following:

	September 30, 2019	December 31, 2018
Manufacturing equipment	\$ 3,851	\$ 9,703
Office equipment	609	512
Transportation equipment	123	184
Leasehold improvement	1,416	1,379
Total cost	5,999	11,778
Less: Total accumulated depreciation	(2,920)	(8,102)
Construction in progress	494	32
Total property, plant and equipment, net	<u>\$ 3,573</u>	<u>\$ 3,708</u>

Depreciation expense was \$176 and \$84 for the three months ended September 30, 2019 and 2018, respectively, and \$528 and \$257 for the nine months ended September 30, 2019 and 2018, respectively.

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

NOTE 6 – SHORT-TERM BORROWINGS

At September 30, 2019 and December 31, 2018, short-term borrowings consisted of the following:

	September 30, 2019	December 31, 2018
Line of credit up to RMB 50,000 from Bank of Shanghai Pudong Branch, due on April 17, 2019 with an annual interest rate of 4.99%, guaranteed by the Company's CEO and fully repaid on March 27, 2019.	\$ -	\$ 3,133
Line of credit up to RMB 50,000 from Bank of Shanghai Pudong Branch, due on February 14, 2019 with an annual interest rate of 5.15%, guaranteed by the Company's CEO and fully repaid on February 14, 2019.		485
Line of credit up to RMB 50,000 from Bank of Shanghai Pudong Branch, due on January 23, 2020 with an annual interest rate of 5.22%, guaranteed by the Company's CEO and Cleanchip Technologies Limited.	7,041	
Line of credit up to RMB 30,000 from Bank of China Pudong Branch, due on June 6, 2019 with annual interest rate of 5.22%, secured by certain of the Company's intellectual property and the Company's CEO and fully repaid on June 6, 2019.		2,186
Line of credit up to RMB 30,000 from Bank of China Pudong Branch, due on June 13, 2019 with annual interest rate of 5.22%, secured by certain of the Company's intellectual property and the Company's CEO and fully repaid on June 13, 2019.		2,186
Line of credit up to RMB 10,000 from Shanghai Rural Commercial Bank, due on January 23, 2019 with an annual interest rate of 5.44%, guaranteed by the Company's CEO and pledged by accounts receivable, and fully repaid on January 23, 2019.		1,457
Line of credit up to RMB 20,000 from Shanghai Rural Commercial Bank, due on February 21, 2020 with an annual interest rate of 5.66%, guaranteed by the Company's CEO and pledged by accounts receivable.	1,414	
Line of credit up to RMB 20,000 from Bank of Communications, due on January 18, 2020 with an annual interest rate of 5.66%.	1,414	
Line of credit up to RMB 20,000 from Bank of Communications, due on January 22, 2020 with an annual interest rate of 5.66%.	707	
Line of credit up to RMB 20,000 from Bank of Communications, due on February 14, 2020 with an annual interest rate of 5.66%.	707	
Line of credit up to RMB 50,000 from China Everbright Bank, due on March 25, 2020 with an annual interest rate of 4.94%, guaranteed by the Company's CEO.	3,252	
Line of credit up to RMB 50,000 from China Everbright Bank, due on April 17, 2020 with an annual interest rate of 5.66%, guaranteed by the Company's CEO.	1,130	
Total	<u>\$ 15,665</u>	<u>\$ 9,447</u>

Interest expense related to short-term borrowings amounted to \$205 and \$112 for the three months ended September 30, 2019 and 2018, respectively, and \$538 and \$364 for the nine months ended September 30, 2019 and 2018, respectively.

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

NOTE 7 – OTHER PAYABLE AND ACCRUED EXPENSES

At September 30, 2019 and December 31, 2018, other payable and accrued expenses consisted of the following:

	September 30, 2019	December 31, 2018
Lease expenses and payable for leasehold improvement due to a related party (note 11)	\$ -	\$ 53
Accrued commissions	3,235	2,931
Accrued warranty	2,633	1,710
Accrued payroll	1,743	626
Accrued professional fees	176	64
Accrued machine testing fees	1,333	3,076
Accrued due to a related party (note 11)	1,990	-
Others	2,860	1,950
Total	\$ 13,970	\$ 10,410

NOTE 8 –LEASES

The Company leases space under non-cancelable operating leases for several office and manufacturing locations. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Further, the leases do not contain contingent rent provisions.

Most leases include one or more options to renew. The exercise of lease renewal options is typically at the Company’s sole discretion; therefore, the majority of renewals to extend the lease terms are not included in the Company’s right-of-use assets and lease liabilities as they are not reasonably certain of exercise. The Company regularly evaluates the renewal options, and when they are reasonably certain of exercise, the Company includes the renewal period in its lease term.

As most of the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. The Company has a centrally managed treasury function; therefore, based on the applicable lease terms and the current economic environment, it applies a portfolio approach for determining the incremental borrowing rate.

The components of lease expense were as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	\$ 363	\$ 1,064
Short-term lease cost	92	117
Lease cost	\$ 455	\$ 1,181

Supplemental cash flow information related to operating leases was as follows for the period ended September 30, 2019:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflow from operating leases	\$ 455	\$ 1,181

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

Maturities of lease liabilities for all operating leases were as follows as of September 30, 2019:

	December 31,
2019	\$ 364
2020	1,488
2021	1,475
2022	1,495
2023	53
2024	13
Total lease payments	4,888
Less: Interest	(683)
Present value of lease liabilities	<u>\$ 4,205</u>

The weighted average remaining lease terms and discount rates for all operating leases were as follows as of September 30, 2019:

	September 30, 2019
Remaining lease term and discount rate:	
Weighted average remaining lease term (years)	3.27
Weighted average discount rate	5.42%

NOTE 9 – OTHER LONG-TERM LIABILITIES

Other long-term liabilities represent government subsidies received from PRC governmental authorities for development and commercialization of certain technology but not yet recognized. As of September 30, 2019, and December 31, 2018, other long-term liabilities consisted of the following unearned government subsidies:

	September 30, 2019	December 31, 2018
Subsidies to Stress Free Polishing project, commenced in 2008 and 2017	\$ 1,281	\$ 1,483
Subsidies to Electro Copper Plating project, commenced in 2014	1,456	2,860
Subsidies to Polytetrafluoroethylene, commenced in 2018	143	178
Other	100	62
Total	<u>\$ 2,980</u>	<u>\$ 4,583</u>

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

NOTE 10 – LONG-TERM INVESTMENT

On September 6, 2017, ACM and Ninebell Co., Ltd. (“Ninebell”), a Korean company that is one of the Company’s principal materials suppliers, entered into an ordinary share purchase agreement, effective as of September 11, 2017, pursuant to which Ninebell issued to ACM ordinary shares representing 20% of Ninebell’s post-closing equity for a purchase price of \$1,200, and a common stock purchase agreement, effective as of September 11, 2017, pursuant to which ACM issued 133,334 shares of Class A common stock to Ninebell for a purchase price of \$1,000 at \$7.50 per share. The investment in Ninebell is accounted for under the equity method.

On June 27, 2019, ACM Shanghai and Shengyi Semiconductor Technology Co., Ltd. (“Shengyi”), a company based in Wuxi, China that is one of the Company’s components suppliers, entered into an agreement pursuant to which Shengyi issued to ACM Shanghai shares representing 15% of Shengyi’s post-closing equity for a purchase price of \$109. The investment in Shengyi is accounted for under the cost method.

On September 5, 2019, ACM Shanghai, entered into a Partnership Agreement with six other investors, as limited partners, and Beijing Shixi Qingliu Investment Co., Ltd., as general partner and manager, with respect to the formation of Hefei Shixi Chanheng Integrated Circuit Industry Venture Capital Fund Partnership (LP), a Chinese limited partnership based in Hefei, China. Pursuant to such Partnership Agreement, on September 30, 2019, ACM Shanghai invested RMB 30,000 (\$4,200), which represented 10% of the Partnership’s total subscribed capital. The investment in Hefei Shixi Chanheng Integrated Circuit Industry Venture Capital Fund Partnership (LP) is accounted for under the cost method.

	September 30, 2019	December 31, 2018
Investment – equity method	\$ 1,620	\$ 1,360
Investment – cost method	4,348	-
Total	\$ 5,968	\$ 1,360

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

NOTE 11– RELATED PARTY BALANCES AND TRANSACTIONS

On August 18, 2017, ACM and Ninebell, its equity method investment affiliate (note 10), entered into a loan agreement pursuant to which ACM made an interest-free loan of \$946 to Ninebell, payable in 180 days or automatically extended another 180 days if in default. The loan was secured by a pledge of Ninebell's accounts receivable due from ACM and all money that Ninebell received from ACM. Ninebell repaid the loan in March 2018. ACM purchased materials from Ninebell amounting to \$2,591 and \$2,529 during the three months ended September 30, 2019 and 2018, and \$7,395 and \$5,364 during the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019 and December 31, 2018, accounts payable due to Ninebell were \$809 and \$1,477, respectively, and prepaid expenses prepaid to Ninebell for material purchases were \$160 and \$572, respectively.

ACM purchased materials from Shengyi amounting to \$261 and \$453 during the three and nine months ended September 30, 2019, respectively. As of September 30, 2019, accounts payable due to Shengyi was \$496.

In 2007 ACM Shanghai entered into an operating lease agreement with Shanghai Zhangjiang Group Co., Ltd. ("Zhangjiang Group") to lease manufacturing and office space located in Shanghai, China. An affiliate of Zhangjiang Group holds 787,098 shares of Class A common stock that it acquired in September 2017 for \$5,903. Pursuant to the lease agreement, Zhangjiang Group provided \$771 to ACM Shanghai for leasehold improvements. In September 2016 the lease agreement was amended to modify payment terms and extend the lease through December 31, 2017. From January 1 to April 25, 2018, ACM Shanghai leased the property on a month-to-month basis. On April 26, 2018, ACM Shanghai entered into a renewed lease with Zhangjiang Group for the period from January 1, 2018 through December 31, 2022. Under the lease, ACM Shanghai pays a monthly rental fee of RMB 366 (equivalent to \$55). The required security deposit was RMB 1,077 (equivalent to \$163). The Company incurred leasing expenses under the lease agreement of \$148 and \$152 during the three months ended September 30, 2019 and 2018, respectively, and \$448 and \$471 during the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019 and December 31, 2018, payables to Zhangjiang Group for lease expenses and leasehold improvements recorded as other payables and accrued expenses amounted to \$0 and \$53, respectively (note 7).

On December 9, 2016, Shengxin (Shanghai) Management Consulting Limited Partnership, a PRC limited partnership owned by Jian Wang (Vice President, Research and Development, and brother of David H. Wang) and other employees of ACM Shanghai ("SMC"), delivered RMB 20,124 (\$2,981 as of the close of business on such date) in cash (the "SMC Investment") to ACM Shanghai for potential investment pursuant to terms to be subsequently negotiated. SMC is a limited partnership incorporated in the PRC, whose partners consist of employees of ACM Shanghai. On March 14, 2017, ACM, ACM Shanghai and SMC entered into a securities purchase agreement (the "SMC Agreement") pursuant to which, in exchange for the SMC Investment, ACM issued to SMC a warrant (the "SMC Warrant") exercisable, for cash or on a cashless basis, to purchase, at any time on or before May 17, 2023, all, but not less than all, of 397,502 shares of Class A common stock at a price of \$7.50 per share, for a total exercise price of \$2,981. On March 30, 2018, SMC exercised the SMC Warrant in full and purchased 397,502 shares of Class A common stock (note 12).

On August 14, 2019, ACM entered into an equity purchase agreement (the "Equity Purchase Agreement") under which it agreed to repurchase, at a price per share of \$13.195 (the net proceeds per share ACM received in a public offering of Class A common stock, as described in note 13), shares of Class A common stock from certain directors, employees and SMC upon the exercise of the underwriters' over-allotment option in connection with the public offering in August 2019. The total consideration to the directors, employees and SMC, in exchange for their surrender of 214,286 shares of Class A common stock and cancellation of 53,571 options to acquire Class A common stock (note 15) amounted to \$3,403, which was based at a price of \$13.195 per share equal to the net proceeds per share ACM received from the over-allotment option in connection with this offering. Of that total amount, \$1,990 due to SMC was recorded in other payable and accrued expenses (note 7).

NOTE 12 – WARRANT LIABILITY

On December 9, 2016, ACM Shanghai received the SMC Investment from SMC for potential investment pursuant to terms to be subsequently negotiated, and on March 14, 2017, ACM, ACM Shanghai and SMC entered into the SMC Agreement pursuant to which, in exchange for the SMC Investment, ACM issued the SMC Warrant to SMC (note 11).

The SMC Warrant, while outstanding as of December 31, 2017, was classified as a liability as it was conditionally puttable in accordance with ASC 480, *Distinguishing Liabilities from Equity*. The fair value of the SMC Warrant was adjusted for changes in fair value at each reporting period, but could not be lower than the proceeds of the SMC Investment. The corresponding non-cash gain or loss of the changes in fair value was recorded in earnings. The Black-Scholes valuation model was used to value the SMC Warrant. On March 30, 2018, ACM entered into a warrant exercise agreement with ACM Shanghai and SMC pursuant to which SMC exercised the SMC Warrant in full by issuing to ACM a senior secured promissory note in the principal amount of \$3,000. ACM then transferred such note to ACM Shanghai in exchange for an intercompany promissory note of ACM Shanghai in the principal amount of \$3,000. Each of the two notes bears interest at a rate of 3.01% per annum and matures on August 17, 2023. As security for its performance of its obligations under its note, SMC granted to ACM Shanghai a security interest in the 397,502 shares of Class A common stock issued to SMC upon its exercise of the SMC Warrant. Upon the issuance of 397,502 shares of Class A common stock to SMC, the senior secured promissory note issued to ACM by SMC was offset against the SMC Investment.

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

NOTE 13 – COMMON STOCK

ACM is authorized to issue 50,000,000 shares of Class A common stock and 2,409,738 shares of Class B common stock, each with a par value of \$0.0001. Each share of Class A common stock is entitled to one vote, and each share of Class B common stock is entitled to twenty votes and is convertible at any time into one share of Class A common stock. Shares of Class A common stock and Class B common stock are treated equally, identically and ratably with respect to any dividends declared by the Board of Directors unless the Board of Directors declares different dividends to the Class A common stock and Class B common stock by getting approval from a majority of common stockholders.

On March 30, 2018, SMC exercised the SMC Warrant in full (note 12) to purchase 397,502 shares of Class A common stock.

During the nine months ended September 30, 2019, ACM issued 193,642 shares of Class A common stock upon option exercises by employees and non-employees and an additional 35,815 shares of Class A common stock upon conversion of an equal number of shares of Class B common stock.

In August 2019, ACM sold a total of 2,053,572 shares of Class A common stock to the public at a price of \$14.00 per share for aggregate gross proceeds of \$28,750. Net proceeds to ACM excluded an underwriting discount and offering expenses totaling \$2,287. As mentioned in note 11, the shares repurchased from certain directors, employees and SMC upon the exercise of the underwriters' over-allotment option in connection with the offering was for the purpose of share constructive retirement. A total of 214,286 repurchased shares were accounted for share retirement during the three and nine months ended September 30, 2019.

There were issued and outstanding 16,179,058 shares of Class A common stock and 1,862,608 shares of Class B common stock at September 30, 2019 and 14,110,315 shares of Class A common stock and 1,898,423 shares of Class B common stock at December 31, 2018.

NOTE 14 – REDEEMABLE NON-CONTROLLING INTERESTS

As discussed in note 1, during the quarter ended September 30, 2019, ACM Shanghai issued to the Investors equity in the form of redeemable non-controlling interests, representing 4.2% of the outstanding shares of ACM Shanghai. Two of the Investors are entities owned by certain employees of ACM Shanghai (the "Employee Entities"), and the purchase price paid by the Employee Entities represented a discount of 20% from the purchase price paid by the other Investors.

In addition to the capital increase, ACM Shanghai entered into a supplemental agreement ("Supplemental Agreement") with each of the Investors. Under each Supplemental Agreement, ACM Shanghai and the Investor party thereto agreed to use their respective best efforts to facilitate the completion of the Listing and the STAR IPO within three years from the date on which the Placement Shares are issued. If, by the end of such three-year period, the Listing and the STAR IPO have not been completed and the China Securities Regulatory Commission has not otherwise approved the registration of ACM Shanghai's Listing registration application, the Investor and ACM Shanghai each will have the right to require that ACM Shanghai repurchase the Investor's shares for a price equal to the initial purchase price paid by the Investor, without interest. The Supplemental Agreements will be automatically terminated on the date when ACM Shanghai formally submits the Listing registration application document to the Shanghai Stock Exchange.

Because the Investors have the right to require ACM Shanghai to repurchase their ownership interests in ACM Shanghai at a fixed purchase price, those ownership interests are classified as redeemable non-controlling interests under ASC 480. The Company has elected to apply the entire adjustment method (income classification) for subsequent measurement in accordance with ASC 480-10-S99.

The components of the change in the redeemable non-controlling interests for the nine months ended September 30, 2019 are presented in the following table:

Balance at January 1, 2019	\$ -
Increase in redeemable non-controlling interests due to issuance of common stock	27,264
Net income attributable to redeemable non-controlling interests	307
Effect of foreign currency translation loss attributable to redeemable non-controlling interests	(683)
Balance at September 30, 2019	<u>\$ 26,888</u>

NOTE 15– STOCK-BASED COMPENSATION

ACM’s stock-based compensation awards consisting of employee and non-employee awards were issued under the 1998 Stock Option Plan and 2016 Omnibus Incentive Plan and as standalone options.

Employee Awards

The following table summarizes the Company’s employee share option activities during the nine months ended September 30, 2019:

	Number of Option Share	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2018	2,503,405	\$ 0.91	\$ 4.09	7.30 years
Granted	614,000	6.30	16.39	
Exercised	(105,113)	0.60	2.08	
Expired	(628)	0.55	3.00	
Forfeited/cancelled	(41,203)	1.35	3.82	
Outstanding at September 30, 2019	2,970,461	\$ 2.55	\$ 6.71	7.28 years
Vested and exercisable at September 30, 2019	1,673,780			

In addition to the above share option activities, as mentioned in note 14, purchase price paid by the Employee Entities was at a discount of 20% from the purchase price paid by the other investors, and there was no vesting condition attached to the subscription. Accordingly, the Company determined the discount as stock based compensation expenses, which amounted to \$949.

During the three months ended September 30, 2019 and 2018, the Company recognized employee stock-based compensation expense of \$1,329 and \$195, respectively. During the nine months ended September 30, 2019 and 2018, the Company recognized employee stock-based compensation expense of \$1,841 and \$458, respectively. As of September 30, 2019 and December 31, 2018, \$5,009 and \$2,424, respectively, of total unrecognized employee stock-based compensation expense, net of estimated forfeitures, related to stock-based awards were expected to be recognized over a weighted-average period of 1.63 years and 1.62 years, respectively. Total recognized compensation cost may be adjusted for future changes in estimated forfeitures.

The change in recognized and unrecognized employee stock-based compensation expense during the three and nine months ended September 30, 2019 included the effect of the employee share option activities in the table above, together with an incremental \$949 due to the discounted purchase price paid by the Employee Entities for their investments in ACM Shanghai (note 14).

Stock options to acquire 319,000 and 614,000 shares, respectively, of Class A common stock were granted to employees during the three and nine months ended September 30, 2019. Stock options to acquire 31,339 shares of Class A common stock held by employees were canceled pursuant to the Equity Purchase Agreement (note 11) during the three and nine months ended September 30, 2019.

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

Non-employee Awards

The following table summarizes the Company's non-employee share option activities during the nine months ended September 30, 2019:

	<u>Number of Option Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Outstanding at December 31, 2018	1,212,374	\$ 0.78	\$ 2.57	6.66 years
Granted	-	-	-	-
Exercised	(88,529)	0.45	1.06	-
Expired	-	-	-	-
Forfeited/cancelled	(22,232)	0.55	3.00	-
Outstanding at September 30, 2019	1,101,613	\$ 0.82	\$ 2.69	6.10 years
Vested and exercisable at September 30, 2019	959,845			

The Company adopted ASU 2018-07 on January 1, 2019, and the stock-based compensation expense for grants before the adoption of ASU 2018-07 is based on the grant date fair value as of December 31, 2018, which was the last business day before the Company adopted ASU 2018-07, for all nonemployee awards that have not vested as of December 31, 2018. The cumulative-effect adjustment to retained earnings as of January 1, 2019 was immaterial to the financial statements as a whole. Accordingly, the Company did not record this adjustment as of January 1, 2019. Furthermore, for future awards, compensation expense is based on the fair value of the shares at the grant date.

During the three months ended September 30, 2019 and 2018, the Company recognized stock-based compensation expense of \$228 and \$216, respectively, related to share option vesting. During the nine months ended September 30, 2019 and 2018, the Company recognized stock-based compensation expense of \$1,078 and \$2,313, respectively, related to share option vesting. As of September 30, 2019 and December 31, 2018, \$634 and \$1,713, respectively, of total unrecognized non-employee stock-based compensation expense, net of estimated forfeitures, related to stock-based awards were expected to be recognized over a weighted-average period of 0.33 years and 1.31 years, respectively. Total recognized compensation cost may be adjusted for future changes in estimated forfeitures.

Stock options to acquire 22,232 shares of Class A common stock held by a director were canceled pursuant to the Equity Purchase Agreement (note 11) during the three and nine months ended September 30, 2019.

NOTE 16 – INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period during which such rates are enacted.

The Company considers all available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become realizable. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carry-forward periods), and projected taxable income in assessing the realizability of deferred tax assets. In making such judgments, significant weight is given to evidence that can be objectively verified.

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. Prior to September 30, 2019, the Company had recorded a valuation allowance for the full amount of net deferred tax assets in the United States, as the realization of deferred tax assets was uncertain. The Company has now concluded that, as of September 30, 2019, it was more likely than not that the Company will generate sufficient U.S. taxable income within the applicable net operating loss carry-forward periods to realize a portion of its deferred tax assets. This conclusion, and the resulting partial reversal of the deferred tax asset valuation allowance, is based upon consideration of a number of factors, including the Company's completion of a seventh consecutive quarter of profitability, recent operating results, forecast of future profitability, and a U.S. tax law change which affects reporting of foreign profits in the United States. Thus, the Company determined that there is sufficient positive objective evidence to conclude that it is more likely than not that a portion of deferred taxes are realizable. It, therefore, has reduced the valuation allowance accordingly, which resulted in a one-time tax benefit in the third quarter of \$1,440. In order to recognize the remaining U.S. deferred tax assets that continue to be subject to a valuation allowance, the Company will need to generate sufficient U.S. taxable income in future periods before the expiration of the deferred tax assets governed by the tax code.

ACM RESEARCH, INC.
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands, except share and per share data)

ACM Shanghai has shown a three-year historical cumulative profit and has projections of future income. As a result, the Company maintained a partial consolidated valuation allowance for the three and nine months ended September 30, 2019 and December 31, 2018.

The Company accounts for uncertain tax positions in accordance with the authoritative guidance on income taxes under which the Company may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes.

The Company's effective tax rate differs from statutory rates of 21% for U.S. federal income tax purposes and 15% to 25% for Chinese income tax purposes due to the effects of the valuation allowance and certain permanent differences from book-tax differences. As a result, the Company recorded income tax benefit of \$328 and income tax expense of \$461 during the three months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, the Company recorded income tax expense of \$667 and \$647, respectively.

As of September 30, 2019, the Company's total unrecognized tax benefits were approximately \$44, which would not affect the effective tax rate if recognized. The Company will recognize interest and penalties, when they occur, related to uncertain tax provisions as a component of tax expense. No interest or penalties were recognized for the three and nine months ended September 30, 2019.

The Company files income tax returns in the United States, and state and foreign jurisdictions. The federal, state and foreign income tax returns are under the statute of limitations subject to tax examinations for the tax years ended December 31, 2009 through December 31, 2018. To the extent the Company has tax attribute carry-forwards, the tax years in which the attribute was generated may still be adjusted upon examination by the U.S. Internal Revenue Service, state or foreign tax authorities to the extent utilized in a future period.

The Tax Act enacted on December 22, 2017 introduced significant changes to U.S. income tax law. Effective January 1, 2018, the Tax Act reduced the U.S. statutory tax rate from 35% to 21% and created new taxes on certain foreign-sourced earnings and certain intercompany payments. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, the Company made reasonable estimates of the effects and recorded provisional amounts in its financial statements as of December 31, 2017. There were no adjustments made in the nine months ended September 30, 2019. The accounting for the tax effects of the Tax Act was completed in 2018.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The Company leases offices under non-cancelable operating lease agreements. See note 8 for future minimum lease payments under non-cancelable operating lease agreements with initial terms of one year or more.

As of September 30, 2019, the Company had \$303 of open capital commitments.

From time to time the Company is subject to legal proceedings, including claims in the ordinary course of business and claims with respect to patent infringements. As of September 30, 2019, the Company did not have any legal proceedings.

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

You should read the following discussion of our financial condition and results of operations together with our condensed consolidated financial statements and the related notes and other financial information included elsewhere in this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, or our Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in the section titled "Item 1A. Risk Factors" in Part II below.

Overview

We supply advanced, innovative capital equipment developed for the global semiconductor industry. Fabricators of advanced integrated circuits, or chips, can use our single-wafer wet-cleaning tools in numerous steps to improve product yield, even at increasingly advanced process nodes. We have designed these tools for use in fabricating foundry, logic and memory chips, including dynamic random-access memory (or DRAM) and 3D NAND-flash memory chips. We also develop, manufacture and sell a range of advanced packaging tools to wafer assembly and packaging customers.

Selling prices for our single-wafer wet-cleaning tools range from \$2 million to more than \$5 million. Our customers for single-wafer wet-cleaning tools have included Semiconductor Manufacturing International Corporation, Shanghai Huali Microelectronics Corporation, SK Hynix Inc. and Yangtze Memory Technologies Co., Ltd. We recognized revenue from sales of single-wafer wet cleaning equipment totaling \$69.5 million, or 84% of total revenue, for the first nine months of 2019 compared to \$51.4 million, or 96% of total revenue, for the first nine months of 2018.

We focus our selling efforts on establishing a referenceable base of leading foundry, logic and memory chip makers, whose use of our products can influence decisions by other manufacturers. We believe this customer base will help us penetrate the mature chip manufacturing markets and build credibility with additional industry leaders. Using a "demo-to-sales" process, we have placed evaluation equipment, or "first tools," with a number of selected customers. Since 2009 we have delivered more than 75 single-wafer wet cleaning tools, more than 60 of which have been accepted by customers and thereby generated revenue to us and the balance of which are awaiting customer acceptance should contractual conditions be met.

Since our formation in 1998, we have focused on building a strategic portfolio of intellectual property to support and protect our key innovations. Our wet-cleaning equipment has been developed using our key proprietary technologies:

- *Space Alternated Phase Shift*, or SAPS, technology for flat and patterned wafer surfaces, which employs alternating phases of megasonic waves to deliver megasonic energy in a highly uniform manner on a microscopic level;
- *Timely Energized Bubble Oscillation*, or TEBO, technology for patterned wafer surfaces at advanced process nodes, which provides effective, damage-free cleaning for 2D and 3D patterned wafers with fine feature sizes; and
- *Tahoe* technology for cost and environmental savings, which delivers high cleaning performance using significantly less sulfuric acid and hydrogen peroxide than is typically consumed by conventional high-temperature single-wafer cleaning tools.

We have been issued more than 220 patents in the United States, the People's Republic of China or PRC, Japan, Korea, Singapore and Taiwan.

We conduct substantially all of our product development, manufacturing, support and services in the PRC. All of our tools are built to order at our manufacturing facilities in Shanghai, which encompass 86,000 square feet of floor space for production capacity. Our experience has shown that chip manufacturers in the PRC and throughout Asia demand equipment meeting their specific technical requirements and prefer building relationships with local suppliers. We will continue to seek to leverage our local presence to address the growing market for semiconductor manufacturing equipment in the region by working closely with regional chip manufacturers to understand their specific requirements, encourage them to adopt our SAPS, TEBO and Tahoe technologies, and enable us to design innovative products and solutions to address their needs.

Corporate Background

ACM Research was incorporated in California in 1998 and redomesticated in Delaware in 2016. We perform strategic planning, marketing, and financial activities at our global corporate headquarters in Fremont, California.

Initially we focused on developing tools for chip manufacturing process steps involving the integration of ultra-low-K materials and copper. In the early 2000s we sold tools based on stress-free copper polishing technology.

To help us establish and build relationships with chip manufacturers in the PRC, in 2006 we moved our operational center to Shanghai and began to conduct our business through our subsidiary ACM Shanghai. In 2007 we began to focus our development efforts on single-wafer wet-cleaning solutions for the front-end chip fabrication process.

In 2009 we introduced SAPS megasonic technology, which can be applied in wet wafer cleaning at numerous steps during the chip fabrication process. In 2016 we introduced TEBO technology, which can be applied at numerous steps during the fabrication of small node conventional two-dimensional and three-dimensional patterned wafers.

In 2011 ACM Shanghai formed a wholly owned subsidiary in the PRC, ACM Research (Wuxi), Inc., to manage sales and service operations. In June 2017 we formed a wholly owned subsidiary in Hong Kong, CleanChip Technologies Limited, to act on our behalf in Asian markets outside the PRC by, for example, serving as a trading partner between ACM Shanghai and its customers, procuring raw materials and components, performing sales and marketing activities, and making strategic investments.

In December 2017 we formed a wholly owned subsidiary in the Republic of Korea, ACM Research Korea CO., LTD., to serve our customers based in the Republic of Korea and perform sales, marketing, and research and development activities. We currently conduct the majority of our product development, support and services, and substantially all of our manufacturing at ACM Shanghai. Our Shanghai operations position us to be near many of our current and potential new customers in the PR (including Taiwan), Korea and throughout Asia, providing convenient access and reduced shipping and manufacturing costs.

In August 2018 we introduced the Ultra-C Tahoe wafer cleaning tool, which delivers high cleaning performance with significantly less sulfuric acid than typically consumed by conventional high temperature single-wafer cleaning tools.

In September 2018 we announced the opening of a second factory in the Pudong region of Shanghai. The new facility has a total of 50,000 square feet of available floor space for production capacity. This is in addition to our first factory in the Pudong Region of Shanghai, which has a total of 36,000 square feet of available floor space.

In March 2019, we introduced (a) the Ultra ECP AP, or Advanced Wafer Level Packaging tool, a back-end assembly tool used for bumping, or applying copper, tin and nickel to wafers at the die-level prior to packaging, and (b) the Ultra ECP MAP or Multi Anode Plating tool, a front-end process tool that utilizes our proprietary technology to deliver world-class electrochemical copper planting for copper interconnect applications.

Proposed Listing of ACM Shanghai Shares on STAR Market

For purposes of the following description, RMB amounts have been translated into U.S. dollars solely for the convenience of the reader. The translations have been made at the conversion rate of RMB 6.8937 to U.S. \$1.00 effective as of June 12, 2019.

On June 17, 2019 we announced our plans to complete, over the next three years:

- a listing, which we refer to as the Listing, of shares of ACM Shanghai on the Shanghai Stock Exchange's new Sci-Tech innovAtion boARd, known as the STAR Market; and
- a concurrent initial public offering, which we refer to as the STAR IPO, of ACM Shanghai shares in the PRC.

To qualify for the Listing, ACM Shanghai must have multiple independent shareholders in the PRC. As an initial step in qualifying for the Listing, on June 12, 2019 ACM Shanghai entered into agreements with seven investors pursuant to which those investors agreed to pay a purchase price totaling RMB 187.9 million (\$27.3 million) to ACM Shanghai for shares representing 4.2% of the then-outstanding ACM Shanghai shares. Pursuant to these agreements, in July 2019, ACM Shanghai made the required filings for the capital increase with the local agency of the PRC Ministry of Commerce, and the investors became obligated to fund their purchases. As of September 30, 2019, all of the investors had funded the purchase prices for their subscribed shares, all capital increase filings had been completed with the local branch of the PRC State Administration for Market Regulation, and all of the subscribed shares had been issued to the investors.

ACM Shanghai and the investors have agreed to use their respective best efforts to facilitate the completion, within three years from the date on which the ACM Shanghai shares are issued to the investors, of the Listing and the STAR IPO, with the STAR IPO to be completed at a pre-offering valuation of not less than RMB 5.15 billion (\$747.1 million). If, by the end of such three-year period, the Listing and the STAR IPO have not been completed and the China Securities Regulatory Commission has not otherwise approved the registration of ACM Shanghai's Listing application, each investor will have the right to require that ACM Shanghai repurchase, and ACM Shanghai will have the right to purchase, the investor's ACM Shanghai shares for a price equal to the initial purchase price paid by the investor, without interest.

We have determined, voluntarily and not pursuant to any contractual or legal obligation, that ACM Shanghai will deposit, and hold in reserve, the proceeds from the share sales in segregated cash and cash-equivalent accounts pending either (a) completion of the Listing and the STAR IPO or (b) application to repurchase the shares from the investors.

We may determine to enter into additional agreements in the year ending December 31, 2019 pursuant to which certain existing ACM Research stockholders and other investors could purchase additional shares of ACM Shanghai for an aggregate purchase price of approximately \$32 million. We expect that, if we were to enter any such agreements, the purchase price and other terms of those agreements would be substantially similar to those under the agreements entered into with the investors other than the employee entities.

PRC Government Research and Development Funding

ACM Shanghai has received four grants from local and central governmental authorities in the PRC. The first grant, which was awarded in 2008, relates to the development and commercialization of 65nm to 45nm stress-free polishing technology. The second grant was awarded in 2009 to fund interest expense on short-term borrowings. The third grant was made in 2014 and relates to the development of electro copper-plating technology. The fourth grant was made in June 2018 and related to development of polytetrafluoroethylene. PRC governmental authorities provide the majority of the funding, although ACM Shanghai is also required to invest certain amounts in the projects.

The PRC governmental grants contain certain operating conditions, and we are required to go through a government due diligence process once the project is complete. The grants therefore are recorded as long-term liabilities upon receipt, although we are not required to return any funds we receive. Grant amounts are recognized in our statements of operations and comprehensive income as follows:

- Government subsidies relating to current expenses are reflected as reductions of those expenses in the periods in which they are reported. Those reductions totaled \$2.9 million in the first nine months of 2019, as compared to \$0.8 million in the first nine months of 2018.
- Government grants used to acquire depreciable assets are transferred from long-term liabilities to property, plant and equipment when the assets are acquired and then the recorded amounts of the assets are credited to other income over the useful lives of the assets. Related government subsidies recognized as other income totaled \$111,000 and \$109,000 in the first nine months of 2019 and 2018, respectively.

How We Evaluate Our Operations

We present information below with respect to four measures of financial performance:

- We define “shipments” of tools to include (a) “repeat” delivery to a customer of a type of tool that the customer has previously accepted, for which we recognize revenue upon delivery, and (b) a “first-time” delivery of a tool to a customer on an approval basis, for which we may recognize revenue in the future if contractual conditions are met and customer acceptance is received.
- We define “adjusted EBITDA” as our net income excluding interest expense (net), income tax benefit (expense), depreciation and amortization, and stock-based compensation. We define adjusted EBITDA to also exclude restructuring costs, although we have not incurred any such costs to date.
- We define “free cash flow” as net cash provided by operating activities less purchases of property and equipment (net of proceeds from disposals) and of intangible assets.
- We define “adjusted operating income” as our income from operations excluding stock-based compensation.

These financial measures are not based on any standardized methodologies prescribed by accounting principles generally accepted in the United States, or GAAP, and are not necessarily comparable to similarly titled measures presented by other companies.

We have presented shipments, adjusted EBITDA, free cash flow and adjusted operating income because they are key measures used by our management and board of directors to understand and evaluate our operating performance, to establish budgets and to develop operational goals for managing our business. We believe that these financial measures help identify underlying trends in our business that could otherwise be masked by the effect of the expenses that we exclude. In particular, we believe that the exclusion of the expenses eliminated in calculating adjusted EBITDA and adjusted operating income can provide useful measures for period-to-period comparisons of our core operating performance and that the exclusion of property and equipment purchases from operating cash flow can provide a usual means to gauge our capability to generate cash. Accordingly, we believe that these financial measures provide useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future prospects, and allowing for greater transparency with respect to key financial metrics used by our management in its financial and operational decision-making.

Shipments, adjusted EBITDA, free cash flow and adjusted operating income are not prepared in accordance with GAAP, and should not be considered in isolation of, or as an alternative to, measures prepared in accordance with GAAP.

Shipments

Shipments consist of two components:

- a shipment to a customer of a type of tool that the customer has previously-accepted, for which we recognize revenue when the tool is delivered; and
- a shipment to a customer of a type of tool that the customer is receiving and evaluating for the first time, in each case a “first tool,” for which we may recognize revenue at a later date, subject to the customer’s acceptance of the tool upon the tool’s satisfaction of applicable contractual requirements.

“First tool” shipments can be made to either an existing customer that not previously accepted that specific type of tool in the past — for example, a delivery of SAPS V tool to a customer that previously had received only SAPS II tools — or to a new customer that has never purchased any tool from us.

Shipments in the three months ended September 30, 2019 totaled \$43 million, as compared to \$32 million in the three months ended September 30, 2018, and \$33 million in the three months ended June 30, 2019. Shipments in the nine months ended September 30, 2019 totaled \$90 million, as compared to \$63 million in the nine months ended September 30, 2018.

The dollar amount attributed to a “first tool” shipment is equal to the consideration we expect to receive if any and all contractual requirements are satisfied and the customer accepts the tool. There are a number of limitations related to the use of shipments in evaluating our business, including that customers have significant discretion in determining whether to accept our tools and their decision not to accept delivered tools is likely to result in our inability to recognize revenue from the delivered tools.

Adjusted EBITDA

There are a number of limitations related to the use of adjusted EBITDA rather than net income, which is the nearest GAAP equivalent. Some of these limitations are:

- adjusted EBITDA excludes depreciation and amortization and, although these are non-cash expenses, the assets being depreciated or amortized may have to be replaced in the future;
- we exclude stock-based compensation expense from adjusted EBITDA and adjusted operating income, although (a) it has been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy and (b) if we did not pay out a portion of our compensation in the form of stock-based compensation, the cash salary expense included in operating expenses would be higher, which would affect our cash position;
- the expenses and other items that we exclude in our calculation of adjusted EBITDA may differ from the expenses and other items, if any, that other companies may exclude from adjusted EBITDA when they report their operating results;
- adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs;
- adjusted EBITDA does not reflect interest expense, or the requirements necessary to service interest or principal payments on debt;
- adjusted EBITDA does not reflect income tax expense (benefit) or the cash requirements to pay taxes;
- adjusted EBITDA does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements; and
- adjusted EBITDA includes expense reductions and non-operating other income attributable to PRC governmental grants, which may mask the effect of underlying developments in net income, including trends in current expenses and interest expense, and free cash flow includes the PRC governmental grants, the amount and timing of which can be difficult to predict and are outside our control.

The following table reconciles net income, the most directly comparable GAAP financial measure, to adjusted EBITDA:

	Nine Months Ended September 30,	
	2019	2018
	<i>(in thousands)</i>	
Adjusted EBITDA Data:		
Net Income	\$ 15,257	\$ 4,288
Interest expense, net	410	344
Income tax expense	667	647
Depreciation and amortization	586	380
Stock based compensation	2,919	2,771
Adjusted EBITDA	<u>\$ 19,839</u>	<u>\$ 8,430</u>

Adjusted EBITDA in the nine months ended September 30, 2019, increased by \$11.4 million as compared to the same period in 2018, due to an increase of \$11.0 million in net income, an increase of \$66,000 in interest expense, an increase of \$20,000 in income tax expense, an increase of \$206,000 in depreciation and amortization, and an increase of \$148,000 in stock-based compensation expense. We do not exclude from adjusted EBITDA expense reductions and non-operating other income attributable to PRC governmental grants because we consider and incorporate the expected amounts and timing of those grants in incurring expenses and capital expenditures. If we did not receive the grants, our cash expenses therefore would be lower, and our cash position would not be materially affected, to the extent we have accurately anticipated the amounts of the grants. For additional information regarding our PRC grants, please see “—Key Components of Results of Operations—PRC Government Research and Development Funding.”

Free Cash Flow

The following table reconciles net cash provided by operating activities, the most directly comparable GAAP financial measure, to free cash flow:

	Nine Months Ended September 30,	
	2019	2018
	<i>(in thousands)</i>	
Free Cash Flow Data:		
Net cash used in operating activities	\$ (4,752)	\$ (2,733)
Purchase of property and equipment	(832)	(1,598)
Purchase of intangible assets	(114)	(350)
Free cash flow	<u>\$ (5,698)</u>	<u>\$ (4,681)</u>

Free cash flow in the nine months ended September 30, 2019, declined by \$1 million as compared with the same period in 2018, due to an increase of \$2 million of cash used in operating activities that was offset by a decrease of \$1.0 million in purchase of property and equipment and intangible assets. Consistent with our methodology for calculating adjusted EBITDA, we do not adjust free cash flow for the effects of PRC government subsidies, because we take those subsidies into account in incurring expenses and capital expenditures.

Adjusted Operating Income

Adjusted operating income excludes stock-based compensation from income from operations. Although stock-based compensation is an important aspect of the compensation of our employees and executives, determining the fair value of certain of the stock-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. Furthermore, unlike cash compensation, the value of stock options, which is an element of our ongoing stock-based compensation expense, is determined using a complex formula that incorporates factors, such as market volatility, that are beyond our control. Management believes it is useful to exclude stock-based compensation in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. The use of non-GAAP financial measures excluding stock-based compensation has limitations, however. If we did not pay out a portion of our compensation in the form of stock-based compensation, the cash salary expense included in operating expenses would be higher and our cash holdings would be less. The following tables reflect the exclusion of stock-based compensation, or SBC, from line items comprising income from operations:

	Three Months Ended September 30,					
	2019			2018		
	Actual (GAAP)	SBC	Adjusted (Non-GAAP)	Actual (GAAP)	SBC	Adjusted (Non-GAAP)
	<i>(in thousands)</i>					
Revenue	\$ 33,427	\$ -	\$ 33,427	\$ 23,179	\$ -	\$ 23,179
Cost of revenue	(17,173)	(154)	(17,019)	(12,892)	(25)	(12,867)
Gross profit	16,254	(154)	16,408	10,287	(25)	10,312
Operating expenses:						
Sales and marketing	(3,886)	(172)	(3,714)	(3,229)	(42)	(3,187)
Research and development	(3,492)	(759)	(2,733)	(2,264)	(64)	(2,200)
General and administrative	(1,846)	(472)	(1,374)	(1,390)	(280)	(1,110)
Income (loss) from operations	<u>\$ 7,030</u>	<u>\$ (1,557)</u>	<u>\$ 8,587</u>	<u>\$ 3,404</u>	<u>\$ (411)</u>	<u>\$ 3,815</u>

Adjusted operating income for the three months ended on September 30, 2019, as compared with the same period in 2018 increased by \$4.8 million, due to increases of \$3.6 million in income from operations and \$1.1 million in stock-based compensation expense.

	Nine Months Ended September 30,					
	2019			2018		
	Actual (GAAP)	SBC	Adjusted (Non-GAAP)	Actual (GAAP)	SBC	Adjusted (Non-GAAP)
	<i>(in thousands)</i>					
Revenue	\$ 82,916	\$ -	\$ 82,916	\$ 53,795	\$ -	\$ 53,795
Cost of revenue	(44,705)	(213)	(44,492)	(29,662)	(44)	(29,618)
Gross profit	38,211	(213)	38,424	24,133	(44)	24,177
Operating expenses:						
Sales and marketing	(8,679)	(252)	(8,427)	(7,766)	(115)	(7,651)
Research and development	(9,598)	(939)	(8,659)	(6,224)	(131)	(6,093)
General and administrative	(5,992)	(1,515)	(4,477)	(6,312)	(2,481)	(3,831)
Income (loss) from operations	<u>\$ 13,942</u>	<u>\$ (2,919)</u>	<u>\$ 16,861</u>	<u>\$ 3,831</u>	<u>\$ (2,771)</u>	<u>\$ 6,602</u>

Adjusted operating income for the nine months ended on September 30, 2019 as compared with the same period in 2018, increased by \$10.3 million, due to increases of \$10.1 million in income from operations and \$148,000 in stock-based compensation expense.

Critical Accounting Policies and Significant Judgments and Estimates

There were no significant changes in our critical accounting policies or significant judgments or estimates during the nine months ended September 30, 2019 to augment the critical accounting estimates disclosed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report, other than those described in the notes to the condensed consolidated financial statements included in this report, including the adoption of the Financial Accounting Standards Board's Accounting Standards Update 2016-02, *Leases (Topic 842)* effective January 1, 2019. As a result of our adoption of the new lease standard, we re-assessed the estimates, assumptions, and judgments that are most critical in our recognition of lease and have revised our lease critical accounting policy. For information regarding the impact of recently adopted accounting standards, refer to note 2 to the condensed financial statements included in this report.

Recent Accounting Pronouncements

A discussion of recent accounting pronouncements is included in our Annual Report and is updated in note 2 to the condensed consolidated financial statements included in this report.

Results of Operations

The following table sets forth our results of operations for the periods presented, as percentages of revenue.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	51.4	55.6	53.9	55.1
Gross margin	48.6	44.4	46.1	44.9
Operating expenses:				
Sales and marketing	11.6	13.9	10.5	14.4
Research and development	10.4	9.8	11.6	11.6
General and administrative	5.5	6.0	7.2	11.7
Total operating expenses, net	27.6	29.7	29.3	37.7
Income from operations	21.0	14.7	16.8	7.2
Interest expense, net	(0.3)	(0.5)	(0.5)	(0.6)
Other expense, net	5.5	3.9	2.6	2.3
Equity income (loss) in net income (loss) of affiliates	0.0	0.5	0.3	0.4
Income before income taxes	26.2	18.6	19.2	9.3
Income tax (expense) benefit	1.0	(2.0)	(0.8)	(1.2)
Net income	27.2	16.6	18.4	8.1
Less: Net income attributable to redeemable non-controlling interests	0.9	-	0.4	-
Net income attributable to ACM Research, Inc.	26.3%	16.6%	18.0%	8.1%

Comparison of Three Months Ended September 30, 2019 and 2018

Revenue

	<u>Three Months Ended September 30,</u>		<u>% Change 2019 v 2018</u>
	<u>2019</u>	<u>2018</u>	
	<i>(in thousands)</i>		
Revenue	\$ 33,427	\$ 23,179	44.2%

The increase in revenue of \$10.3 million in the three months ended September 30, 2019 as compared to the same period in 2018 reflected increases in revenue of \$5.7 million from single-wafer cleaning equipment, and increases in revenue of \$4.6 million from back-end wafer assembly and packaging equipment. The increase in revenue was driven by a higher number of tools shipped for revenue, offset by a decrease in customer acceptances from prior period shipments received and recognized as revenue during the three months ended September 30, 2019.

Cost of Revenue and Gross Margin

	Three Months Ended September 30,		% Change 2019 v 2018
	2019	2018	
	<i>(in thousands)</i>		
Cost of revenue	\$ 17,173	\$ 12,892	33.2%
Gross profit	\$ 16,254	\$ 10,287	58.0
Gross margin	48.63%	44.38%	4.2

Cost of revenue increased \$4.3 million and gross profit increased 6.0 million in the three months ended September 30, 2019, as compared to the corresponding period in 2018, due to increased sales volume and higher gross margin. Gross margin increased by 4.2 percentage points during the three months ended September 30, 2019, versus the comparable period in 2018 due to a favorable product mix.

Gross margin may vary from period to period, primarily related to the level of utilization and the timing and mix of purchase orders. We expect gross margin to be between 40.0% and 45.0% for the foreseeable future, with direct manufacturing costs approximating 50.0% to 55.0% of revenue and overhead costs totaling 5.0% of revenue.

Operating Expenses

	Three Months Ended September 30,		% Change 2019 v 2018
	2019	2018	
	<i>(in thousands)</i>		
Sales and marketing expense	\$ 3,886	\$ 3,229	20.3%
Research and development expense	3,492	2,264	54.2
General and administrative expense	1,846	1,390	32.8
Total operating expenses	<u>\$ 9,224</u>	<u>\$ 6,883</u>	34.0

Sales and marketing expense increased by \$657,000 in the three months ended September 30, 2019, as compared to the corresponding period in 2018. Sales and marketing expense consists primarily of:

- compensation of personnel associated with pre and aftersales support and other sales and marketing activities, including stock-based compensation;
- sales commissions paid to independent sales representatives;
- fees paid to sales consultants;
- shipping and handling costs for transportation of products to customers;
- cost of trade shows;
- travel and entertainment; and
- allocated overhead for rent and utilities.

Research and development expense increased by \$1.2 million in the three months ended September 30, 2019 as compared to the corresponding period in 2018, principally as a result of increases in testing fees and personnel costs. Research and development expense represented 10.4% and 9.8% of our revenue in the three months ended September 30, 2019 and 2018, respectively. Without reduction by grant amounts received from PRC governmental authorities (see “—Key Components of Results of Operations—PRC Government Research and Development Funding”), gross research and development expense totaled \$4.4 million, or 13.1% of revenue, in the three months ended September 30, 2019 and \$2.7 million, or 11.5% of revenue, in the three months ended September 30, 2018. Research and development expense relates to the development of new products and processes and encompasses our research, development and customer support activities. Research and development expense consists primarily of:

- compensation of personnel associated with our research and development activities, including stock based compensation;
- costs of components and other research and development supplies;
- travel expense associated with customer support;
- amortization of costs of software used for research and development purposes; and
- allocated overhead for rent and utilities.

General and administrative expense increased by \$456,000 in the three months ended September 30, 2019 as compared to the corresponding period in 2018. General and administrative expense consists primarily of:

- compensation of executive, accounting and finance, human resources, information technology, and other administrative personnel, including stock-based compensation;

- professional fees, including accounting and legal fees;
- other corporate expenses; and
- allocated overhead for rent and utilities.

We expect that, for the foreseeable future, general and administrative expenses will increase in absolute dollars, as we incur additional costs associated with growing our business and operating as a public company

Other Income and Expenses

	Three Months Ended September 30,		% Change 2019 v 2018
	2019	2018	
	<i>(in thousands)</i>		
Interest expense, net	\$ (110)	\$ (109)	0.9%
Other income, net	1,850	902	105.1

Interest expense consists of interest incurred from outstanding short-term borrowings. Interest expense increased by \$1,000 in the three months ended September 30, 2019 as compared to the three months ended September 30, 2018, as a result of increased borrowings under short-term bank loans, partly offset by an increase in cash and equivalents. We earn interest income from depositary accounts. Interest income was \$95,000 in the three months ended September 30, 2019 as compared to \$3,000 in the same period of 2018.

Non-operating income (expense), net primarily reflects (a) gains or losses recognized from the impact of exchange rates on our foreign currency-denominated working-capital transactions and (b) depreciation of assets acquired with government subsidies, as described under “—Key Components of Results of Operations—PRC Government Research and Development Funding” above. Our non-operating income was \$1.85 million in the three months ended September 30, 2019 due to gains and losses of the RMB to U.S. dollar exchange rate during the quarter, compared to non-operating income of \$902,000 in the three months ended September 30, 2018 due to gains and losses of RMB-to-U.S. dollar exchange rate during the quarter.

Income Tax Expense

The following presents components of income tax expense for the indicated periods:

	Three Months Ended September 30,	
	2019	2018
	<i>(in thousands)</i>	
Current:		
U.S. federal	\$ -	\$ -
U.S. state		-
Foreign	328	(461)
Total current income tax expense	328	(461)
Deferred:		
U.S. federal	-	-
U.S. state	-	-
Foreign	-	-
Total deferred income expense	-	-
Total current income tax expense	\$ 328	\$ (461)

On December 22, 2017, the Tax Cuts and Jobs Act, or the Tax Act, was enacted into law. The new legislation contains several key tax provisions that affect us, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction of the corporate income tax rate to 21% effective January 1, 2018. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of December 31, 2017. There were no adjustments made in the three months ended September 30, 2019. The accounting for the tax effects of the Tax Act was completed in 2018.

Our effective tax rate differs from statutory rates of 21% for U.S. federal income tax purposes and 15% to 25% for Chinese income tax purposes due to the effects of the valuation allowance and certain permanent differences as it pertains to book-tax differences in the value of client equity securities received for services. Our two PRC subsidiaries, ACM Shanghai and ACM Wuxi, are liable for PRC corporate income taxes at the rates of 15% and 25%, respectively. Pursuant to the Corporate Income Tax Law of the PRC, our PRC subsidiaries generally would be liable for PRC corporate income taxes as a rate of 25%. According to Guoshuihan 2009 No. 203, an entity certified as an “advanced and new technology enterprise” is entitled to a preferential income tax rate of 15%. ACM Shanghai was certified as an “advanced and new technology enterprise” in 2012 and again in 2016 and 2018, with an effective period of three years.

We file income tax returns in the United States and state and foreign jurisdictions. Those federal, state and foreign income tax returns are under the statute of limitations subject to tax examinations for 2009 through 2016. To the extent we have tax attribute carryforwards, the tax years in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state or foreign tax authorities to the extent utilized in a future period.

Net Income Attributable to Redeemable Non-Controlling Interests

As described above under “—Proposed Listing of ACM Shanghai Shares on STAR Market,” in the three months ended September 30, 2019, ACM Shanghai sold to seven investors a total number of shares representing 4.2% of its then-outstanding ACM Shanghai shares. ACM Research continues to hold the remaining 95.8% of ACM Shanghai’s outstanding shares. As a result, commencing with the three months ended September 30, 2019, we reflect, as net income attributable to non-controlling interests, the portion of our net income allocable to the minority holders of ACM Shanghai shares. In the three months ended September 30, 2019, this amount totaled \$307,000.

Comparison of Nine Months Ended September 30, 2019 and 2018

Revenue

	Nine Months Ended September 30,		Y/Y %Change
	2019	2018	
	<i>(in thousands)</i>		
Revenue	\$ 82,916	\$ 53,795	54.1%

The increase in revenue of \$29.1 million in the nine months ended September 30, 2019 as compared to the same period in 2018, was driven by an \$18.2 million increase in revenue from single-wafer cleaning tools, and an \$11.0 million increase in revenue from back-end wafer assembly and packaging equipment. The revenue increase reflected an increased number of tools shipped, coupled with higher selling prices associated with the equipment sold and increased customer acceptances from prior period shipments received and recognized as revenue during the nine months ended September 30, 2019.

Cost of Revenue and Gross Margin

	Nine Months Ended September 30,		Y/Y %Change
	2019	2018	
	<i>(in thousands)</i>		
Cost of revenue	\$ 44,705	\$ 29,662	50.7%
Gross profit	\$ 38,211	\$ 24,133	58.3
Gross margin	46.1%	44.9%	1.2%

Cost of revenue increased \$15.0 million and gross profit increased \$14.1 million in the nine months ended September 30, 2019, as compared to the corresponding period in 2018, primarily due to increased sales volume. Gross margin increased by 1.2 percentage points during the nine months ended September 30, 2019, from the comparable period in 2018.

Operating Expenses

	Nine Months Ended September 30,		Y/Y %Change
	2019	2018	
	<i>(in thousands)</i>		
Sales and marketing expense	\$ 8,679	\$ 7,766	11.8%
Research and development expense	9,598	6,224	54.2
General and administrative expense	5,992	6,312	(5.1)
Total operating expenses	<u>\$ 24,269</u>	<u>\$ 20,302</u>	19.5

Sales and marketing expense increased by \$913,000 in the nine months ended September 30, 2019, as compared to the corresponding period in 2018.

Research and development expense increased by \$3.4 million in the nine months ended September 30, 2019 as compared to the corresponding period in 2018, principally as a result of increases in testing fees and personnel costs. Research and development expense represented 11.6% of our revenue in the nine months ended September 30, 2019 and 11.6% of our revenue in the nine months ended September 30, 2018. Without reduction by grant amounts received from PRC governmental authorities (see “—Key Components of Results of Operations—PRC Government Research and Development Funding”), gross research and development expense totaled \$12.5 million, or 15.1% of revenue, in the nine months ended September 30, 2019 and \$6.2 million, or 13.0% of revenue, in the nine months ended September 30, 2018. Research and development expense relates to the development of new products and processes and encompasses our research, development and customer support activities.

General and administrative expense decreased by \$320,000 in the nine months ended September 30, 2019 as compared to the corresponding period in 2018.

Other Income and Expenses

	Nine Months Ended September 30,		Y/Y % Change
	2019	2018	
	<i>(in thousands)</i>		
Interest expense, net	\$ (410)	\$ (344)	19.2%
Other income, net	2,132	1,213	75.8

Interest expense increased by \$66,000 in the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018, principally as a result of increased borrowings under short-term bank loans. We earn interest income from depository accounts. Interest income was \$128,000 in the nine months ended September 30, 2019 as compared to \$20,000 in the nine months ended September 30, 2018.

Our non-operating income was \$2.1 million in the nine months ended September 30, 2019 due to gains and losses of the RMB- to-U.S. dollar exchange rate during the quarter, compared to non-operating income of \$1.2 million in the nine months ended September 30, 2018 due to gains and losses of RMB-to-U.S. dollar exchange rate during the quarter.

Income Tax Expense

The following presents components of income tax expense for the indicated periods:

	Nine Months Ended September 30,	
	2019	2018
	<i>(in thousands)</i>	
Current:		
U.S. federal	\$ -	\$ -
U.S. state	-	-
Foreign	(667)	(647)
Total current tax expense	(667)	(647)
Deferred:		
U.S. federal	-	-
U.S. state	-	-
Foreign	-	0
Total deferred tax expense	-	-
Total income tax expense	(667)	(647)

There were no adjustments with respect to the Tax Act made in the nine months ended September 30, 2019.

Net Income Attributable to Redeemable Non-Controlling Interests

As described above under “—Proposed Listing of ACM Shanghai Shares on STAR Market,” in the nine months ended September 30, 2019, ACM Shanghai sold to seven investors a total number of shares representing 4.2% of its then-outstanding ACM Shanghai shares. ACM Research continues to hold the remaining 95.8% of ACM Shanghai’s outstanding shares. As a result, commencing with the nine months ended September 30, 2019, we reflect, as net income attributable to non-controlling interests, the portion of our net income allocable to the minority holders of ACM Shanghai shares. In the nine months ended September 30, 2019, this amount totaled \$307,000.

Liquidity and Capital Resources

During the first nine months of 2019 we funded our technology development and operations principally through application of proceeds from the initial public offering of Class A common stock and concurrent private placements in November 2017, proceeds from a follow-on public offering of Class A common stock in August 2019, and, to a lesser extent, from short-term borrowings by ACM Shanghai from local financial institutions. During the nine months ended September 30, 2019, our operations used cash flow of \$4.8 million and we received \$2.9 million in research and development grants from local and central PRC governmental authorities.

We believe our existing cash and cash equivalents, our cash flow from operating activities, and short-term bank borrowings by ACM Shanghai will be sufficient to meet our anticipated cash needs for at least the next twelve months. We do not expect that our anticipated cash needs for the next twelve months will require our receipt of any PRC government subsidies. Our future working capital needs will depend on many factors, including the rate of our business and revenue growth, the payment schedules of our customers, and the timing of investment in our research and development as well as sales and marketing. To the extent our cash and cash equivalents, cash flow from operating activities and short-term bank borrowings are insufficient to fund our future activities in accordance with our strategic plan, we may determine to raise additional funds through public or private debt or equity financings or additional bank credit arrangements. We also may need to raise additional funds in the event we determine in the future to effect one or more acquisitions of businesses, technologies and products. If additional funding is necessary or desirable, we may not be able to obtain bank credit arrangements or to affect an equity or debt financing on terms acceptable to us or at all.

As described above under “—Proposed Listing of ACM Shanghai Shares on STAR Market,” proceeds received from investors to purchase shares of ACM Shanghai in the third quarter of 2019 have been deposited and are being held in reserve in segregated cash and cash-equivalent accounts pending either (a) completion of the STAR Market listing and PRC initial public offering or (b) application to repurchase the shares from the investors. As a result, during that period those proceeds will not be available to operate our business or for other corporate purposes.

Sources of Funds

Equity and Equity-Related Securities. During the three months ended September 30, 2019, we received:

- net proceeds of \$26.5 million from our sale of 2,053,572 shares of Class A common stock to the public, of which we have applied, or will apply, \$3.4 million of net proceeds to repurchase outstanding shares of Class A common stock (see “Item 2. Unregistered Sales of Equity Securities and Use of Proceeds—Issuer Purchases of Equity Securities” in this Part II), and to cancel options to acquire shares of Class A common stock, from certain officers and directors, and an officer affiliate, pursuant to an equity purchase agreement entered into in connection with the public offering; and
- proceeds of \$140,000 from sales of common stock pursuant to option exercises.

Indebtedness. ACM Shanghai is a party to lines of credit with four banks, as follows:

<u>Lender</u>	<u>Agreement Date</u>	<u>Maturity Date</u>	<u>Annual Interest Rate</u>	<u>Maximum Borrowing Amount(1)</u>	<u>Amount Outstanding at September 30, 2019</u>
<i>(in thousands)</i>					
Bank of Shanghai Pudong Branch	January 2019	January 2020	5.22%	RMB50,000	RMB49,792
				\$ 7,070	\$ 7,041
Shanghai Rural Commercial Bank	February 2019	January 2020	5.66%	RMB20,000	RMB10,000
				\$ 2,828	\$ 1,414
Bank of Communications	January 2019	January 2020 - February 2020	5.66%	RMB20,000	RMB20,000
				\$ 2,828	\$ 2,828
China Everbright Bank	February 2019	March 2020 - April 2020	4.94% - 5.66%	RMB50,000	RMB30,996
				\$ 7,070	\$ 4,382
				RMB140,000	RMB110,788
				\$ 19,796	15,665

(1) Converted from RMB to U.S. dollars as of September 30, 2019.

All of the amounts owing under the lines of credit with Bank of Shanghai Pudong Branch are guaranteed by our Chairman of the Board, Chief Executive Officer and President Dr. David H. Wang and by our subsidiary Cleanchip Technologies Ltd. All of the amounts owing under the line of credit with Shanghai Rural Commercial Bank are secured by accounts receivable and guaranteed by Dr. Wang. All of the amounts owing under the lines of credit with China Everbright Bank are guaranteed by Dr. Wang.

Working Capital. The following table sets forth selected working capital information:

	September 30, 2019
	<i>(in thousands)</i>
Cash and cash equivalents	\$ 47,264
Accounts receivable, less allowance for doubtful amounts	43,144
Inventory	43,506
Working capital	<u>\$ 133,914</u>

Our cash and cash equivalents at September 30, 2019 were unrestricted and, except for proceeds received from investors to purchase shares of ACM Shanghai that we have elected to hold in reserve in segregated cash and cash-equivalent accounts as described in “—Proposed Listing of ACM Shanghai Shares on STAR Market,” are being held for working capital purposes. ACM Shanghai, our only direct PRC subsidiary, is, however, subject to PRC restrictions on distributions to equity holders. We currently intend for ACM Shanghai to retain all available funds any future earnings for use in the operation of its business and do not anticipate its paying any cash dividends. We have not entered into, and do not expect to enter into, investments for trading or speculative purposes. Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. Fluctuations vary depending on cash collections, client mix, and the timing of shipment and acceptance of our tools.

Uses of Funds

Cash Flow from Operating Activities. Our operations used cash flow of \$4.8 million in the first nine months of 2019. Our cash flow from operating activities is influenced by (a) the amount of cash we invest in personnel and technology development to support anticipated future growth in our business, (b) the magnitude of our product sales and associated gross profits, and (c) the amount and timing of payments by customers.

Capital Expenditures. We estimate that our capital expenditures in 2019 will total approximately \$2.4 million. We incurred \$946,000 of capital expenditures during the nine months ended September 30, 2019 and had unpaid capital commitments of \$303,000 as of September 30, 2019. ACM Shanghai is evaluating the desirability of entering into an agreement to purchase land in the Shanghai PRC region that could serve as a site for a future production facility and research and development center, and that would require additional capital expenditures for ACM Shanghai in 2019 or 2020.

Contractual Obligations and Requirements. Our contractual obligations and other commercial commitments are summarized in the section captioned “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations and Requirements” in our Annual Report. Other than changes that occurred in the ordinary course of business, we had no material changes to our contractual obligations reported in our Annual Report during the first nine months of 2019. For additional discussion, see note 16 to our condensed consolidated financial statements included elsewhere in this report.

Off-Balance Sheet Arrangements

As of September 30, 2019, we did not have any significant off-balance sheet arrangements, as defined in Item 303 (a)(4)(ii) of Regulation S-K under the Securities Act of 1933.

Emerging Growth Company Status

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act, or JOBS Act, and may take advantage of provisions that reduce our reporting and other obligations from those otherwise generally applicable to public companies. We may take advantage of these provisions until the earliest of December 31, 2022 or such time that we have annual revenue greater than \$1.0 billion, the market value of our capital stock held by non-affiliates exceeds \$700 million or we have issued more than \$1.0 billion of non-convertible debt in a three-year period. We have chosen to take advantage of some of these provisions, and as a result we may not provide stockholders with all of the information that is provided by other public companies. We have, however, irrevocably elected not to avail ourselves, as would have been permitted by Section 107 of the JOBS Act, of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 for complying with new or revised accounting standards, and we therefore will be subject to the same new or revised accounting standards as public companies that are not emerging growth companies

Item 3. Quantitative and Qualitative Disclosures about Market Risks

We are a smaller reporting company as defined by Item 10(f)(1) of Regulation S-K under the Securities Act of 1933 and as such are not required to provide information under this Item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and interim chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission, or the SEC. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2019, our chief executive officer and interim chief financial officer concluded that, as of such date, our disclosure controls and procedures over financial reporting were effective.

Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2019, no changes were identified to our internal control over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may become involved in legal proceedings or may be subject to claims arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

There have been no material developments with regard to legal proceedings in the three months ended September 30, 2019.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors discussed in Item 1A, “Risk Factors” of Part I in our Annual Report. In addition to the other information set forth in this report, you should carefully consider those risk factors, which could materially affect our business, financial condition and future operating results. Those risk factors are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may have a material adverse effect on our business, financial condition and operating results.

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

Recent Sales of Unregistered Equity Securities

In the three months ended September 30, 2019, we issued and sold to employees and consultants an aggregate of 69,333 unregistered shares of Class A common stock upon the exercise of stock options at per share exercise prices between \$0.75 and \$1.50. These transactions did not involve any underwriters, any underwriting discounts or commissions, or any public offering. We believe the offers, sales and issuances of these shares were exempt from registration under the Securities Act of 1933 by virtue of Section 4(a)(2) thereof (or Regulation D promulgated thereunder) because the issuance of securities to the recipients did not involve a public offering or in reliance on Rule 701 under said Act because the transactions were pursuant to a contract relating to compensation as provided under such rule. The recipients of the shares represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the shares issued in these transactions. The recipients had adequate access, through a relationship with us, to information about us. The sales of these shares were made without any general solicitation or advertising.

Use of Initial Public Offering Proceeds

The net proceeds of our initial public offering of Class A common stock in November 2017, after deducting underwriting discounts and commissions and offering expenses, were \$17.3 million. There has been no material change in the planned use of proceeds from that described in the final prospectus filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act of 1933 on November 3, 2017. To date we have applied \$10.8 million of the net proceeds to purchase inventory and an additional \$2.1 million in the ordinary course of business operations.

Issuer Purchases of Equity Securities

Following is a summary of stock repurchases during the three months ending September 30, 2019:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Program
July 2019	—	—	—	—
August 2019	—	—	—	—
September 2019	59,465	\$ 13.195	—	—
Total	59,465	\$ 13.195	—	—

(1) On August 14, 2019, we entered into an equity purchase agreement under which we agreed to repurchase, at a price per share of \$13.195 (the net proceeds per share we received in a public offering of Class A common stock), shares of Class A common stock from certain of our officers and directors and an officer affiliate. We have been fulfilling our repurchase obligations under the equity purchase agreement by either acquiring outstanding shares of Class A common stock or canceling outstanding vested options to acquire Class A common stock (at a purchase price net of the applicable option exercise price). This table reflects those outstanding shares that were repurchased under the equity purchase agreement during the three months ending September 30, 2019. In September 2019 we cancelled options to acquire a total of 53,571 shares of Class A common stock. We have a continuing obligation under the equity purchase agreement to complete the purchase of an additional 154,821 shares of Class A common stock, which we expect to complete in the fourth quarter of 2019. For further information, please see notes 11 and 15 to our condensed consolidated financial statements included elsewhere in this report.

Item 6. Exhibits

The following exhibits are being filed as part of this report:

Exhibit Number	Description
10.01	Equity Purchase Agreement dated August 4, 2019 between ACM Research, Inc. and certain of its directors and executive officers and an officer affiliate
10.02	Letter agreement dated June 12, 2019 between ACM Research, Inc. and Mark McKechnie
10.03	Partnership Agreement of Hefei Shixi Chanheng Integrated Circuit Industry Venture Capital Fund Partnership (LP) dated September 5, 2019 by and among Infotech National Emerging Industry Venture Investment Guidance Fund (LP), Hefei Guozheng Asset Management Co, Ltd., Hefei Economic and Technological Development Zone Industrial Investment Guidance Fund Co., Ltd., ACM Research (Shanghai), Inc., Hefei Tongyi Equity Investment Partnership (LP), Shenzhen Waitan Technology Development Co., Ltd., and Beijing Shixi Qingliu Investment Co., Ltd.
31.01	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Principal Executive Officer and Principal Financial Officer 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

SIGNATURE

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

Date: November 13, 2019

ACM RESEARCH, INC.

By: /s/ Mark McKechnie

Mark McKechnie

Chief Financial Officer and Treasurer (Principal Financial Officer)

**Hefei Shixi Chanheng Integrated Circuit Industry Venture Capital Fund Partnership
(LP)**

Partnership Agreement

September 5, 2019

The Fund Manager/General Partner hereby warrants that: (1) the Manager has been registered as privately offered fund manager with the Asset Management Association of China (registration number: P1068420); (2) the completion of registration and record-filing procedures by the Asset Management Association of China for the Manager and the Partnership will not constitute a recognition of the Manager's investment capacity and continuous compliance, nor it be regarded as an assurance as to the safety of the assets of the Partnership; (3) it has disclosed relevant risks prior to signing this Agreement, and has had a knowledge of the risk preferences, risk perception and tolerance of Limited Partners; and (4) it undertakes that it will utilize the assets of the Partnership by fulfilling its duties with dedication and adhering to the principles of good faith, prudence and due diligence, and makes no commitment regarding the profitability and minimum profits of the activities of the Partnership.

Each of the Limited Partners hereby represents and undertakes that: (1) it is an qualified investor compliant with the provisions of the Interim Measures for the Supervision and Administration of Private Equity Funds, and warrants that the source and usage of its assets are compliant with applicable national regulations, and has fully understood the provisions of this Agreement, known about related rights and obligations as well as applicable laws and regulations as well as the risk-return characteristics of the Partnership and is willing to bear corresponding investment risks; (2) the basic information regarding investment objective, investment preferences, investment restrictions, property income and risk tolerance provided by it to the Manager is true, complete, accurate, and legitimate and is free from any major omission or misleading statement.

Table of Contents

1. GENERAL PROVISIONS	- 3 -
2. CAPITAL CONTRIBUTION AND FUNDS CUSTODY	- 8 -
3. GENERAL PARTNER	- 13 -
4. LIMITED PARTNERS	- 26 -
5. MANAGEMENT OF THE PARTNERSHIP	- 31 -
6. FOREIGN INVESTMENT BY THE PARTNERSHIP	- 36 -
7. SHARING OF PROFITS AND LOSSES	- 39 -
8. DISSOLUTION AND LIQUIDATION	- 41 -
9. DEFAULTING LIABILITY	- 43 -
10. TERM AND TERMINATION	- 44 -
11. GENERAL	- 45 -

This Partnership Agreement (this “Agreement” or “Partnership Agreement”) is made and entered into as of September 5, 2019 in Beijing, People’s Republic of China (“PRC”, for the purpose of this Agreement, excluding Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan region) by and among:

- (1) Infotech National Emerging Industry Venture Investment Guidance Fund (LP) (the “National Guidance Fund”), a limited partnership legally incorporated and validly existing under the laws of the PRC, with its principal place of address at Room 1005, Investment Mansion, No.546 Qinglin Road, Longcheng Street, Longgang District, Shenzhen (Unified Social Credit Identifier: 91440300MA5DLX9934), whose managing partner is Infotech (Shenzhen) Emerging Industry Investment Fund Management Co., Ltd.; (Type of Partner: Limited Partner; Type of Responsibility-taking: Limited Liability)
 - (2) Hefei Guozheng Asset Management Co., Ltd., a limited liability company legally incorporated and validly existing under the laws of the PRC, with its domicile at Room F, Floor 17, Anhui Science and Technology Mansion, Huayuan Street, Hefei City, Anhui (Unified Social Credit Identifier: 913401007529529609), whose legal representative is [***]; (Type of Partner: Limited Partner; Type of Responsibility-taking: Limited Liability)
 - (3) Hefei Economic and Technological Development Zone Industrial Investment Guidance Fund Co., Ltd., a limited liability company legally incorporated and validly existing under the laws of the PRC, with its domicile at Room 1207, Block A, Feicui Plaza, Shimen Road (S), Economic and Technological Development Zone, Hefei City, Anhui (Unified Social Credit Identifier: 91340100MA2N01AQ0E), whose legal representative is [***]; (Type of Partner: Limited Partner; Type of Responsibility-taking: Limited Liability)
 - (4) ACM Research (Shanghai), Inc., a limited liability company legally incorporated and validly existing under the laws of the PRC, with its domicile at Building 4, No.1690 Cailun Road, China (Shanghai) Pilot Free Trade Zone (Unified Social Credit Identifier: 91310000774331663A), whose legal representative is HUI WANG; (Type of Partner: Limited Partner; Type of Responsibility-taking: Limited Liability)
 - (5) Hefei Tongyi Equity Investment Partnership (LP), a limited partnership legally incorporated and validly existing under the laws of the PRC, with its principal place of business at Room 6102, Haiheng Mansion, No.6 Cuiwei Road, Economic and Technological Development Zone, Hefei City, Anhui (Unified Social Credit Identifier: 91340111MA2TNEK91M), whose managing partner is Beijing Shixi Qingliu Investment Co., Ltd.; (Type of Partner: Limited Partner; Type of Responsibility-taking: Limited Liability)
-

- (6) Shenzhen Waitan Technology Development Co., Ltd., a limited liability company legally incorporated and validly existing under the laws of the PRC, with its domicile at Room 201, Building A, No.1 Qianwanyi Road, Qianhai Shengang Cooperative Zone, Shenzhen (Unified Social Credit Identifier: 91440300074364149E), whose legal representative is [***]; (Type of Partner: Limited Partner; Type of Responsibility-taking: Limited Liability)
- (7) Beijing Shixi Qingliu Investment Co., Ltd., a limited liability company legally incorporated and validly existing under the laws of the PRC, with its domicile at Room 1702, Floor 17, Block A, Zhizhen Mansion, No.7 Zhichun Road, Haidian District, Beijing (Unified Social Credit Identifier: 91110108MA0024105U), whose legal representative is [***]; (Type of Partner: Limited Partner; Type of Responsibility-taking: Unlimited Liability)

The above signatories shall hereinafter be referred to individually as a “Party” and collectively as the “Parties”, and the counterparties shall hereinafter be referred to as the “Other Parties”.

WHEREAS:

For the purposes of making full use of the strengths of the Parties and achieving a win-win situation of the Parties through cooperation, based on the principles of complementary advantages, mutual benefits, long-term cooperation and mutual development, the Parties hereto intend to jointly incorporate a partnership in Hefei which mainly engages in venture capital investment.

NOW, THEREFORE, the Parties hereto, intending to be legally bound, hereby enter into the following terms and conditions under this Agreement through friendly negotiation in accordance with applicable Chinese laws, administrative regulations and rules:

1. General Provisions

1.1 Establishment

The Parties agree to jointly invest and incorporate a limited partnership (the “Partnership”) which mainly engages in venture capital investment in accordance with applicable laws, administrative regulations and rules and subject to the provisions of this Agreement. The establishment date as shown in the Business License approved and issued by the competent authority for industry and commerce to the Partnership in respect of its establishment shall be the establishment date of the Partnership (the “Establishment Date”).

1.2 Name

The name of the Partnership shall be Hefei Shixi Chanheng Integrated Circuit Industry Venture Capital Fund Partnership (LP) (tentative name; the final name of the Partnership shall be subject to that approved by the competent authority for industry and commerce).

1.3 Principal Place of Business

The principal place of business of the Partnership is located at Room 6103, Haiheng Mansion, No.6 Cuiwei Road, Economic and Technological Development Zone, Hefei City, Anhui.

1.4 Objective of the Partnership

The objective of the Partnership is to engage in venture capital investment, venture capital investment management and other activities related to venture capital investment within the scope of business with a view to facilitating the development of emerging industry and maximizing the benefits of all partners.

1.5 Mode of Investment

The Partnership shall make investments via equity investment, i.e. making an investment to an investee by subscribing for its shares for capital increase or purchasing its transferred shares to obtain corresponding percentage of shares of the investee.

1.6 Scope of Business

Scope of business of the Partnership: venture capital investment business, venture capital investment consulting services, and provision of entrepreneurship management services to venture companies. (Items requiring an approval by law shall be conducted subject to the approval of competent authority) (The final scope of business shall be subject to that approved by competent authority for industry and commerce).

1.7 Duration

The duration of the Partnership shall be seven (7) years (the “Duration”), calculated as from the Establishment Date, which may be extended subject to the approval of the Partners’ Meeting. However, the extended Duration of the Partnership shall not exceed the duration of National Guidance Fund.

1.8 Investment Period and Payback Period

The first (1st) year to the fifth (5th) year during the Duration shall be the investment period of the Partnership (the “Investment Period”). Upon expiry of the Investment Period, the remaining Duration of the Partnership shall be the Payback Period (the “Payback Period”). During the Payback Period, the Partnership shall not make any investment to others, and instead, shall gradually exit from all invested projects.

Subject to the approval of the Partners’ Meeting, the Partnership may extend the Investment Period (the “Investment Extension Period”). However, such extension shall not be made in a manner that will enable the Duration of the Partnership to exceed the duration as set out in Clause 1.7 hereof.

1.9 Type of Business

The type of business of the Partnership shall be limited partnership. The partners consist of the General Partner and the Limited Partners. The General Partner shall assume unlimited joint and several liabilities for the obligations of the Partnership, and the Limited Partners shall assume liabilities for the obligations of the Partnership to the extent of their respective subscribed capital contribution.

1.10 Assets of the Partnership

During the Duration of the Partnership, the ownership of the capital contributions of all partners, the gains received in the name of the Partnership and other assets obtained according to law shall vest in the Partnership.

1.11 Partnership Expenses

1.11.1 The following expenses incurred due to the establishment of the Partnership and the achievement of the objective of the Partnership (the “Partnership Expenses”) shall be borne by the Partnership, and all other expenses except for the following shall be borne by the General Partner:

- (1) management fee and performance incentives paid to the General Partner;
- (2) custody fee and service charges paid to the Custodian Bank;
- (3) costs that should be borne by the Partnership according to law relating to a litigation or arbitration to which the Partnership is a party, including, but not limited to, litigation costs or arbitration fee, lawyer’s fee, appraisal fee, travelling expenses, etc.; however, in case of any costs of litigation or arbitration sustained by the Partnership or its Limited Partners due to the fault of the General Partner, all such costs shall be wholly borne by the General Partner;
- (4) costs of holding the Partners’ Meeting (including the traveling expenses incurred by the Partners for attending the Partners’ Meeting);
- (5) expenses for capital decrease and liquidation expenses of the Partnership;
- (6) audit expenses of the Partnership’s own annual report, appraisal fee, equity transaction fee, change registration, commercial annual inspection, information disclosure fee and various administrative charges incurred by the Partnership within a year;
- (7) related expenses incurred by the Partnership due to its application to relevant governmental authority for its record-filing (excluding the registration and record-filing of the General Partner) and other expenses that should be borne by the Partnership in accordance with laws, administrative regulations and rules;
- (8) Taxes and other transaction expenses as a kind of governmental fee incurred during the administration, usage or disposal of the assets of the Partnership.

1.11.2 The following shall be independently borne by the General Partner but not the Partnership:

- (1) daily operational expenses of the General Partner, including travelling expenses, etc.;
- (2) rent of office space and cost of office facilities of the General Partner;
- (3) costs of registration or record-filing made by the General Partner in accordance with applicable laws, administrative regulations and rules;
- (4) wage and bonus of the employees of the General Partner;
- (5) all expenses related to investment management should be included into the management fee and performance incentives of the General Partner, and any and all costs incurred by the General Partner and its personnel or agent for completing the work agreed hereunder and performing related obligations (including, but not limited to, due diligence costs, lawyer's fee, accounting/audit fee, appraisal fee, financial consultant fee, travelling expenses, telecommunication fee, etc.) shall be beyond the scope of expenses that should be borne by the Partnership;
- (6) expenses or loss of assets of the Partnership incurred by the General Partner due to its failure to perform or perform in full its obligations and costs incurred in dealing with the matters unrelated to the operation of the Partnership;
- (7) Other expenses that shouldn't be borne by the Partnership subject to this Agreement.

1.12 Record-filing

- (1) Upon its establishment, the Partnership shall complete record-filing procedures in accordance with applicable laws, administrative regulations and rules.

- (2) The General Partner shall, within one (1) month upon execution or modification of this Agreement, complete record-filing procedures as to this Agreement with competent authority for industry and commerce in accordance with applicable laws, administrative regulations and rules.
- (3) The Partnership shall, within twenty (20) working days upon completion of fund-raising, complete registration and record-filing procedures with the Asset Management Association of China in accordance with the Interim Measures for the Supervision and Administration of Private Equity Funds, the Measures for the Registration of Privately Offered Investment Fund Manager and Fund Record-filing (for Trial Implementation) and other regulations.

1.13 Non-public Fund-raising

The Partnership shall not make any non-public fund-raising in whatever form.

1.14 Cooperation Obligations

National Emerging Industry Venture Investment Guidance Fund has a council (the “National Guidance Fund Council”) responsible for examining and approving the objective of National Guidance Fund policies, supervising and assessing business performance of National Guidance Fund management companies, organizing and conducting relevant industry analysis and policy research, etc.. In case of any requirement on the Partnership proposed by the National Guidance Fund Council (including, but not limited to, the provision of relevant information or materials required for supervising and assessing the management companies of the National Guidance Fund), the General Partner of the Partnership shall make active efforts to provide cooperation in this regard.

1.15 Investment Fields

The fields in which the Partnership makes investments shall focus on emerging industries, the specific scope of which shall be determined by the National Guidance Fund Council. Emerging industries refer to strategic emerging industries and hi-tech industries. In case of any new regulations introduced by the State Council, the National Guidance Fund Council shall timely adjust the scope of emerging industries in which the Partnership makes investments in accordance with relevant documents of the State Council.

Focused on the semiconductor industry, the Partnership shall invest in integrated circuits and upstream and downstream companies engaged in integrated circuits, including integrated circuit design, materials, equipment, components, maintenance, packaging and testing, technical services, and key technologies in information products, manufacturing and applications.

2. Capital Contribution and funds Custody

2.1 Subscribed capital

2.1.1 The total capital subscribed by all partners (“Total Subscribed Capital”) is Renminbi Three Hundred Million ONLY (RMB300,000,000.00). All capital is contributed in **currency**. Amounts of capital subscribed by Partners are as shown in the following table:

In RMB 10,000

Name of Partner	Amount of Subscribed Capital	Ratio of Subscribed Capital	Contributed On
Infotech National Emerging Industry Venture Investment Guidance Fund (LP)	6500	21.67%	30 September 2019
Hefei Guozheng Asset Management Co., Ltd.	5000	16.67%	30 September 2019
Hefei Economic and Technological Development Zone Industrial Investment Guidance Fund Co., Ltd.	6600	22%	30 September 2019
ACM Research (Shanghai), Inc.	3000	10%	30 September 2019
Hefei Tongyi Equity Investment Partnership (LP)	7600	25.33%	30 September 2019
Shenzhen Waitan Technology Development Co., Ltd.	1000	3.33%	30 September 2019
Beijing Shixi Qingliu Investment Co., Ltd.	300	1%	30 September 2019
Total	30000	100%	

2.1.2 Even if otherwise provided for herein, it is hereby confirmed by all parties that if the Partnership or any other partner proposes to do anything that might enable National Guidance Fund to control or actually control the Partnership (including, without limitation, withdrawal of any partner, reduction of subscribed capital, etc.), National Guidance Fund will have the right to unilaterally decide to veto such an issue or withdraw all or part of the capital subscribed by National Guidance Fund, and that other partners agree to unconditionally cooperate with National Guidance Fund in respect of the latter's aforesaid decision.

For the purpose of clarity, the aforesaid "control or actually control" means that the subscribed capital exceeds 50% of the total subscribed capital of the Partnership, or the biggest capital contributor to the Partnership being able to independently make or actually dominate the operational management and investment decisions of the Partnership through agreements/arrangements relating to the Partnership.

2.1.3 Each Partner of the Partnership warrant that any capital contributed thereby to the Partnership is its self-owned fund and is from a lawful source.

2.2 Deadline for capital contribution

2.2.1 Partners shall pay the capital subscribed thereby as per the following capital contribution process: Within thirty (30) days after conclusion of this Agreement, the General Partner will send to all other partners a written notice for capital contribution, and each of such other partners shall pay the capital subscribed thereby in a lump sum by the capital contribution time specified in the said notice. The General Partner shall send the said notice to all other partners ten (10) days prior to the capital contribution time specified in the said notice.

2.2.2 Each partner shall pay the capital subscribed thereby to the bank account indicated in the said written notice sent thereto by the General Partner. The Partnership shall issue a capital contribution certificate to each partner who has paid the capital subscribed thereby within five (5) working days after receipt of the capital contributed by such partner.

2.3 Capital contribution default by limited partner

2.3.1 The Partners shall perform their capital contribution obligations in accordance with relevant provisions of this Agreement. If any limited partner fails to contribute the capital subscribed thereby in full in a timely manner (“Defaulting Limited Partner”), it shall make a supplementary contribution of the capital subscribed thereby within three (3) days after receipt of the notice from the General Partner.

2.3.2 Where a Defaulting Limited Partner fails to make a supplementary contribution in accordance with the provisions of Article 2.3.1 of this Agreement, the right of the said Defaulting Limited Partner to continuously contribute capital to the Partnership will be terminated, or it will be removed from the Partnership, or the Partnership will be liquidated, if so unanimously agreed by all other partners. Partners’ Meeting will have the right to further decide to:

- (1) Transfer the capital subscribed by the Defaulting Limited Partner to other limited partners; OR
- (2) Accept a new limited partner to subscribe for the capital previously subscribed but not actually paid by the Defaulting Limited Partner, and the consideration for such subscribed capital will be negotiated and determined by all parties concerned.

2.3.3 If it is impossible to normally set up the Partnership or it is impossible for the Partnership to exist or operate normally, due to the failure of any partner to pay the capital previously subscribed thereby in accordance with relevant provisions, the said partner, in addition to compensating other partners for any and all the losses sustained by such other partners as a result of the inability to normally set up the Partnership, the inability of the Partnership to exist or operate normally, must also pay to other partners who have actually performed their obligation of paying subscribed capital an amount equal to Zero Point One Percent of the Capital Subscribed by the Defaulting Limited Partner Per Day as liquidated damages. Each of other partners who have actually performed their obligation of paying subscribed capital will share the above-said liquidated damages in proportion to the capital actually paid thereby.

2.3.4 National Guidance Fund will have the right to perform its capital contribution obligation only after other partners have fully paid their capital contribution and the General Partner has provided each of such other partners with a voucher for the capital fully contributed thereby. If any other partner fails to pay in full the capital subscribed thereby, National Guidance Fund will not be held liable for defaulting in performing its capital contribution obligation.

2.3.5 General Partner shall hold defaulting partners, if any, liable for their default.

2.4 Funds custody

2.4.1 The Partnership shall open one (1) account with a commercial bank with corresponding qualifications in China ("Custodian Bank") as the custody account ("Custody Account") for the Partnership, and use it to receive capital contribution from partners, incomes of the Partnership and all other amounts receivable by the Partnership, and also for paying investment funds, partnership expenses and all other expenditures payable by the Partnership. The Partnership shall authorize the custodian bank to keep custody of all the funds in the Custody Account. Unless unanimously agreed by all partners, the Partnership shall not open any other bank account, except for the partnership capital verification account, basic account and raised funds settlement account opened for the Partnership.

2.4.2 The custodian bank employed by the Partnership shall meet the following conditions:

- (1) It is a nationwide joint-equity commercial bank that has been in existence for at least five (5) years;
- (2) It shall not have any related-party or stake relationship with any of the Partnership's partners or management organization in respect of equity, debt, relative, etc.;

- (3) It shall be experienced in acting as a custodian for venture capital investment funds;
 - (4) It has no record of any gross negligence or any punishment by any administrative or judiciary authority.
- 2.4.3 The custodian bank will be proposed by the General Partner, and will be employed /changed through a Partners' Meeting resolution. If the custodian bank proposed by the General Partner fails to meet the conditions agreed in this Agreement, the General Partner shall bear the corresponding default liabilities, including, without limitation, refunding the capital already contributed by other partners, proposing another custodian bank meeting the aforesaid conditions, etc.
- 2.4.4 The Partnership shall be responsible for and pay the custody fee incurred as a result of authorizing the custodian bank to keep custody of all the funds in the custodian account of the Partnership.
- 2.4.5 The Partnership and the General Partner shall sign a custody agreement ("Custody Agreement") with the custodian bank for the issues described in Article 2.4.1 of this Agreement. Any and all receipts and expenditures incurred by the Partnership shall be processed in accordance with the Custody Agreement.
- 2.4.6 The funds received by the Partnership's raised funds settlement account shall be promptly transferred to the custody account immediately after the Partners' Meeting has determined the custodian bank in accordance with Article 2.4.3 of this Agreement, and the General Partner shall procure the custodian bank to notify each partner after the capital contributed by such partner reaches the custody account. In case the funds in the Partnership's raised funds settlement account are not transferred to the custody account by the time specified above or are transferred to any other bank account than the custody account, the General Partner shall be held correspondingly liable.

2.5 Cooling-off period and call-back

- 2.5.1 For any limited partner that is not covered by any of the circumstances listed under Article 32 of the Measures for the Administration of Fundraising Activities of Private Equity Funds, the investment cooling-off period is twenty-four (24) hours after it has signed this Agreement and has paid in full the capital subscribed thereby. The General Partner shall not proactively contact the said limited partner within the investment cooling-off period. The General Partner shall set an investment cooling-off period for such a limited partner in accordance with Articles 29 to 31 of the Measures for the Administration of Fundraising Activities of Private Equity Funds, and shall not call back the said limited partner until after expiration of the investment cooling-off period.
- 2.5.2 Any limited partner not covered by any of the circumstances listed under Article 32 of the Measures for the Administration of Fundraising Activities of Private Equity Funds will have the right to rescind this Agreement prior to call-back by and successful confirmation the General Partner. Where the said limited partner rescinds this Agreement prior to call-back by and successful confirmation the General Partner, it will not be regarded as in default or be held liable for the default in accordance with the Contract Law of the People's Republic of China or this Agreement. In any of the aforesaid circumstances, the said limited partner shall timely assist the Partnership in completing the formalities for its withdrawal and for registration of the change to the total subscribed capital of the Partnership, and the Partnership shall timely refund the capital already paid by the said limited partner

3. General Partner

3.1 General Partner

- 3.1.1 It is hereby agreed by all parties hereto that the General Partner of the Partnership is Beijing Shixi Qingliu Investment Co., Ltd. with [***] as its duly authorized representative.
- 3.1.2 General Partner shall not pledge its share of property in the Partnership or use its share of property in the Partnership to set up any other enterprise.
- 3.1.3 Unless unanimously agreed by all partners, General Partner shall not transact with the Partnership.
- 3.1.4 Unless unanimously agreed by all partners and withdrawal formalities performed by the General Partner as per the provisions of this Agreement, no other investor may join the Partnership as a General Partner and no limited partner of the Partnership may be changed to a General Partner.

3.2 Unlimited liability

The Partnership's debt shall first be repaid using the property of the Partnership. Where the Partnership's property is insufficient to repay all due debt of the Partnership, the General Partner will bear unlimited joint and several liability for such debt of the Partnership.

3.3 Executing affairs of the Partnership

3.3.1 As Managing Partner of the Partnership, the General Partner is responsible for executing the affairs of the Partnership. General Partner's powers include:

- (1) Convening and chairing Partners' Meetings;
- (2) Screening investment projects;
- (3) Deciding investments in investment projects, and executing relevant investment schemes;
- (4) Managing investment projects;
- (5) Deciding to exit investment projects, and executing relevant exit schemes;
- (6) Cooperating with the Partnership or the agency authorized by the Partnership in regularly or irregularly assessing the performance of General Partner and the net value of the Partnership;
- (7) Distributing the profit of the Partnership;
- (8) Reporting the execution of affairs of the Partnership, if so requested by any limited partner;
- (9) Handling registration affairs for the Partnership at relevant government authorities (including the industry and commerce registration authority), and disclosing information concerning the Partnership to competent government authorities in accordance with applicable laws, administrative regulations and rules;

- (10) Representing the Partnership in handling litigation, arbitration and other issues involving the Partnership;
- (11) Handling various tax issues concerning the Partnership;
- (12) Representing the Partnership in concluding contracts and agreements;
- (13) Timely conducting audits and assessments relating to the Partnership;
- (14) Regularly reporting the execution of affairs of the Partnership and the operational and financial status of the Partnership to limited partners, and performing all information reporting obligations as agreed in this Agreement;
- (15) Handling other affairs which should be executed by the General Partner pursuant to applicable laws, administrative regulations, rules or this Agreement.

3.3.2 General Partner should be diligent, protect the uniformity, integrity, security and growth of the property of the Partnership, including, without limitation, taking the following measures against invested enterprises:

- (1) Recommend, nominate and appoint directors, supervisors, senior managers and other relevant personnel for invested enterprises in accordance with the transaction documents signed by and between the Partnership and relevant parties;
- (2) Timely identify material changes in invested enterprises or obtaining reports on material changes in invested enterprises, and timely exercise its decision-making power by documenting its decisions and giving its reasons for such decisions;
- (3) Directors or other personnel representing the interests of the Partnership in invested enterprises shall regularly or irregularly visit invested enterprises, listen to their reports, and obtain in-depth understanding of the status of invested enterprises;
- (4) Obtain the financial statements, operational reports and other relevant information of invested enterprises on a monthly basis, and obtain and review audited financial statements, operational reports and financial budgets on a yearly basis;

- (5) Once any material change is identified in an invested enterprise and such a change may result in loss to the investment made by the Partnership, adopt the quick decision-making procedures and emergency measures to avoid or minimize loss, and promptly report to the Partnership and all limited partners;
 - (6) Provide invested enterprises with value-added services, including integration of resources, consulting, etc.;
 - (7) Promptly transfer all assets recovered from investments made by the Partnership to the Custody Account of the Partnership;
 - (8) Pay attention to the development of invested enterprises, keep informed of invested enterprises' subsequent equity financing, debt financing, capital operations, IPOs, etc., and, if appropriate, exit the Partnership from invested enterprises or take other measures;
 - (9) Promptly execute the agreements in the Partnership's investment-related transaction documents (including, without limitation, valuation adjustment clauses, etc.);
 - (10) Other obligations which the General Partner should observe pursuant to the provisions of applicable laws, administrative regulations, rules and this Agreement.
- 3.3.3 When executing affairs of the Partnership, General Partner (including the Investment Decision-Making Committee and Management Team set up thereby) shall not:
- (1) Engage in any behaviour that violates applicable laws, administrative regulations, rules and this Agreement;
 - (2) Take advantage of its position by taking possession of interests which belong to the Partnership;
 - (3) Engage in any other behaviour which might damage the legal interests of the Partnership and / or limited partners.

- 3.3.4 Limited partners have the right to oversee and check the execution by the Managing Partner of the affairs of the Partnership in accordance with the provisions of the laws, administrative regulations, rules and this Agreement.
- 3.3.5 For the benefit of the Partnership, the General Partner should perform the affairs of the Partnership in the principle of good faith and should be held liable for any intentional or gross negligence on the part of or any violation of any applicable laws, administrative regulations, rules, this Agreement, the partnership rules & policies and relevant agreements by it or any of its Management Team members and Investment Decision-Making Committee members, including, without limitation, indemnifying the Partnership and all other partners of the Partnership against any and all losses resulting from such intentional or gross negligence or violation.
- 3.3.6 As the Managing Partner, General Partner will appoint duly authorized representatives who will have the right to represent the Partnership in signing or to authorize third parties to sign relevant documents to which the Partnership is a party.
- 3.3.7 General Partner shall not raise or manage any other venture capital investment funds before completing investment of 70% of the total subscribed capital of the Partnership.
- 3.3.8 Within the Partnership's investment period, General Partner shall not carry on or be commissioned by any third party to engage in any business competing against the Partnership. The said competing business refers to an investment in any industry that is the same or close to, or forms an upstream or downstream or mutually supplementary relationship with, the industry of the Partnership.

3.4 Related-party transactions

- 3.4.1 Related-party transactions refers to transactions concluded by the Partnership with its related parties during the process of operation, including, without limitation, investments in projects invested by the Partnership's partners, General Partner's Investment Team members (including Management Team members and Investment Decision-Making Committee members – same below) or General Partner's capital contributors, investments in or acquisitions of projects invested by other funds once or currently managed by General Partner, as well as sales of projects invested by the Partnership to partners to the Partnership, General Partner's Investment Team members, other funds once or currently managed by General Partner and General Partner's capital contributors, etc.

- 3.4.2 The aforesaid “Related Parties” include, without limitation, (1) direct or indirect investors of the Partnership’s partners; (2) where the Partnership’s partners, General Partner’s Investment Team members directly or indirectly hold equity shares, hold shares of property, hold other interests or hold the positions of directors and/or senior managers, other legal persons or other organizations than the Partnership; (3) senior managers of the Partnership’s partners and their family members, General Partner’s Investment Team members and their family members; (4) Where related natural persons mentioned in the above (3) directly or indirectly hold equity shares, hold shares of property, hold other interests or hold the positions of directors and/or senior managers, other legal persons or other organizations than the Partnership; (5) other parties that might cause transfer of the Partnership’s interests.
- 3.4.3 In no event shall General Partner or any of its employees shall, in its/his/her own name or in the name of any related party, receive any interest in any form from any invested enterprise or any related party, including, without limitation, consulting fees, gift shares, equity investments, etc. In the event of any interest transfer in any of the above forms, all such interest shall be transferred to the Partnership’s custody account.

3.5 General Partner’s representations and warranties

3.5.1 General Partner hereby represents and warrants to all limited partners that:

- (1) General Partner is a limited liability company lawfully established and validly existing under the law of the People’s Republic of China, and General Partner and its duly authorized representative have obtained all the authorizations and approvals necessary for executing this Agreement and for performing all of General Partner’s obligations under this Agreement;

- (2) General Partner's execution of this Agreement and performance of all of its obligations under this Agreement will not violate the provisions of its business license, articles of association, partnership agreement or any other similar organizational document, or violate any applicable laws, administrative regulations, rules or any government authorizations or approvals, or violate any other agreement or contract to which General Partner is a party;
 - (3) No document or information previously provided or disclosed by General Partner to limited partners contains any misstatement that might produce any material effect on the payment by limited partners of their subscribed capital to the Partnership;
 - (4) Limited partners will have the right to hold General Partner liable for any and all losses that might be sustained by the Partnership due to violation by General Partner of any of its above representations and warranties.
- 3.5.2 General Partner shall seek benefits for the Partnership in the principle of good faith. General Partner shall be held liable for any damage, debt and/or liability that might be sustained by the Partnership due to any fault on the part of General Partner.

3.6 Investment Decision-Making Committee

- 3.6.1 General Partner must set up an Investment Decision-Making Committee ("IDMC") as the Partnership's only investment decision-making organization.
- 3.6.2 General Partner's following powers shall be exercised by IDMC:
- (1) Review and decide the Partnership's external investments;
 - (2) Review and decide the Partnership's investment exits;
 - (3) Revise the Partnership's draft investment agreements and draft supplementary agreements (if any), or core commercial clauses;
 - (4) Review and decide other draft agreements relating to the Partnership's external investments or core commercial clauses;
 - (5) Other powers granted in this Agreement or by Partners' Meetings.

3.6.3 Constitution of IDMC

- (1) IDMC consists of seven (7) members, of whom three (3) will be appointed by General Partner and one (1) by each of Hefei Guozheng Asset Management Co., Ltd., Hefei Economic and Technological Development Zone Industrial Investment Guidance Fund Co., Ltd., ACM Research (Shanghai), Inc., and Hefei Tongfu Microelectronics Co., Ltd. (Hefei Tongyi Equity Investment Partnership (LP)'s limited partner, a secondary investor). No member of IDMC may be changed without the corresponding resolution being passed a Partners' Meeting in accordance with this Agreement. IDMC must include all key persons (as defined in Article 3.7.2 of this Agreement).
- (2) IDMC will have one (1) director who will be determined by General Partner. The said director will be responsible for convening and chairing IDMC meetings.
- (3) IDMC members' term will be consistent with the duration of the Partnership.
- (4) General Partner's directors and senior managers may simultaneously act as IDMC members. IDMC members will not receive any remuneration from the Partnership.

3.6.4 IDMC's rules of procedure

- (1) Voting at IDMC meetings shall be made in writing; one vote for each member of IDMC; the opinion shall only be "Agree" or "Disagree", and no waiver will be acceptable; no opinion shall be subject to any condition precedent.
- (2) No proposal of IDMC will be regarded as effective unless passed by at least five sevenths of all IDMC members.

- (3) For an issue involving any related-party transaction, the IDMC member(s) who is (are) the related party (parties) shall avoid the above-mentioned voting, and the resolution will not be regarded as effective unless passed by five sixths of IDMC members who are not related parties. Prior to voting, IDMC members shall fully and truly disclose if the issue subject to voting is a related-party transaction as agreed in this Agreement. Otherwise, General Partner and the IDMC member(s) who should have fully and truly disclosed, but failed to disclose, the existence of the related-party relationship, will be held jointly and severally liable for all the actual losses sustained by the Partnership as a result of such failure.
- (4) IDMC will not accept any project that has for two (2) times failed to pass voting at IDMC meetings.
- (5) General Partner will be responsible for drafting detailed rules of procedure for IDMC in accordance with this Agreement and submit the same for voting at a Partners' Meeting. The said rules shall not conflict with this Agreement. IDMC shall fully follow the aforesaid IDMC rules of procedure passed at a Partners' Meeting. Unless passed at a Partners' Meeting as a resolution, no amendment, change, update, interpretation, etc. of or to IDMC rules of procedure will be regarded as effective.

3.6.5 IDMC meetings and the obligation of notification

- (1) If needed, an IDMC meeting will be arranged and held at any time. General Partner shall send a notice of meeting, together with the materials based on which IDMC will make decisions, to each of IDMC members and observers, five (5) working days prior to the meeting.
- (2) IDMC meetings may be held on site, via teleconference or in any other form of communication.
- (3) National Guidance Fund will have the right to reserve the seat for one (1) IDMC member.
- (4) Within three (3) working days after making the investment decision and appropriating the investment funds, IDMC shall send one photocopy of the IDMC resolution, one original of the letter of commitment to compliance and one scanned copy of the payment voucher to National Guidance Fund and each of other limited partners. Within three (3) working days after making a resolution to exit or liquidate an investment project, IDMC shall send materials relating to such exit or liquidation to National Guidance Fund and each of other limited partners.

3.6.6 IDMC meeting minutes

Written minutes shall be prepared for each IDMC meeting and be signed by all IDMC members attending the meeting and the meeting recorder. Every IDMC member attending the meeting will have the right to request to descriptively record in the meeting minutes the speech made by him/her at the meeting. IDMC meeting minutes and written IDMC resolutions will be kept by General Partner for at least five (5) years after the end of liquidation of the Partnership.

IDMC meeting minutes shall contain the following contents at a minimum:

- (1) Date and place of meeting and name of the convener;
- (2) Means of meeting and names of attendants;
- (3) Agenda;
- (4) Highlights of speeches of members;
- (5) Means of voting for each resolution, and the result of voting (indicating “Agree” / “Disagree”);
- (6) Other issues which should be described and recorded in the meeting minutes.

3.7 **Management Team**

- 3.7.1 In order to ensure management of the Fund in a professional manner, General Partner shall set up a Management Team (“Management Team”) to take charge of such issues of the Partnership as investments, post-investment management, exits, etc. Management Team members will not receive any remuneration from the Partnership.

3.7.2 Management Team will have two (2) core members (“Key Persons”) who will be responsible for professional management of the operation of the Fund. At the time of conclusion of this Agreement, such key persons are [***] and [***]. No change to key persons will be effective unless agreed by partners (including National Guidance Fund) who hold at least two thirds of the property of the Partnership.

General Partner shall ensure that key persons will work at General Partner during the duration of the Partnership and that all key persons will be IDMC members. If more than one third of key persons no longer work at General Partner, (i) the Partnership’s Investment Period shall be suspended, and the Partnership will only carry out existing activities and the Investment Period will not be resumed until determination of eligible replacement key persons; (ii) the Partnership will suspend payment of management fee to General Partner and will not pay management fee for the suspended period to General Partner until the determination of eligible replacement key persons, and any and all the losses that might be sustained by General Partner as a result of such suspension will be solely and exclusively borne by General Partner. If no replacement key persons are not determined in accordance with the provisions of this Agreement within sixty (6) days after occurrence of the above-mentioned issue, limited partners will have the right to suspend payment of capital contribution to the Partnership, which will not be regarded as a default in respect of capital contribution.

3.7.3 Management Team’s powers:

- (1) Look for investment projects and conduct preliminary business investigations;
- (2) Carry out due diligence on investment projects and negotiate with relevant parties, and draft relevant letters of intent, MoUs, contracts, agreements and other documents, and submit the results of due diligence and such documents to IDMC for review;
- (3) Handle, or assist relevant parties in handling, relevant government approval, registration, filing and other formalities (if needed) involved in the external investments of the Partnership;
- (4) Submit the documents signed by all parties to the investment and relevant approval, registration and filing documents (if any) issued by relevant government authorities for the investment to the custodian bank for review;

- (5) Follow up on investment projects, keep liaison with relevant parties, and manage investment projects in accordance with authorization; timely follow up on and implement changes in respect of industry and commerce registration items of invested enterprises; promptly report material issues relating to investment projects to General Partner;
- (6) Prepare exit schemes for investment projects, and negotiate with relevant parties regarding the Partnership's exits from investments; draft relevant letters of intent, MoUs, contracts, agreements and other documents, and submit such documents to IDMC for review prior to exiting;
- (7) Handle, or assist relevant parties in handling, relevant government approval, registration, filing and other formalities (if needed) involved in the investment exits of the Partnership;
- (8) Provide the Partnership and partners with information, data and reports.

3.8 Transfer by General Partner of its share of property

General Partner shall not transfer all or any part of the property held thereby in the Partnership to any third party.

3.9 General Partner's withdrawal from the Partnership

3.9.1 General Partner shall withdraw from the Partnership if:

- (1) General Partner's business license is legally revoked, or General Partner is ordered to close or cancelled or declared bankrupt; or
- (2) Applicable laws, administrative regulations and rules require that General Partner must have a relevant qualification, but General Partner has lost this qualification; or
- (3) All the share held by General Partner in property of the Partnership is mandatorily enforced by a people's court.

The above reasons for withdrawal from the Partnership will be effective on the date of actual occurrence.

3.9.2 When unanimously agreed by all other partners, General Partner may be removed from the Partnership if General Partner:

- (1) Fails to perform its obligation of capital contribution by the deadline for capital contribution as agreed in this Agreement; or
- (2) Fails to diligently exercise or perform any of its powers or responsibilities as provided for in this Agreement; or
- (3) Cause the Partnership to suffer any loss due to its intentional act or omission or gross negligence; or
- (4) Commits any material misconduct when handling affairs of the Partnership, causing the Partnership to suffer any loss.

3.9.3 Unless otherwise agreed in this Agreement, General Partner shall not withdraw from the Partnership during the duration of the Partnership.

3.9.4 Where all other partners unanimously agree to remove General Partner from the Partnership in accordance with the provisions of Article 3.9.2 of this Agreement, a written notice to this effect shall be sent to General Partner. Such a written notice shall be signed by the legal representatives of all limited partner/ duly authorized representative of Managing Partner and shall be affixed with the official seals of all limited partners. Removal will be effective and General Partner will be regarded as having withdrawn from the Partnership on the day when General Partner receives the notice of removal. Where General Partner has any dispute over the resolution of removal, it may file a suit with a competent people's court within thirty (30) days after receipt of the notice of removal.

3.9.5 Where General Partner has withdrawn from the Partnership, other partners and General Partner shall complete settlement based on the property of the Partnership at the time of withdrawal and return General Partner's share of property to it. The specific return scheme will be prepared by General Partner within thirty (30) days after receipt of the notice of removal in accordance with the provisions of this Agreement and applicable laws, and will be subject to review and approval by Partners' Meeting in accordance with Article 5.1 of this Agreement within thirty (3) days after completion of preparation of the return scheme.

3.9.6 Where General Partner withdraws from the Partnership as a result of removal in accordance with Article 3.9.2 of this Agreement, the Partnership will have the right to deduct from the share of property returnable to General Partner the loss sustained by the Partnership due to any of the circumstances described in Article 3.9.2 of this Agreement.

3.9.7 Where General Partner withdraws from the Partnership, General Partner will bear unlimited joint and several liability for the debt incurred by the Partnership due to any reason existing prior to such withdrawal.

4. Limited partners

4.1 Limited liability; limitations on their shares of property

4.1.1 A limited partner's liability for the debt of the Partnership will be limited to the capital contributed thereby to the Partnership.

4.1.2 No limited partner shall pledge its share of property in the Partnership or use its share of property in the Partnership to set up any other enterprise.

4.2 No execution of affairs of the Partnership

4.2.1 Limited partners will not execute affairs of the Partnership or represent the Partnership in interacting with external parties.

4.2.2 None of limited partners' following rights or behaviours will be regarded as an act of executing the affairs of the Partnership:

- (1) Participating in making decisions regarding General Partner's joining the Partnership, change of nature or withdrawal from the Partnership;
- (2) Overseeing General Partner's execution of affairs of the Partnership;
- (3) Offering proposals for operation and management of the Partnership;
- (4) Participating in selection of the accounting firm for undertaking audit of the Partnership;
- (5) Obtaining audited financial reports of the Partnership;

- (6) Accessing the Partnership's financial / accounting books and other financial information/data;
- (7) Claiming rights or file a suit against liable partners when their interests in the Partnership are damaged;
- (8) When General Partner fail to diligently exercise rights, procuring it to exercise such rights or filing a suit in their own name for the benefit of the Partnership;
- (9) Lawfully requesting to hold, participating in or sending agents to participate in Partners' Meetings (where General Partner fails to diligently perform its responsibilities, limited partners may convene and chair Partners' Meeting), and exercising corresponding voting rights;
- (10) Lawfully providing guarantees for the Partnership.

4.3 **Representations and warranties**

4.3.1 Each limited partner hereby represents and warrants to General Partner and all other limited partners that:

- (1) It is an entity legally established and validly existing or a natural person with full capacity for civil conduct;
- (2) It is empowered to sign and perform this Agreement, and its signing and performance of this Agreement will not (i) violate any applicable law, administrative regulation, rule, court decision or arbitral award which it must observe; or (ii) violate any of the documents based on which it is legally established and validly exists (not applicable to natural person); or (iii) violate any document or agreement to which it is a party or which is binding on it or any of its assets;
- (3) With respect to its signing and performance of this Agreement, it has passed a valid resolution and is fully authorized in accordance with its internal procedures, and the person representing it in signing this Agreement is its lawful and valid representative;

- (4) With respect to its signing and performance of this Agreement, it has completed all necessary government approval, registration or filing formalities (if needed);
 - (5) Where its signing and performance of this Agreement requires any third-party consent, it has received written consent from such third party.;
 - (6) It decides to participate in the setup of or investment in the Partnership based on its own independent judgement rather than reliance on any document or description provided by General Partner (including descriptions regarding legal risks, investment risks, taxes & fees, preferential government policies, estimated yields and any other issues);
 - (7) It has carefully read all the provisions of this Agreement and fully understand their meanings without any misunderstanding;
 - (8) As of the signing date of this Agreement, it has not engaged in any issue that might produce any material adverse effect on any issue described in this Agreement or on any other party to the Partnership;
 - (9) All the materials delivered thereby to other parties are true, accurate and complete without any misleading statement.
- 4.3.2 Where any limited partner breaches any of its representations, undertakings and warranties in this Agreement, resulting in any loss to the Partnership and/or other partners, the said breaching limited partner shall indemnify the Partnership and/or other partners against such loss.

4.4 **Transfer by limited partner of its share of property**

- 4.4.1 When a limited partner proposes to transfer all or any part of the property held thereby in the Partnership, it shall send a written application for transfer to General Partner at least thirty (30) days in advance. Such an application for transfer shall include the share of property proposed for transfer, consideration for transfer, method and deadline for payment of the consideration for transfer, basic information of transferee, documents proving transferee as eligible investor under the Interim Measures for the Supervision and Administration of Private Equity Funds and other material issues relating to the transfer in question. After a limited partner submits an application for transfer as per the above-mentioned requirements, Partners' Meeting will follow the provisions of this Agreement in voting to determine whether or not to agree to such a transfer.

4.4.2 In case a limited partner breaches the above provisions by unilaterally transferring, without completing duly required procedures, all or any part of the property held thereby in the Partnership, Partners' Meeting will have the right to remove it from the Partnership, and the said limited partner shall be held liable for indemnifying the Partnership and/or other partners against any and all losses sustained by the Partnership and/or other partners as a result of its breach.

4.5 **Limited partner's withdrawal from the Partnership**

4.5.1 A limited partner will be regarded as having withdrawn from the Partnership if:

- (1) It, as a natural-person partner, is dead or legally declared dead; or
- (2) It, as an individual, has become insolvent; or
- (3) As a legal person or any other organization, its 's business license is legally revoked, or it is ordered to close or cancelled or declared bankrupt, and the inheritor of its rights is unwilling to obtain the status which such a limited partner has in the Partnership; or
- (4) It has lost the qualifications which it must have as per the provisions of applicable laws, administrative regulations, rules or this Agreement; or
- (5) All of its share of property in the Partnership has been mandatorily enforced by a competent people's court; or
- (6) Other circumstances provided for in applicable laws, administrative regulations, rules and this Agreement under which the limited partner is regarded as withdrawn from the Partnership.

The above reasons for withdrawal from the Partnership will be effective on the date of actual occurrence.

- 4.5.2 When unanimously agreed by all other partners, a limited partner may be removed from the Partnership if:
- (1) It fails to pay in full the capital subscribed thereby to the Partnership by the deadline for capital contribution as specified herein;
 - (2) It has caused any loss to the Partnership due to any intentional act or omission or gross negligence on its part;
 - (3) It breaches any other provision of this Agreement.
- 4.5.3 Where all other partners unanimously agree to remove the said limited partner from the Partnership, a written notice to this effect shall be sent to the said limited partner. Such a written notice shall be signed by the legal representatives of General Partner and all other limited partners/ duly authorized representative of Managing Partner and shall be affixed with the official seals of all other partners. Removal will be effective and the removed limited partner will be regarded as having withdrawn from the Partnership on the day when limited partner receives the notice of removal. Where removed limited partner has any dispute over the resolution of removal, it may file a suit with a competent people's court within thirty (30) days after receipt of the notice of removal.
- 4.5.4 Where a limited partner has withdrawn from the Partnership, other partners and the said withdrawn limited partner shall complete settlement based on the property of the Partnership at the time of withdrawal and return the withdrawn limited partner's share of property to it. The specific return scheme will be prepared by General Partner and submitted to Partners' Meeting for review and approval.
- 4.5.5 Where a limited partner has withdrawn from the Partnership as a result of removal, the Partnership will have the right to deduct from the share of property returnable to General Partner the loss sustained by the Partnership and/or other partners due to any of the circumstances described in Article 4.5.2 of this Agreement.
- 4.5.6 After a limited partner has withdrawn from the Partnership, it will be liable for the debt of the Partnership incurred for any reason existing prior to its removal, and such liability will be limited to the property recovered from the Partnership at the time of removal.

4.6 Mutual change of status between limited partner and General Partner

Unless otherwise provided for in applicable laws or unless otherwise agreed in this Agreement or unless unanimously agreed by all partners, no limited partner will be changed to General Partner and vice versa.

5. Management of the Partnership

5.1 Partners' Meeting

5.1.1 The Partners' Meeting consists of all partners. The following matters of the Partnership shall be voted by the Partners' Meeting:

- (1) modification of this Agreement;
- (2) decision on increase or decrease of the total amount of the capital contribution and change of the capital contribution time of the partners;
- (3) termination or dissolution of the Partnership;
- (4) change of the name of the Partnership;
- (5) change of the business premises of the Partnership;
- (6) decision on the adjustment of members of the entrusted management body and the investment committee of the Partnership and the rules of procedures of the investment committee;
- (7) review of the change of Key Persons;
- (8) review of the work report, custody report, audit report and financial accounts report of the Partnership for the previous year, and the work plan and financial budget of the Partnership for the current year, as submitted by the General Partner;
- (9) engagement or replacement of the Custodian Bank;
- (10) appointment or dismissal of an accounting firm that undertakes the audit business of the Partnership;

- (11) transfer or disposal of the intellectual property and other property rights of the Partnership;
- (12) property refund plan when a partner withdraws from the Partnership;
- (13) decision on the profit distribution of the Partnership pursuant to this Agreement, which shall be implemented after obtaining relevant approval if it is required to obtain the approval of the relevant government department in advance;
- (14) transfer by a limited partner of its share of property in the Partnership held by him;
- (15) delisting of a partner from the Partnership pursuant to this Agreement;
- (16) decision on admission of a new partner into the Partnership pursuant to this Agreement;
- (17) extension of the Duration of and the Investment Period of the Partnership;
- (18) change of key members of the management team of General Partner of the Partnership;
- (19) approval of the liquidation report of the Partnership; and
- (20) other matters that are required to be agreed by the Partners' Meeting as expressly provided under relevant laws, administrative regulations, rules and this Agreement.

The voting of items (1), (2), (3) and (4) above shall be adopted by approval of all the partners; and the remaining resolutions of the Partners' Meeting shall be adopted by approval of the partners who hold two-thirds of the share of property in the Partnership (except as otherwise agreed in this Agreement).

5.1.2 The Partners' Meeting is held at least one (1) time per year and is convened and presided over by the General Partner. To hold the Partners' Meeting, the General Partner shall notify each limited partner at least ten (10) days in advance, and such written notice shall include at least: the time and place of the meeting; the agenda and related materials; contact person and contact details.

- 5.1.3 A temporary Partners' Meeting shall be convened by the convenor of the meeting by issuing a notice of the meeting to all the partners ten (10) days in advance.
- 5.1.4 The Partners' Meeting may be attended by a partner or its authorized representative in a manner that allows for immediate access to meeting information, such as in the form of physical meeting, teleconference or video conference. The General Partner shall record the meeting and make the written resolutions of the meeting. The partners or their authorized representatives present at the meeting shall sign the minutes of the meeting. The partners or their authorized representatives who vote for the resolutions of the meeting shall sign and affix seal on the resolution document. The General Partner shall promptly send the minutes of the meeting and the written resolution documents to the partners who attend the meeting other than physically. Such partners shall sign and affix seal on the written documents, and send them back to the General Partner within ten (10) days after receiving of the same from the General Partner.

5.2 Management Fee

- 5.2.1 With respect to the implementation of affairs by the General Partner, the Partnership shall pay the General Partner a management fee ("Management Fee").
- 5.2.2 The Management Fee for the first year may be paid within thirty (30) days from the date on which the Partnership is established, the custody agreement has become effective and all of the subscribed contributions paid by the partners upon execution of this Agreement have been fully transferred to the Custody Account.

Except for the Management Fee for the first year, the Management Fee shall be paid in two installments during the Duration of the Partnership, and the amount of each payment shall be equivalent to half of the annual payable amount; the Partnership shall pay the Management Fee payable to the General Partner for the preceding six (6)- month period within thirty (30) days after the expiration of the six (6)-month period of each fiscal year and within thirty (30) days after the start of the next fiscal year. In the process of capital reduction and liquidation of the Partnership, the Management Fee to be paid to the General Partner shall be suspended.

For the sake of clarity, the Management Fee for the first year refers to the management fee payable to the General Partner from the date of establishment of the Partnership to December 31st (inclusive) of the same year.

5.2.3 The Management Fee payable by the Partnership to the General Partner each year is calculated as follows:

(1) During the Investment Period of the Partnership, the annual Management Fee shall be drawn on a yearly basis according to 2% of the total capital contribution paid by all partners. That is:

$$\text{Annual Management Fee} = \text{total capital contribution paid by all partners} \times 2\%$$

(2) During the Investment Extension Period of and the Payback Period of the Partnership, the annual Management Fee shall be drawn on a yearly basis according to 1.5% of the principal amount of the investment made but not withdrawn by the Partnership. That is:

$$\text{Annual Management Fee} = \text{the principal amount of the investment made but not withdrawn by the Partnership} \times 1.5\%$$

5.2.4 The Management Fee for the period that is less than a full fiscal year shall be calculated according to the ratio of the actual number of days to the total number of days in the same year. That is:

Management Fee for the period that is less than a full fiscal year = annual Management Fee to be drawn for the period as stipulated in Article 5.2.3 of this Agreement \times (the actual number of days/the total number of days in the same year).

5.3 Accounting, Auditing and Information Reporting System of the Partnership

5.3.1 The fiscal year of the Partnership is from January 1 to December 31 of each year.

- 5.3.2 The Partnership shall keep accounts in accordance with the relevant laws and regulations. A limited partner may have access to the accounting books by notifying the General Partner in writing ten (10) days in advance.
- 5.3.3 The General Partner shall: (1) submit the report on the business activities and financial status of the Partnership for the previous quarter within fifteen (15) working days from the end of each quarter of the first three quarters of each fiscal year; (2) submit the semi-annual report of the Partnership within twenty (20) days from the end of the first half of each fiscal year; (3) submit a concise report on the business activities and financial status of the Partnership for the previous year within twenty (20) working days from the end of each fiscal year; and submit the annual report of the management of the Partnership (including the audit report and the custody report) for the previous year within three (3) months from the end of each fiscal year. These reports should be complete, true and adequate, with no material omissions or material misleading statements.
- 5.3.4 The Partnership shall engage a qualified accounting firm promptly after the end of each fiscal year to audit the financial statements of the Partnership in accordance with the Accounting Standards for Business Enterprises and other provisions (which shall include without limitation the balance sheet, profit and loss statement, cash flow statement of the Partnership, the balance of the capital account of each partner in the Partnership and relevant changes during the reporting period, the summary of financial and business information of the portfolio and the appraisal of current market value of investment projects of the Partnership), and shall submit the annual report of the Partnership (which shall include the audited annual financial statements) to each limited partner within three (3) months after the end of each fiscal year.
- 5.3.5 At the occurrence of a material event affecting the net worth of the Partnership, the General Partner shall submit a written report to all partners within three (3) days.
- 5.3.6 The General Partner shall report to the limited partners on a regular basis the implementation of the affairs of the Partnership and the operation and financial status of the Partnership, and perform all the information reporting obligations provided hereunder. The National Guidance Fund has the right to require the General Partner to provide relevant information on any working day in accordance with the regulatory requirements of the government investment fund, and the General Partner must fully cooperate with the same.

6. Foreign Investment by the Partnership

6.1 Investment Targets and Investment Restrictions

- 6.1.1 When the Partnership invests in a project, it must comply with requirements of national laws, administrative regulations, rules, and industrial policies.
- 6.1.2 More than 60% of the total amount of capital contribution by the Partnership shall be invested in early/intermediate-stage innovative enterprises and startup-stage innovative enterprises in emerging industries.

Startup-stage innovative enterprises refer to enterprises that meet the following conditions: that is, the enterprise has been established for no more than five (5) years, the number of employees is no more than three hundred (300), and the number of scientific and technical personnel directly engaged in research and development accounts for twenty percent (20%) or more of the total number of employees, the total assets do not exceed Renminbi thirty million (RMB 30,000,000) and the annual sales or turnover does not exceed Renminbi thirty million (RMB 30,000,000). Early/intermediate-stage innovative enterprises refer to enterprises that meet the following conditions: the number of employees does not exceed five hundred (500), the total assets do not exceed Renminbi two hundred million (RMB 200,000,000), and the annual sales or turnover does not exceed Renminbi two hundred million (RMB 200,000,000). The Council of the National Guidance Fund has the right to adjust the scope of the aforementioned startup-stage innovative enterprises and early/intermediate-stage innovative enterprises.

The investment amount of the Partnership investing in enterprises in the Hefei Economic and Technological Development Zone shall not be less than 50% of the total capital contribution paid by all partners.

In calculating the investment amount of the Partnership investing in enterprises in the Hefei Economic and Technological Development Zone, the following items are include:

- (1) The investment amount of the Partnership in the enterprises that are registered at the Hefei Economic and Technological Development Zone;
- (2) The actual investment amount of the Partnership in the enterprises that are introduced to the Hefei Economic and Technological Development Zone from another place (including the actual investment amount for overall relocation of such enterprises and for the transfer of industrial and commercial and tax registration to the Hefei Economic and Technological Development Zone or for the establishment of new companies, subsidiaries, etc. in the Hefei Economic and Technological Development Zone).

If and only if the Partnership's investment decision violates the aforementioned provisions, the members of the investment committee appointed by Hefei Economic and Technological Development Zone Industrial Investment Guidance Fund Co., Ltd. have a veto power over the investment in the investment project.

- 6.1.3 The investment amount of the Partnership investing in companies controlled by the same company or the same actual controller shall not exceed 20% of the size of the Partnership.
- 6.1.4 The Partnership is not allowed to borrow foreign funds. The debts of the Partnership only include payable items such as taxes payable, dividends payable and other payables, and the Partnership does not involve any form of external short-term and long-term borrowing.
- 6.1.5 The Partnership may not engage in the following businesses:
 - (1) investment in listed companies, excluding the part of the shares held by the Partnership in any unlisted enterprise as invested, that is not transferred or placed after the listing of such enterprise;
 - (2) guarantee, mortgage, entrusted loan and the investment business where the invested company commits to guarantee the principal amount and regularly distribute interest income and other fixed income;
 - (3) investment in secondary market stocks, futures, real estate (including purchase of self-use real estate), securities investment funds, corporate bonds, trust products, wealth management products, insurance plans and other financial derivatives;

- (4) investment in other venture capital funds or investment companies;
- (5) provision of sponsorship and donation to any third party;
- (6) absorption or disguised absorption of deposits, or provision of loans and funds to any third party;
- (7) foreign investment in which it bears unlimited joint and several liability;
- (8) issuance of trusts or collective financial products for fund-raising;
- (9) investment in recovery funds for foreign investment again during the Duration;
- (10) becoming the controlling shareholder or the largest shareholder of the invested company (for the sake of clarity, the controlling shareholder refers to a shareholder whose capital contribution accounts for more than 50% of the total capital of a limited liability company or who holds more than 50% of the total share capital of a joint stock company; or a shareholder whose voting rights based on its capital contribution or shares held by it are sufficient to have a material effect on the shareholders' meeting and the general meeting of shareholders though the proportion of such capital contribution or shares is less than 50%;
- (11) other businesses prohibited by national laws, administrative regulations and rules.

6.2 Investment Withdrawal

6.2.1 Methods of withdrawal. A Partnership can withdraw from an invested company by:

- (1) transfer of equity/share of the invested company;
- (2) repurchase by a shareholder of the invested company;
- (3) liquidation of the invested company;
- (4) and other methods in compliance with laws, administrative regulations and rules.

- 6.2.2 Examination of withdrawal. Where the Partnership withdraws from the invested company, the management team shall negotiate with the relevant parties to determine the withdrawal clauses, and submit the withdrawal clauses and other relevant documents to the investment committee for examination.
- 6.2.3 Execution of withdrawal. Subject to examination and approval by the investment committee, the management team shall be responsible for execution of the withdrawal. For the sake of clarity, the withdrawal documents determined by the management team and the relevant parties may not conflict with the withdrawal clauses approved by the investment committee. Otherwise, the investment committee shall conduct a re-examination. All property distributed to the Partnership upon its withdrawal from the invested company shall be immediately transferred to the Custody Account of the Partnership, and shall not be occupied or used for other purposes. If the management team does not implement the withdrawal or fails to implement the withdrawal in accordance with the withdrawal clauses approved by the investment committee and this Agreement, the General Partner shall bear the corresponding liability for breach of contract.

7. **Sharing of Profits and Losses**

- 7.1 The Partnership shall make accounting of and distribute the profits of the Partnership each fiscal year. The distributable income of the Partnership shall be distributed to the partners as soon as possible and no later than sixty (60) working days after the end of the fiscal year in which such receivables occurs.
- 7.2 The Partnership adopts the principle of “return before distribution” in respect of reward on performance of the General Partner. After all the partners have recovered all of their paid contributions in proportion to their paid contributions, and all the partners' net investment income accumulatively gained from the Partnership has reached the annual simple interest rate of 6%, if there is any excess income, it can be distributed according to the accrual criteria for performance reward (performance compensation).

The General Partner has the right to accrue performance compensation according to a certain percentage from the excess income. The calculation of performance compensation adopts step-by-step grading:

(1) The portion of the excess income that is less than one time of the total contribution paid by all partners (inclusive), 20% is accrued as performance compensation of the General Partner;

(2) The portion of the excess income that is more than one time of but less than two times of the total contribution paid by all partners (inclusive), 25% is accrued as performance compensation of the General Partner;

(3) The portion of the excess income that is more than two times of the total contribution paid by all partners, 30% is accrued as performance compensation of the General Partner;

The remaining portion of the excess income after the performance remuneration is accrued for the General Partner is distributed among limited partners according to the proportion of their actual paid contribution.

The “net investment income” above refers to the distributable profits received by the Partnership after all partners of the Partnership achieve the return.

7.3 The General Partner has no right to accrue the performance reward until all partners have recovered all of their paid contributions in proportion to their paid contributions and their accumulated net investment income reaches the annual simple interest rate of 6%.

7.4 Prior to the expiration of the Duration of the Partnership, to the extent permitted by applicable law, the distribution will be made in cash in principle; if the Partnership fails to make cash distributions at the time of liquidation upon termination, the General Partner has the right to decide that, to the extent permitted by applicable law, the distribution will be made in a non-cash manner. In the case of non-cash distribution, the General Partner shall provide necessary assistance if a partner obtains the relevant distribution and requires the General Partner to assist him in realizing the distribution. The distribution to the National Guidance Fund shall be made in cash, and the General Partner is obliged to realize the non-cash distributions that the National Guidance Fund shall receive before the cash distribution to the National Guidance Fund. Other limited partners do not assume a positive obligation for the National Guidance Fund to receive cash distribution, but must not prevent the General Partner from realizing the distributions for the National Guidance Fund.

Whether the General Partner realizes the non-cash distributions that the National Guidance Fund shall receive, or the General Partner assists the limited partners to realize the non-cash distributions that have been received, the General Partner shall, upon the principle of fairness and justice, not satisfy the requirements of either party by prejudicing the interests of the other party.

7.5 For non-cash distributions, except for assets with open market prices, the value of non-cash assets shall be assessed by an independent third-party professional body, and the results of the assessment shall be provided in writing to all partners.

7.6 Each partner shall pay taxes in accordance with laws with respect to all distributions it receives from the Partnership.

8. Dissolution and Liquidation

8.1 The Partnership shall be dissolved under any of the following circumstances:

- (1) The Duration expires and the partners decide not to operate it any longer;
- (2) The partners fail to make their respective capital contributions in full and as a result, the Partnership is unable to conduct normal business operations;
- (3) All partners make a decision to dissolve it;
- (4) The Partnership ceases to meet the establishment and operation conditions as provided for in applicable law, administrative regulations or rules;
- (5) 30 days have lapsed since the number of partners fails to reach the quorum;
- (6) The Partnership aim as stipulated herein has been realized or is unable to be realized;
- (7) Its business license is revoked, or it is ordered to close up or to be revoked;
- (8) The Partnership suffers serious losses (which reach or exceed 50% of the total capital contribution made to the Partnership) and cannot continue to operate;
- (9) A new general partner is not determined within 60 days after the General Partner withdraws naturally from the Partnership, is removed or replaced;
- (10) All investments have been recovered;

- (11) The Partnership is dissolved pursuant to the other provisions of this Agreement; and
 - (12) Any other circumstance for the dissolution of the Partnership as provided for by any law, administrative regulation or rule.
- 8.2** When the Partnership is dissolved, it shall be liquidated by liquidators. All partners shall act as liquidators. Upon consent of more than half of all partners, one or several partners or third persons may, within 15 days after the occurrence of the cause for the dissolution of the Partnership, be designated or entrusted to act as liquidators.
- 8.3** If no liquidator is designated within 15 days after the occurrence of the cause for the dissolution of the Partnership, the partners or other interested parties may apply to the people's court to designate liquidators.
- 8.4** The liquidators shall handle the following affairs during the process of liquidation:
- (1) To sort out the properties of the Partnership, prepare the balance sheet and the property list and engage a third party institution with lawful qualifications to audit such balance sheet and property list;
 - (2) To handle the pending affairs of the Partnership that are related to the liquidation;
 - (3) To pay up taxes payable;
 - (4) To settle claims and debts;
 - (5) To handle the remaining properties after the Partnership repays its debts; and
 - (6) To participate in lawsuits or arbitrations on behalf of the Partnership.
- 8.5** The liquidators shall, within 10 days of their designation, inform the creditors (if any) of the cause of the dissolution of the Partnership and publish an announcement on a newspaper within 60 days.
- 8.6** During the process of liquidation, the Partnership still exists but it shall not carry out any business activities irrelevant to the liquidation.
- 8.7** After paying off the liquidation expenses, legal indemnities, outstanding taxes and the debts with the properties of the Partnership, the residual properties may be distributed in accordance with the relevant provisions of this Agreement.

For the avoidance of doubt, if the Partnership or the General Partner has any of the circumstances as set forth under Article 9.3 hereof during the operation of the Partnership, then during the liquidation period, the National Guidance Fund shall still have the right to deduct, cancel or even require the refund of the management fee paid to the General Partner, as well as the management fee and/or performance reward corresponding to the share of the contribution paid by the National Guidance Fund in accordance with the provisions of Article 9.3 hereof. When the Partnership distributes the said residual property, it shall comply with the aforesaid requirements of the National Guidance Fund.

- 8.8** After the liquidation is ended, the liquidators shall prepare a liquidation report. Within 15 days after the liquidation report is affixed with the signatures and seals of all partners, it shall be submitted to the Partnership registration organ for deregistration of the Partnership.
- 8.9** After the completion of the liquidation procedures, the liquidators shall engage an independent law firm to issue a legal opinion on the dissolution of the Partnership, stating that the dissolution and liquidation of the Partnership conform to laws, administrative regulations, rules and the provisions of this Agreement, and such legal opinion shall be delivered or mailed to the partners of the Partnership.

9. Defaulting Liability

9.1 If any partner violates this Agreement, such partner shall bear the corresponding defaulting liability according to law:

- (1) If any partner fails to make its capital contribution within the agreed time limit, such partner shall be liable in accordance with the provisions of Article 2.3 hereof (in the case of the failure of the National Guidance Fund to perform the obligation of capital contribution under Article 2.3.4 hereof, such partner shall not be liable in connection with its capital contribution).
- (2) If a partner fails to transfer or pledge its share of property in accordance with this Agreement, and such act may be revoked or invalid in accordance with the law, thereby causing losses to other partners or partnerships, such partner shall be liable for compensating the losses thus incurred by the other partners or the Partnership.
- (3) A limited partner shall be liable for damages caused to the Partnership or other partners by dealing with others in the name of the Partnership without authorization; if a third party has reason to believe that a limited partner is the General Partner and deals with it, such limited partner shall bear the same liability as the General Partner in connection with the transaction.
- (4) If any partner has any other act that is in material breach of this Agreement, or has any gross negligence or violates the Applicable Laws, thus causing losses to the Partnership, such partner shall be liable for compensation to other partners or the Partnership.

9.2 If a party breaches this Agreement and as a result, this Agreement cannot be performed in full or in part, then the breaching party shall bear the defaulting liability; if several parties are involved in any breach, they shall bear their respective defaulting liabilities, depending on the actual situation.

9.3 If:

- (1) The Partnership's investment does not conform to the policy objectives and this Agreement (including, but not limited to, object of investment and investment restrictions);
- (2) The General Partner fails to perform its information reporting obligation in full or in part as stipulated in this Agreement;
- (3) The Partnership or the General Partner violates laws, administrative regulations, rules or other provisions of this Agreement;

then the National Guidance Fund shall have the right to unilaterally decide to take one or more of the following measures:

- (1) Notify the General Partner to make rectification and have the right to suspend further capital contribution to the Partnership without any liability on its part;
- (2) To suspend, deduct, cancel or even require the refund of part or all of the management fees paid to the General Partner and allocate the related fees so deducted, cancelled or refunded to the relevant partners;
- (3) To postpone, deduct, cancel or even require the refund of the management fees and/or performance rewards corresponding to the share of the paid capital contribution of the National Guidance Fund and allocate the related fees so deducted, cancelled and refunded to the National Guidance Fund;
- (4) Withdraw from the Partnership.

For the avoidance of doubt, the State Guidance Fund has the right to take the above measures at any time, without time limit when any said circumstance actually occurs to the Partnership or the General Partner. Other partners shall agree to sign all such documents or perform all such procedures as are necessary to ensure that the National Guidance Fund completes the aforementioned matters.

10. Term and Termination

10.1 This Agreement shall become effective on the date first above written after it is signed by the Parties and affixed with their respective seals - in the case of natural persons, it shall be signed by them and affixed with their personal seals; in the case of non-natural persons, it shall be affixed with their official seals and be signed by their legal representatives, representatives appointed by managing partners or authorized representatives (or affixed with their personal seals).

10.2 After the entry into force of this Agreement, this Agreement shall remain in force until (i) the date on which the Partnership completes its deregistration; or (ii) the Parties agree in writing to terminate the Partnership; or (iii) the Partnership is terminated in accordance with Applicable Laws, whichever occurs earlier.

10.3 The termination of this Agreement for whatever reason shall not exempt any party from its defaulting liability towards with other parties up to such termination or from any defaulting liability that may arise after such termination in connection with any act or omission of such party prior to such termination.

11. General

11.1 Confidentiality

11.1.1 Any party shall keep confidential any information relating to the following ("Confidential Information"):

- (1) The existence and content of this Agreement;
- (2) All the information provided to such party by the other parties in connection with the negotiation, execution and performance of this Agreement.

Except as provided in Article 11.1.2, none of the Parties may use or disclose any Confidential Information to any third party for its own business purpose without the prior written consent of the other parties.

11.1.2 The obligation of confidentiality under Article 11.1.1 does not apply to the information which:

- (1) is disclosed by any party to its affiliated parties or professional advisers for the purposes of this Agreement;
- (2) is independently developed by any party or is received from a third party without the duty of confidentiality or is publicly available through no breach of Article 11.1 hereof;
- (3) is disclosed in accordance with laws, administrative regulations, regulations, stock exchange rules, or any binding judgment, order or demand from any court, regulatory body or other government department having jurisdiction, or is disclosed pursuant to any regulatory or governmental proceedings.

11.1.3 The provisions of Article 11.1 hereof shall survive the termination of this Agreement

11.2 Notices

Any notice, claim, request or demand ("Notice") relating to this Agreement or matters contemplated hereby shall be made in Chinese and shall be deemed to have been duly given or served if such notice is delivered or sent in accordance with the following provisions:

The mailing addresses and contact details of the Parties are as follows:

No.	Name	Mailing address	Contact person	Tel.	Email
1	Infotech National Emerging Industry Venture Investment Guidance Fund (LP)	Room 1005, Investment Building, 546 Qinglin Road, Longcheng Sub-district, Longgang District, Shenzhen	***	***	***
2	Hefei Guozheng Asset Management Co., Ltd.	Room F, 17th Floor, Anhui Technology Building, Garden Street, Hefei City, Anhui Province	***	***	***
3	Hefei Economic and Technological Development Zone Industrial Investment Guidance Fund Co., Ltd.	Room 1207, Block A, Jade Plaza, South of Shimen Road, Hefei Economic and Technological Development Zone, Anhui Province	***	***	***
4	ACM Research (Shanghai), Inc.	Building 4, No. 1690 Cailun Road, China (Shanghai) Free Trade Pilot Area	***	***	***
5	Hefei Tongyi Equity Investment Partnership (LP)	Room 6103, Haiheng Building, 6 Cuiwei Road, Hefei Economic and Technological Development Zone, Anhui Province	***	***	***
6	Shenzhen Waitan Technology Development Co., Ltd.	Room 201, Building A, No. 1 Qianwan 1# Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen	***	***	***
7	Beijing Shixi Qingliu Investment Co., Ltd.	Room 1702, 17th Floor, Block A, Zhizhen Building, 7 Zhichun Road, Haidian District, Beijing	***	***	***

11.3 Changes

No modification, amendment or change to this Agreement shall be valid, unless it is considered and approved by the partners' meeting in accordance with the provisions of this Agreement.

11.4 Further Assurance

Each party shall, and shall make every commercially reasonable effort to cause any necessary third party, at any time after the other parties make a request, sign such documents, take such actions and handle such matters as are reasonably requested by the other parties, so as to enable the other parties to fully enjoy the interests under all the provisions of this Agreement.

11.5 Entire Agreement

This Agreement sets forth the entire agreement and understanding among the Parties with respect to their rights and obligations in relation to the matter under this Agreement. This Agreement supersedes all previous (oral or written) agreements, understandings or arrangements concerning such matter. None of the Parties has signed this Agreement by relying on any representation, warranty or undertaking not stated or mentioned herein.

11.6 Taxes and Expenses

Except as otherwise provided herein or agreed by the Parties in writing, each party shall bear the taxes and expenses incurred by it in connection with the preparation, negotiation, execution and performance of this Agreement.

11.7 Presumption

This Agreement shall be fairly interpretive to each party, regardless of which party is the author of this Agreement. The Parties acknowledge and agree that they have played an important and fundamental role in the planning, drafting and review of this Agreement.

11.8 Force Majeure

If any party is prevented from performing this Agreement or unable to perform this Agreement according to the agreed conditions directly as a result of an earthquake, typhoon, flood, fire, war or other force majeure vent whose happening and consequences are unpreventable and unavoidable, the prevented party shall forthwith notify the other party in writing of the occurrence of such event and within 15 days thereafter, provide the details of the event and the valid supporting documents explaining the reasons for non-performance, partial non-performance or delay in the performance of this Agreement. Depending on the extent of the impact of the event on the performance of this Agreement, the Parties to this Agreement shall decide through consultation whether to terminate this Agreement, or partially exempt the responsibility for the performance of this Agreement, or to postpone the performance of this Agreement.

11.9 Governing Law

The signing, changes, interpretation and performance of this Agreement shall be governed by the Chinese laws (“Applicable Laws”).

11.10 Dispute Resolution

Any controversy, dispute or claim arising from or in connection with this Agreement, including any question regarding its breach, termination or invalidity ("dispute") shall first be resolved by the Parties through friendly consultation between the Parties. If efforts to negotiate have failed, each party may submit any such dispute to the China International Economic and Trade Arbitration Commission for arbitration in Beijing in accordance with its arbitration rules then in effect. The language used in arbitration proceedings shall be Chinese. The arbitral award shall be final and binding on the Parties.

During the resolution of disputes, the Parties shall continue to fulfil their obligations and exercise their rights under this Agreement, except for those in dispute.

11.11 Headings

The headings herein contained are inserted for convenience only and shall not in any way affect the construction of the contents herein.

11.12 Miscellaneous

- (1) Where the amount, time, term, proportion and other values in this Agreement are described in both Chinese characters and Arabic numerals, and there is any inconsistency between Chinese characters and Arabic numerals, the Chinese characters shall prevail.
- (2) As used herein, "above" includes the figure itself, and "over" and "less than" do not include the figure itself.
- (3) Where the contents of the Partnership Agreement conflict with other agreements or documents among partners, the Partnership Agreement shall prevail. If the Partnership Agreement has several versions and their contents are conflictive, the version of this Agreement filed with the Asset Management Association of China shall prevail.
- (4) By signing this Agreement, all the partners agree that the fund management institution, share registration institution (if any) or other share registration obligor (if any) will back up the data of the fund share registration (all partners) in accordance with the provisions of Asset Management Association of China. All the partners agree that the General Partner or other disclosure obligors shall back up the information disclosures of the Partnership in accordance with the provisions of Asset Management Association of China.
- (5) This Agreement is made in Chinese and has ten (10) originals, each of which has the same legal effect. Each party holds one (1) original, the Custodian Bank holds one (1) original, and the remaining two (2) ones are submitted to the relevant government departments for registration or record.

(Remainder of this page is intentionally left blank)

(Signature page of the Partnership Agreement of Hefei Shixi Chanheng Integrated Circuit Industry Venture Capital Fund Partnership (LP))

Infotech National Emerging Industry Venture Investment Guidance Fund (LP) (Company Chop)

Representative appointed by Managing Partner/authorized representative (Signature/seal)

Hefei Guozheng Asset Management Co., Ltd. (Company Chop)

Legal representative/authorized representative (Signature/seal)

Hefei Economic and Technological Development Zone Industrial Investment Guidance Fund Co., Ltd. (Company Chop)

Legal representative/authorized representative (Signature/seal)

ACM Research (Shanghai), Inc. (Company Chop)

Legal representative/authorized representative (Signature/seal)

Hefei Tongyi Equity Investment Partnership (LP) (Company Chop)

Representative appointed by Managing Partner/authorized representative (Signature/seal)

Shenzhen Waitan Technology Development Co., Ltd. (Company Chop)

Legal representative/authorized representative (Signature/seal)

Beijing Shixi Qingliu Investment Co., Ltd. (Company Chop)

Legal representative/authorized representative (Signature/seal)

Date:

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David H. Wang, certify that:

1. I have reviewed this quarterly report Form 10-Q of ACM Research, 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
 - (e) 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 13, 2019

/s/ David H. Wang

David H. Wang
Chief Executive Officer and President
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark McKechnie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ACM Research, 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 13, 2019

/s/ Mark McKechnie

Mark McKechnie
Chief Financial Officer and Treasurer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of ACM Research, Inc. for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge on the date hereof:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ACM Research, Inc. for the period presented therein.

Date: November 13, 2019

/s/ David H. Wang

David H. Wang
Chief Executive Officer and President
(Principal Executive Officer)

Date: November 13, 2019

/s/ Mark McKechnie

Mark McKechnie
Chief Financial Officer and Treasurer
(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.
