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ATOM.OQ - Q1 2023 Atomera Inc Earnings Call

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PRESENTATION

Mike Bishop

Hello, everyone, and welcome to Atomera's First Quarter Fiscal Year 2023 Update Call. I'd like to remind everyone that this call and webinar are being recorded, and a replay will be available on Atomera's IR website for 1 year. I'm Mike Bishop with Atomera's Investor Relations.

As in prior quarters, we are using Zoom, and we will follow a similar format with participants in a listen-only mode. We will open with prepared remarks from Scott Bibaud, Atomera's President and CEO; and Frank Laurencio, Atomera's CFO. Then we will open the call to questions. If you are joining by telephone, you may follow a slide presentation to accompany our remarks on the Events and Presentations section of our Investor Relations page on our website.

Before we begin, I would like to remind everyone that during today's call, we will make forward-looking statements. These forward-looking statements, whether in prepared remarks or during the Q&A session, are subject to inherent risks and uncertainties. These risks and uncertainties are detailed in the Risk Factors section of our filings with the Securities and Exchange Commission, specifically in the company's annual report on Form 10-K filed with the SEC on February 15, 2023. Except as otherwise required by federal securities laws, Atomera disclaims any obligation to update or make revisions to such forward-looking statements contained herein or elsewhere to reflect changes in expectations with regard to those events, conditions and circumstances.

Also, please note that during this call, we will be discussing non-GAAP financial measures as defined by SEC Regulation G. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are included in today's press release, which is posted on our website.

And with that, I would like to turn the call over to our President and CEO, Scott Bibaud. Go ahead, Scott.

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Thanks, Mike. Good afternoon, and welcome to Atomera's First Quarter 2023 Update Call. Before we begin discussions on our Q1 progress, I'd like to highlight the announcement we made in the last hour about the agreement reached with STMicroelectronics. Last week, we completed negotiations with ST on our first full commercial license for the production and sale of devices using MST technology, and today, the agreement was fully executed. As you know, ST is one of the world's largest independent device manufacturers with several strong market positions in a number of areas. We've been working with them for several years, signing an integration license with them in late 2018.

The evaluation work completed by our teams have proven the benefit MST can bring to their products. And now they put in place the necessary prerequisites to incorporate those advances in a new production release. The license agreement we signed today includes all the terms and conditions necessary to go into production, including our standard milestones for upfront payments and the royalty rates that will go into effect when they start shipping product. As would be the case with any manufacturer of the first step towards -- from this point forwards will be for ST

to install our technology on an epi deposition tool in one of their fabs, which will allow them to start making MST wafers and will trigger the first of our milestone payments.

We've been providing support for this effort for several months due to logistics delays on the tool modification, we cannot currently predict the exact date when this first step will be completed, but expect it to happen in the next few months. Although we are doing everything that we can to help, at this point, it's largely out of our hands. Once installation is complete and ST has successfully dialed in the tool, they will be ready to build MSC wafers. At that point, work will begin on integrating our film into ST's devices to create an optimized new design flow.

We expect the considerable cooperation will take place between ST and Atomera to reach this point. ST are world authorities in the design and manufacture of power devices and Atomera is an expert at integration of MST to achieve the greatest possible performance and cost improvements. We believe that recent R&D work completed by Atomera and the associated learnings that have been incorporated into our modeling tool, MSTcad, will provide invaluable assistance to make the integration effort move more quickly. But the primary design responsibility for this effort will be STs and Atomera will be in a supporting role.

When ST is satisfied with their design specifications, they will enter into manufacturing process qualification with the intent to create a high-volume, high-yield manufacturing process incorporating MSC. Atomera has work to do to help achieve these design specifications. And of course, as with any contract, ST can decide they do not want to move forward and could terminate the agreement. We do not think this is likely, given their prior experience of performance improvements and our recent R&D successes in this area, but it's important to understand this risk. Upon completion of wafer-level qualification, ST will officially begin production, which will trigger another milestone payment and grant them the right to manufacture and sell product incorporating Atomera's technology.

At that point, sales of ST products incorporating MST will generate royalty payments to Atomera according to a schedule of rates detailed in the agreement. Of course, we're very excited about this new contract, which has been in negotiation for many months. Not only is it our first commercial license agreement removing any further contractual barriers to entering into production. We are extremely happy to make it with ST in their flagship smart power products given their deep level of design expertise and long-standing market success in this area. Finally, this encourages us about the full scope of our funnel and the steady march of our customers from lab to fab and to commercial use of our technology.

Here's an updated version of our customer funnel slide. As you can see, ST space change has not been reflected yet since they haven't modified their tool and installed MST at this point. However, as noted, the new license encompasses the full cycle through Phase 6, and as such, we expect to see that reflected in future versions. Although the chart has not changed, there has been a significant amount of activity under the hood and let me fill you in on that to the extent I can. We continue to work with JDA customer #1 in the Central Engineering Group and are working with various business units to find solutions that will work best for them. Up to now, we have not gotten to the point where we could announce a JDA in a specific solution area, but we remain actively engaged working towards one or more.

Likewise, work with JDA #2 is ongoing with new experiments to follow up on our initial trials and as specified in our JDA, if we can meet those requirements, we will have milestone payments to announce. We are also active with each of our 4 other licensees, including ST, we've discussed earlier, and AKM, who had gone into a pause after a fab fire in 2020. We are now planning to resume our work with AKM either at their facilities or through a foundry partner.

In terms of the work that is underway in Phase 3, there are clusters of customer designs underway in the power area and in the RF SOI. Although we have to be cautious about what we say in the advanced node area because the universe of people developing this technology is quite small, we are working with one or more entities there as well. You can see the momentum we have in the advanced nodes area through our addition to the ASIC innovation coalition as well as the article last week in semiconductor engineering, quoting our employees extensively and even some recent patent activity. As discussed in the past, we continue to believe that development of these incredibly difficult and costly next-generation nodes will require an industry-wide cooperative approach that Atomera has become part of, and we believe these efforts will yield fruit through license activity in the future.

For many years, we've been working on our technology, filing strategic patents and talking to potential customers in the memory market. Industry publications are starting to recognize those efforts as exemplified by the recent EE Times article summarizing how Atomera's technology can

improve the power, performance and area of different memory devices, including DRAM and MRAM. Further, we are encouraged by better traction with memory customers themselves. I have not highlighted this area in the past as the memory customers are particularly challenging to break into, but we are confident in the big gains MST can bring to this space and hope to see adoption in that market in the future.

I'd like to take a moment and highlight one new area of development we have underway that shows very strong potential. In discussions with customers about our 5-volt power management focused solutions, we are consistently asked if MST can help for higher voltage transistors up to the 40-volt range used in a wide set of applications requiring greater power. Over a year ago, Atomera started designing silicon to enhance these very hard to improve devices. Our early test data shows very promising results, and this slide gives one of the most important specs from our first silicon.

MST brings both lower on resistance and higher breakdown voltage. So reading the graph vertically, we see a 38% lower on resistance at the same breakdown voltage, which would be extremely attractive to power device manufacturers. If this technology continues to progress as we hope, it will open up a much larger slice of the power market for us, where we know this widespread customer interest. We call this new technology, MST-SPX, and we are now sharing early access data with key IDMs, fabs and also fabless companies. So far, there's been favorable feedback wherever it's been shown.

I'm glad to give you this insight into our technology pipeline and customer activity, and I know investors would like to see more. Believe me, I know. But this past quarter illustrated activities in the process development world take a long time to unfold and are frequently secret. As I've discussed in the past, customers who are satisfied with our technology may have to wait for the right time to release it, and they are likely to demand confidentiality until they're ready to do so. The ST announcement is a classic example.

As you may have seen in recent semiconductor earnings announcements that are now -- that now -- that we now appear to be at the bottom of the semiconductor cycle. How long we stay here, it's an open question, but we continue to see this year as a prime period to engage with customers to add MST to their manufacturing technology tool bag. So our focus has to be on acquiring new customers and getting existing ones over the home and into the licensing phase while the timing is right.

As you can imagine, we're very glad to finally be able to share the ST license news with our investors. But our team has been energized for months by it, because we believe it validates the commercial potential of our technology and represents our initial push to get into production. It has been our belief for some time that potential licensees have been waiting to see a first mover. And now we have one. We are also motivated by our advances in new technology areas and the associated new market potential it provides. We believe that a major step has been taken towards making a successful commercial enterprise, and we plan to continue building on that momentum as we go forward.

Frank will now review our financials.

Francis B. Laurencio - Atomera Incorporated - Chief Financial & Accounting Officer and Corporate Secretary

Thank you, Scott. I don't appear to have video. Thank you, Scott. At the close of the market today, we issued a press release announcing our results in the first quarter of 2023. Thanks, Mike. This slide shows our summary financials. Our GAAP net loss for the 3 months ended March 31, 2023, was \$5 million or \$0.21 per share compared to a net loss of \$4.1 million or \$0.18 per share in the first quarter of 2022. In Q4 of 2022, our GAAP net loss was \$4.3 million or \$0.18 per share. We did not recognize any revenue in Q1 2023 and only minimal revenue in Q4 2022. In Q1 of 2022, our revenue was \$375,000. GAAP operating expenses were \$5.2 million in Q1 of 2023, which was an increase of approximately \$855,000 from \$4.2 million in Q1 2022. This increase was mainly due to a \$697,000 increase in R&D expenses, primarily reflecting increased headcount costs as well as higher spending on wafers and outsourced fabrication.

Sales and marketing and general and administrative expenses increased by less than \$100,000 each. Sequentially, our GAAP operating expenses increased by \$756,000 from \$4.4 million in Q4 to \$5.2 million in Q1, primarily due to higher payroll expenses, wafer costs and outsourced fabrication. During Q1, we saw significantly faster cycle times at our contract foundry, TSI Semiconductors compared to prior periods as the tight conditions in the industry eased, and we processed wafer lots that had been backed up. The mix of wafers purchased for R&D in Q1 2023 was also substantially more expensive than prior quarters. We do not expect these factors to recur in future quarters.

Non-GAAP net loss in Q1 2023 was \$4.3 million versus \$3.3 million in Q1 of 2022 and USD3.5 million in Q4 2022. The differences between GAAP and non-GAAP operating expenses in all periods presented are almost entirely due to noncash stock compensation expense. So the reasons for the changes in non-GAAP net loss are the same as I already highlighted. Our balance of cash, cash equivalents and short-term investments on March 31, 2023 was \$17.1 million compared to \$21.1 million on December 31, 2022. During Q1, we used \$4.2 million of cash in operating activities. And under our ATM facility, we sold 49,593 shares during the quarter at an average price of \$6.40 per share.

As we've discussed on previous calls, our cash usage is typically highest in the first quarter of the year due to annual payments which are expensed throughout the year on our income statement. Our limited use of the ATM during this quarter reflects our view that our share price over the past few months did not adequately reflect our business outlook, and we will continue to use the ATM judiciously. As of March 31, 2023, we had 24.3 million shares outstanding. Our policy on revenue guidance is that we only guide us to the current quarter, Q2 in this case, and we will continue that practice for the foreseeable future.

As Scott said in his remarks, our license agreement with ST sets up milestones that will trigger upfront license payments and the first of these will be the installation of MST in a tool in STs fab. As of now, that installation date depends on readiness of their tool and facilities. So we're guiding to 0 revenue for Q2. But it is possible we would hit that milestone and recognize the associated revenue as soon as this quarter. However, we believe it is more likely that the trigger will happen after that. And once we have better visibility, we hope to provide clearer revenue guidance.

Our 2023 guidance for non-GAAP operating expenses remains unchanged from our last update call, and we expect it to be in the range of \$16.25 million to \$16.75 million with the main drivers being adding headcount and expenses associated with participating in advanced node ecosystems.

With that, I will turn the call back over to Scott for a few summary remarks before we open the call up to questions. Scott?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Thanks, Frank. There is no doubt that this ST agreement is great for our team morale and our company trajectory. You should have no doubt that we will be sharing this success with other potential customers to highlight what is possible. We do believe that this news, MST's technology advantages in many market segments, the current state of the industry and the undeniable economic value we can bring to customers creates a perfect environment for Atomera to succeed. Our technology is proven. The big question has always been where the customers will accept our business model, and this fully executed commercial license with a market leader is proof that they will.

Mike, we will now take questions.

QUESTIONS AND ANSWERS

Mike Bishop

(Operator Instructions) And right now our first question comes from Richard Shannon of Craig-Hallum.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

All right. Great. Well, first to Scott and Frank, a hearty congratulations on this great announcement today. I've been waiting for this for quite some time. I'm sure it's a great relief. So congratulations to you the entire team. As you can expect, I got a number of questions on this, Scott. So let me fire some of these off here. I guess just to get a couple of easy questions out here, maybe to understand the opportunity here in the near term from this agreement here. How do we think about the scale of the milestone payments that can be triggered here from the events that you know about?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Yes, Richard, by the way, thank you for that congratulations. The team seems very happy today. So yes, so we aren't going to give the exact terms of the contract, but I can tell you that for the last several years, we've been talking about a business model that had kind of our list price of upfront milestone payments would be -- is a total of about \$3.2 million. And then our royalties that we were looking for a range between 1% and 3%. While I can't share with you where we are with this contract, I can tell you that we're close to our business model. And we've always said that we would make some special deals for people that pursue people to get into production. So we may have done a little of that, but I can tell you we feel comfortable with the ranges that we've talked about all along.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. That is helpful, Scott. Let's talk about kind of the timing of the next steps here. I think you described what they were, but maybe you can talk about the timing. I know there's some risk involved, including what you said was there's a potential for them to deciding not to go forward. But assuming we get all the way to production, how do we think about the potential timing of these steps?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

One of the things I said was that the design of the product is really going to be in their hands. So what I can tell you is that in the past, we've talked about the Phase 4 installation is usually relatively quick, 3, 4, 5 months, maybe from beginning of the installation until they have the film completely calibrated and working well. And then for this company, they're making a new process, so they're going to be doing some integration work after that. They've already done integration work with us in the past, but they're going to be making a new manufacturing process and hard to predict exactly how long that would take.

Then they would enter into process qualification, which we've always called about a 9-month process, older nodes are shorter, newer nodes are longer. So I think it's reasonable to say that I wouldn't expect to see royalty payments happening even under our best case scenario in less than 1.5 years. But maybe 1.5 years to 2 years is a range if things went pretty smoothly that we would expect.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. That's fair enough. What process node is? Or nodes is just being installing? Can you disclose that, Scott?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

I don't really want to talk about that. That's ST's confidential information. I do want to say that the ST has been very secretive about some things, but they are gracious enough to let us use their name and the product area, which their smart products, smart power products. And so I'm thankful for that. And I think there'll be advantages to them and us for that going forward.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Do you get a sense of the revenue stream of the smart power products that they sell today, I've got a basic model for them, but certainly no good amount of detail to give me a great idea. Is that something you can quantify? Or do you have a sense?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

I don't actually know the answer to that. I do know that it's a very large segment for them. It's a significant portion of their revenue. But I -- it's something that we haven't dug into yet.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Well, I'm going to do some data if I could find some numbers I'll share with you, but I appreciate that. Two other things on STMicro and I'll jump to a couple of other quick topics here. You talked about power products. I assume that you're referring to 5-volt, which you talked liberally in the past. Is that what you're referring to? Or is it an expense beyond this 5-volt area?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Yes, this would be an expense out. So we have talked about technology we have that we can bring to customers for 5-volt. And now today, I spoke a little bit about higher voltage that went up to 40 volts. But in this case, we're delivering our MST technology and then ST is going to be integrating it into their products. So it probably be a wide voltage range. They're not necessarily using the offerings that we have in that space because their offerings are probably better. But they can -- but we do have techniques that we've learned by doing it ourselves and then we can help them understand so that they could decide to incorporate in their tool and their products are not. And also, importantly, we have the modeling tools, MSTcad, that have been kind of fully calibrated for that type of work from the R&D efforts that we've done. And that will really help.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. One last question (inaudible) I'll hit a couple of other quick ones here. So you talked about the last few quarters as we've seen industry utilization come down and open up an opportunity -- a better opportunity to run R&D wafers. And this seems to be evidence of that cycle coming towards you and giving some benefit here. You've obviously been signed up with ST publicly for a while. So we know you've got a good long-lasting relationship. We try to extrapolate this opening up of utilization that helps run R&D wafers here. Can you translate your experience here with ST over the last year or so to others in your pipeline, either named or unnamed that give you confidence when we see others like this in the "not too distant future". How would you couch that?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

I don't know if I could draw a straight line from the fact that the industry has got -- is at a low point. And so there's capacity to run manufacturing with this decision by STs. They made the decision after knowing about our technology for some time that they were ready to make this move now. And I'm sure it was based on a number of kind of road map development opportunities that they had in-house. So it's hard to extrapolate that to what our other customers do. I would say, we're working with a lot of people on power. Power is an older process. There's very few knobs to turn to get big improvements there. We definitely hear of some customers that say, if they could see a 10% improvement in that area, they must make the change. And so I think this announcement will spur some of them on. And if they decided they wanted to go fast and kind of start running wafers, probably they have wafer capacity available to do that right now. So that's the linkage.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Fair enough. It's a good perspective. One other question, I'll jump on the line and let others jump in here. Your outsourced foundry, TSI Semi has announced that they were being acquired by Bosch. I know it's just a few hours since this was announced, but what do you foresee is, as benefits or potential disadvantages to your work with them? What's -- how should we understand this?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Yes. It's quite an interesting move and affects us in a few ways. So first of all, for those who may not be familiar, TSI is the foundry that we use to run our R&D wafers. And so these benefits and risks. The risk is that Bosch might come in. They did announce that they're buying this for, among other things, the silicon carbide market that they'd like to ramp up. But it's our understanding that they're going to continue at least for quite some time, their existing business, which is the -- which includes both foundry of CMOS devices and what they call TDCS, which is technology development

area where we work. Now, you got to imagine that Bosch coming in will bring a good infusion of capital that will help them and will allow us to run more experiments and hopefully get higher throughput with them. So that's really good.

The other thing that's good and a real potential interesting development for us is, TSI actually has our technology integrated into their manufacturing line. We've been running it with them for years. And so if Bosch decided that they wanted to try to adopt our technology, through this fab that they're acquiring, they would be quite a ways down the road in the development of that. Of course, we have to worry that at some point, they may decide that they want to exit from that TDCS market, and that's something that we have to plan for. We actually have already initiated discussions with alternative sources. Frank mentioned something about work on advanced nodes, but we're also looking for some of the older nodes where we can start running wafers elsewhere, just to get access to different technology. So if the worst happened, hopefully, we'd be able to just transition over to that new foundry.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Fair enough. I will jump on the line. But again, congratulations on this (inaudible) STMicro. That's all from me, Scott.

Mike Bishop

Our next question comes from Cody Acree of Benchmark.

Cody Grant Acree - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Yes. And let me echo my congratulations on the signing of the licensing agreement. I guess -- guys, I guess just what do you think, Scott, this does to your other engagements? Do you think that this is enough to prompt those other -- the terms you -- or the discussions you're having? So do you feel like there are those that could be [swayed into] move forward?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Yes. Cody, it's a hard question to answer. There's no -- nobody has told me we're not moving forward until someone else comes. But most of our customers have talked about wanting to -- they couch it in different terms, but they say, who else is in production today, who else is going to production. To the extent that we were able to announce a small company that they didn't really respect as being a market leader, I don't think it would have had much impact -- but now we can announce STMicro. Of course, I think it will have a big impact.

And now several customers that we're working with are going down a technology development path, and we hope that they get to a point where they're ready to make this type of announcement. Will it speed that up? It might raise the priority. I've always thought that we've talked about the domino theory when one player enters the market, others frequently speed up, just trying to make sure they aren't at a competitive disadvantage. And so we hope that's what happens, and we're going to encourage that to happen as much as we can.

Cody Grant Acree - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

I guess just on to the licensing agreement itself. In your negotiations on price, I'm sure you have to pair that with potential volume discussions. And so is there any color that you can give as to that side of the coin that would give some comfort that if you are giving a break on the royalty side that could be made up for in volume?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Yes. I mean on the royalty, our standard approach to royalty would be that we start at kind of a higher royalty level. And as they've shipped a lot of product, they move down the price curve just like they would if they were buying ships. And so although I can't go into any details about this particular royalty table, it conforms to that type of view.

Cody Grant Acree - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

And I guess as you look at the potential volumes, how much did that factor into the royalties that were finalized?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Our belief going into this, we were thinking 2 things. First of all, these guys are a very high-volume manufacturer. And so what we wanted to try to do for our first customer in particular, is try to make sure that we were able to get to a price that was attractive enough that it really rewarded us for what benefits will bring them, but also encourage them to use the technology across a very wide range of products. So you're kind of finding that right balance. We do believe that our balance between 1% to 3% is something the industry has absorbed a number of times in the past, at least more on the chip IP side than on the kind of wafer IP side. But we think that's doable and we fell into that range, and so we feel good about it.

Cody Grant Acree - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Do you think the terms of this agreement set the stage for the terms that you would come to expect for future agreements?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

So whenever we talk about royalties, the thing where we're trying to do is they're trying to look at what economic value are we bringing to the customer. So, if we bring them a really large die size reduction, for example, and I can easily run a spreadsheet that shows them we're going to bring them a big gross margin improvement by doing that. And then we want a small slice. We don't take a percentage of the gross margin or anything, but let's say, we can bring them an 8% gross margin improvement, we might ask them for a higher royalty than if we can bring them a 2% gross margin improvement. And so that's how we do it. So it's really dependent on what the application is, and how big a benefit we're bringing.

Cody Grant Acree - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

I guess as -- as I look back at some of the potential models that we had initially put together for revenue streams. And I think we talked about x number of fabs out there x number of wafers being run. Is this agreements per fab with STMicro? Or is this a more broad company, the company license that STMicro can use more broadly?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

For the most part, we try to license our technologies based on process nodes. And so -- and that includes kind of optical strengths, which is a term we use in the industry to mean half node shrinks. And this is a similar situation, right? So we've licensed them for a node and per half shrinks off that node. And if they decided to use it on a new node, then we would undertake a new license term sheet to negotiate that.

Cody Grant Acree - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Okay. So across a given node, regardless of the application, or is that only applicable to Power?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

It's probably -- for the most part, companies don't have a lot of different process nodes working on different applications. But yes, in this case, I'd say, if another group in ST that was not doing power was in the same node, they'd still be able to take advantage of this.

Cody Grant Acree - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Okay. All right. And then lastly, Frank, just any discussion or thoughts on your liquidity options, knowing the ATM is less attractive at your recent stock price?

Francis B. Laurencio - *Atomera Incorporated - Chief Financial & Accounting Officer and Corporate Secretary*

Well, I think at the recent stock price, it has been less attractive, although I would say the -- I don't really face myself an expert on the equity market, but I can tell you that financing through other means would probably even more expensive as compared to the ATM. And as I said in my comments, we were not very active on the ATM. And obviously, we felt like the last 6 months just didn't reflect the real potential for the business. So we were probably raising less capital in the last 2 quarters in a normal way I would have in terms of what I would target to have on the balance sheet. But obviously, that's because we have long-term confidence in the business and in the stock price.

Mike Bishop

Okay. Just reading some of the questions that come in over the Q&A line here. And a real easy one, Frank, was the \$4.9 million in short-term investments. Can you talk about that? And where do those funds come from?

Francis B. Laurencio - *Atomera Incorporated - Chief Financial & Accounting Officer and Corporate Secretary*

Sure. So for quite a few months, actually, we had a plan to more actively manage our cash to take advantage of the interest rate environment that exists out there because given the activity by the Federal Reserve, which has raised short-term interest rates very quickly, it was possible for us to meet our cash management objectives. And those are #1, to preserve principal; #2, to maintain liquidity; and #3, subordinate to those first 2 is to maximize the return. So these are all the highest rated type of government, government agency bonds, and we're following a very standard investment management practice with a Board monitored investment policy.

We kind of became more active with that as well. I wouldn't read anything into it in terms of the issues at Silicon Valley Bank, although I'd highlight that at no time did we have any risk of loss of funds by having a deposit relationship there because we were already investing our money in money market accounts. So these are all our assets. And that continues to be the case. So the short-term investments, the cash equivalents, these are all Atomera assets, and they're not subject to deposit at risk.

Mike Bishop

Okay. And then one quick question on the JDA, and then a couple on the ST agreement. So the question on the JDA is more of an update on the JDA 1. I know you addressed a little bit in the prepared comments, but can you address the JDA 1's progress with a business unit, Scott?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Yes. I can say that with JDA 1, we have been in discussions with multiple business units. So, I think what we can expect to see is that we'll be doing a lot of kind of planning and modeling and other work with those guys kind of they may ask us to run a few tests, which we'll do ourselves and

provide them with the results. And when they're getting serious enough to try to start moving that forward, we're going to have to put in place a contract, an extension of our JDA in that area. And that would be something we can announce.

We -- you'll notice, I tried to give as much detail as I could in 2 ways. One is with the licensees and JDA customers. And separately, with the areas that we're doing work in because connecting the 2 of them together will definitely reveal who they are. I know that people who aren't in the industry may not appreciate how difficult that is and how good the industry is at figuring out who's doing what, but we have to be very careful. So, I guess that's all I can say.

Mike Bishop

Okay. And then on the ST, will the production volume make Atomera breakeven? I know that's -- you've given sort of rough time frames to when royalties would start. But when those happen, what do we think about approaching breakeven?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

It is very hard to say, because we don't know what they'll ramp to and what their volume will be. Certainly, if they -- if -- yes, if we had all of the volume for their smart power products certainly, definitely. But we don't know what the ramp rate in the individual volumes will be yet.

Mike Bishop

Okay. And is the focus you're shifting to next generation fabs and what would royalties look like in those fabs given the higher wafer costs?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Yes. I mean that's funny to think about 3-nanometer wafer is going to cost more than \$20,000 for a company to buy it. So, if we got 3% of one of those we get \$600 per wafer. I honestly don't think that, that is a level that is sustainable or that we could get. But I do think in the more advanced nodes, we would be able to get a higher royalty rate, in terms of dollars per wafer, and they run in very high volumes. But we would have to be realistic about charging or wafer price that they find palatable. So haven't negotiated one of those yet, have had some discussions, and I hope that's something that we have to worry about soon.

Now there's been some confusion because we've written a lot of articles and we have announced a lot of things on advanced nodes that that's where we're shifting the focus of the company, and that's not the case. We are still really focused on a number of different product areas, advanced nodes is one of them. It's very exciting. It's what people are writing about today, but that doesn't mean that that's our exclusive focus in the company.

Mike Bishop

All right. Well, I think at this point, that concludes the Q&A period, Scott. If you want to proceed to your closing comments.

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

All right. Well, I want to thank everyone for attending today's presentation. I'm happy we were able to share with you our recent progress and our enthusiasm on this ST deal. Please continue to look for news, articles and blog posts to keep you up to date on our progress, which are available along with investor alerts on our website atomera.com. We look forward to seeing some of you during upcoming scheduled marketing activities. Should you have additional questions, please contact Mike Bishop, who'll be happy to follow up. Thank you again for your support, and we look forward to our next update call.

Mike Bishop

Thank you, Scott. And this concludes the Atomeria First Quarter 2023 Conference Call.

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