

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 March 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-38273

**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

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 and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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"/>
(Do not check if a smaller reporting company)		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.

Class	Number of Shares Outstanding
Class A Common Stock, \$0.0001 par value	13,626,637 shares outstanding as of May 9, 2018
Class B Common Stock, \$0.0001 par value	2,213,510 shares outstanding as of May 9, 2018

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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.

SAPS, TEBO and ULTRA C are our 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 the registration statement of which this report is a part, 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

	March 31, 2018	December 31, 2017
	(unaudited)	
	(in thousands, except share and per share data)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 15,186	\$ 17,681
Accounts receivable, less allowance for doubtful accounts of \$ nil as of March 31, 2018 and \$ nil as of December 31, 2017 (note 3)	27,793	26,762
Other receivables	1,222	2,491
Inventory (note 4)	19,865	15,388
Prepaid expenses	2,383	546
Other current assets	45	46
<b>Total current assets</b>	<b>66,494</b>	<b>62,914</b>
Property, plant and equipment, net (note 5)	2,731	2,340
Intangible assets, net	126	106
Deferred tax assets (note 15)	1,345	1,294
Investment in affiliates, equity method (note 10)	1,238	1,237
<b>Total assets</b>	<b>\$ 71,934</b>	<b>\$ 67,891</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Short-term borrowings (note 6)	\$ 10,376	\$ 5,095
Warrant liability (note 8)	—	3,079
Accounts payable	5,525	7,419
Advances from customers	264	143
Income taxes payable	44	44
Other payables and accrued expenses (note 7)	6,542	6,037
<b>Total current liabilities</b>	<b>22,751</b>	<b>21,817</b>
Other long-term liabilities (note 9)	6,181	6,217
<b>Total liabilities</b>	<b>28,932</b>	<b>28,034</b>
<b>Commitments and contingencies (note 16)</b>		
Common stock – Class A, par value \$0.0001: 100,000,000 shares authorized; 13,390,270 shares issued and outstanding as of March 31, 2018 and 12,935,546 shares issued and outstanding as of December 31, 2017 (note 13)	1	1
Common stock – Class B, par value \$0.0001: 7,303,533 shares authorized; 2,409,738 shares issued and outstanding as of March 31, 2018 and 2,409,738 shares issued and outstanding as of December 31, 2017 (note 13)	0	0
Additional paid in capital	54,915	49,695
Accumulated deficit	(12,741)	(9,961)
Accumulated other comprehensive loss	827	122
<b>Total stockholders' equity</b>	<b>43,002</b>	<b>39,857</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 71,934</b>	<b>\$ 67,891</b>

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

**ACM RESEARCH, INC.**  
**Condensed Consolidated Statements of Operations and Comprehensive Loss**

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(unaudited)</i>	
	<i>(in thousands, except share and per share data)</i>	
Revenue	\$ 9,743	\$ 5,660
Cost of revenue	4,621	3,258
<b>Gross profit</b>	<b>5,122</b>	<b>2,402</b>
Operating expenses:		
Sales and marketing	1,855	1,163
Research and development	1,541	928
General and administrative	3,630	1,864
<b>Total operating expenses, net</b>	<b>7,026</b>	<b>3,955</b>
<b>Loss from operations</b>	<b>(1,904)</b>	<b>(1,553)</b>
Interest income	3	2
Interest expense	(103)	(78)
Other expense, net	(755)	(64)
Equity income in net income of affiliates	1	—
<b>Loss before income taxes</b>	<b>(2,758)</b>	<b>(1,693)</b>
Income tax expense (note 15)	(22)	(781)
<b>Net loss</b>	<b>(2,780)</b>	<b>(2,474)</b>
Less: Net loss attributable to non-controlling interests	—	(385)
<b>Net loss attributable to ACM Research, Inc.</b>	<b>\$ (2,780)</b>	<b>\$ (2,089)</b>
Comprehensive loss		
Net loss	\$ (2,780)	\$ (2,474)
Foreign currency translation adjustment	705	44
<b>Comprehensive loss</b>	<b>(2,075)</b>	<b>(2,430)</b>
Less: Comprehensive loss attributable to non-controlling interests	—	(369)
<b>Total comprehensive loss attributable to ACM Research, Inc. (note 2)</b>	<b>\$ (2,075)</b>	<b>\$ (2,061)</b>
Net loss per common share (note 2):		
Basic	<b>\$ (0.18)</b>	<b>\$ (0.43)</b>
Diluted	<b>\$ (0.18)</b>	<b>\$ (0.43)</b>
Weighted-average common shares outstanding used in computing per share amounts (note 2):		
Basic	<b>15,383,086</b>	<b>4,817,745</b>
Diluted	<b>15,383,086</b>	<b>4,817,745</b>

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

**ACM RESEARCH, INC.**  
**Condensed Consolidated Statements of Cash Flows**

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(unaudited)</i>	
	<i>(in thousands)</i>	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,780)	\$ (2,474)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:		
Depreciation and amortization	80	57
Undistributed earnings from investments in equity method affiliates	(1)	—
Deferred income taxes	—	781
Stock-based compensation	2,175	835
Net changes in operating assets and liabilities:		
Accounts receivable	14	3,068
Other receivables	1,331	275
Inventory	(3,896)	(1,784)
Prepaid expenses	(1,791)	(299)
Other current assets	3	(100)
Accounts payable	(2,364)	533
Advances from customers	87	458
Other payables and accrued expenses	27	(9)
Other long-term liabilities	(278)	(989)
<b>Net cash (used in) provided by operating activities</b>	<b>(7,393)</b>	<b>352</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(395)	(12)
Purchase of intangible assets	—	(24)
<b>Net cash used in investing activities</b>	<b>(395)</b>	<b>(36)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from short-term borrowings	7,387	3,824
Repayments of short-term borrowings	(2,306)	(2,541)
Proceeds from stock option exercise to common stock	62	378
<b>Net cash provided in financing activities</b>	<b>\$ 5,143</b>	<b>\$ 1,661</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>\$ 150</b>	<b>\$ (13)</b>
Net (decrease) increase in cash and cash equivalents	\$ (2,495)	\$ 1,964
Cash and cash equivalents at beginning of period	17,681	10,119
<b>Cash and cash equivalents at end of period</b>	<b>\$ 15,186</b>	<b>\$ 12,083</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 103	\$ 78

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

**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, under the brand name “Ultra C,” lines of equipment 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. 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. (“SSTVC”). On November 8, 2017, ACM purchased the remaining 18.36% of ACM Shanghai’s equity interest held by 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.

On November 2, 2017, the Registration Statement on Form S-1 (File No. 333- 220451) for ACM's initial public offering of Class A common stock (the "IPO") was declared effective by the U.S. Securities and Exchange Commission. Shares of Class A common stock began trading on the Nasdaq Global Market on November 3, 2017, and the closing for the IPO was held on November 7, 2017.

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.

## **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 and ACM Korea. 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 Securities and Exchange Commission ("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, 2017 included in our Annual Report on Form 10-K for the year ended December 31, 2017.

The accompanying condensed consolidated balance sheet as of March 31, 2018, the condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2018 and 2017, and the condensed consolidated statements of cash flows for the three months ended March 31, 2018 and 2017 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 March 31, 2018 and the results of operations for the three months ended March 31, 2018 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 revenues 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.



Basic and Diluted Net Loss per Common Share

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

	<u>Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
<b>Numerator:</b>		
Net loss	\$ (2,780)	\$ (2,474)
Net loss attributable to non-controlling interest	—	(385)
Net loss available to common stockholders, basic and diluted	<u>\$ (2,780)</u>	<u>\$ (2,089)</u>
<b>Denominator:</b>		
Weighted average shares outstanding, basic	15,383,086	4,817,745
Effect of dilutive securities	—	—
Weighted average shares outstanding, diluted	<u>15,383,086</u>	<u>4,817,745</u>
<b>Net loss per common share:</b>		
Basic	<u>\$ (0.18)</u>	<u>\$ (0.43)</u>
Diluted	<u>\$ (0.18)</u>	<u>\$ (0.43)</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 months ended March 31, 2018 and 2017, the net loss 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 consolidated statements of operations and comprehensive income (loss) and in the above computation of net loss per common share.

Diluted net loss per common share reflects the potential dilution from securities that could share in ACM’s earnings. ACM’s potential dilutive securities consist of convertible preferred stocks, stock options and warrants for the three months ended March 31, 2018 and 2017. Certain potential dilutive securities were excluded from the net loss per share calculation because the impact would be anti-dilutive.

Recent Accounting Pronouncements

**Recently Adopted Accounting Pronouncements**

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”), which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 did not have a material impact on the Company’s consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* (“ASU 2017-05”), which clarifies the scope of nonfinancial asset guidance in Subtopic 610-20. This ASU also clarifies that derecognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with the derecognition and deconsolidation guidance in Subtopic 810-10. The amendments in this ASU also provide guidance on the accounting for so-called “partial sales” of nonfinancial assets within the scope of Subtopic 610-20 and contributions of nonfinancial assets to a joint venture or other noncontrolled investee. The amendments in this ASU are effective for annual reporting reports beginning after December 15, 2017, including interim reporting periods within that reporting period. The adoption of ASU 2017-05 did not have a material impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of ASU 2016-18 did not have a material impact on the Company’s consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”), which addresses the following cash flow issues: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years and are effective for all other entities for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The adoption of ASU 2016-15 did not have material impact on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this update eliminate the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public entities. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except for the early application guidance discussed in ASU 2016-01, early adoption of the amendments in this update is not permitted. The adoption of the ASU 2016-01 did not have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. ASU 2014-09 and its related clarifying ASUs are effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods.

On January 1, 2018, the Company adopted ASC Topic 606, *Revenue from Contracts with Customers* and all the related amendments (the “New Revenue Standard”) to all contracts which were not completed as of January 1, 2018 using the modified retrospective method. The Company does not have open contracts that may result any changes on the revenues applying the New Revenue Standard.

The Company derives revenue principally from the sale of single-wafer wet cleaning equipment. Revenue from contracts with customers is recognized using the following five steps pursuant to the New Revenue Standard:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

A contract contains a promise (or promises) to transfer goods or services to a customer. A performance obligation is a promise (or a group of promises) that is distinct. The transaction price is the amount of consideration a company expects to be entitled from a customer in exchange for providing the goods or services.

The unit of account for revenue recognition is a performance obligation (a good or service). A contract may contain one or more performance obligations. Performance obligations are accounted for separately if they are distinct. A good or service is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and the good or service is distinct in the context of the contract. Otherwise performance obligations are combined with other promised goods or services until the Company identifies a bundle of goods or services that is distinct. Promises in contracts which do not result in the transfer of a good or service are not performance obligations, as well as those promises that are administrative in nature, or are immaterial in the context of the contract. The Company has addressed whether various goods and services promised to the customer represent distinct performance obligations. The Company applied the guidance of ASC Topic 606-10-25-16 through 18 in order to verify which promises should be assessed for classification as distinct performance obligations. The Company’s contracts with customers include more than one performance obligation, for instance, the delivery of an equipment generally includes the promise to install the equipment in the customer’s facility. The Company’s performance obligations in a sale of equipment generally include production, delivery, installation, together with the provision of warranty.

The transaction price is allocated to all the separate performance obligations in an arrangement. It reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services, which may include an estimate of variable consideration to the extent that it is probable of not being subject to significant reversals in the future based on the Company’s experience with similar arrangements. The transaction price excludes amounts collected on behalf of third parties, such as sales taxes. This is done on a relative selling price basis using standalone selling prices (“SSP”). The SSP represents the price at which the Company would sell that good or service on a standalone basis at the inception of the contract. Given the requirement for establishing SSP for all performance obligations, if SSP is directly observable through standalone sales, then such sales should be considered in the establishment of SSP for the performance obligation. All of the Company’s products were sold in stand-alone arrangement, the Company does not have observable SSPs for most performance obligations as they are not regularly sold on a standalone basis. Production, delivery, installation, together with provision of warranty, as a single unite of accounting.

Revenue is recognized when the Company satisfies each performance obligation by transferring control of the promised goods or services to the customer. Goods or services can transfer at a point in time (upon the acceptance of the products or upon the arrival at the destination as stipulated in the shipment terms) in a sale arrangement. In general, the Company recognizes revenue when a tool has been demonstrated to meet the customer's predetermined specifications and is accepted by the customer. If terms of the sale provide for a lapsing customer acceptance period, the Company recognizes revenue as of the earlier of the expiration of the lapsing acceptance period and customer acceptance. In the following circumstances, however, the Company recognizes revenue upon shipment or delivery, when legal title to the tool is passed to a customer as follows:

- When the customer has previously accepted the same tool with the same specifications and when the Company can objectively demonstrate that the tool meets all of the required acceptance criteria;
- When the sales contract or purchase order contains no acceptance agreement or no lapsing acceptance provision and when the Company can objectively demonstrate that the tool meets all of the required acceptance;
- When the customer withholds acceptance due to issues unrelated to product performance, in which case revenue is recognized when the system is performing as intended and meets predetermined specifications; or
- The Company's sales arrangements don't include a general right of return.

The Company offers post-warranty period services, which consist principally of the installation and replacement of parts and small-scale modifications to the equipment. The related revenue and costs of revenue are recognized when parts have been delivered and installed, risk of loss has passed to the customer, and collection is probable. The Company does not expect revenue from extended maintenance service contracts to represent a material portion of its revenue in the future.

As such, the Company has concluded that its revenue recognition under the adoption of ASC Topic 606 will remain the same as previously reported and will not have material impacts to its condensed consolidated financial statements.

The Company incurs costs related to the acquisition of its contract with customers in the form of sales commissions. Sales commissions are paid to third party representatives and distributors. Contractual agreements with these parties outline commissions structures and rates to be paid. Generally speaking, the contracts are all individual procurement decisions by the customers and are not for significant periods of time, nor do they include renewal provisions. As such, all contracts have an economic life of significantly less than a year. Accordingly, the Company expenses sales commissions when incurred in accordance with the practical expedient in ASC Topic 606 when the underlying contract asset is less than one year. These costs are recorded within sales and marketing expenses.

Generally, all contracts have expected durations of one year or less. Accordingly, we apply the practical expedient allowed in ASC Topic 606 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Company does not incur any costs to fulfill the contracts with customers that are not already reported in compliance with another applicable standard (for example, inventory or plant, property and equipment).

#### ***Recent Accounting Pronouncements Not Yet Adopted***

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"), which provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of ASU 2018-02 is permitted, including adoption in any interim period for the public business entities for reporting periods for which financial statements have not yet been issued. The amendments in this ASU should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company is evaluating the impact of the adoption of ASU No. 2018-02 on its consolidated financial statements.

In July 2017, the FASB issued ASU No. 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception* (“ASU 2017-11”), which addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is evaluating the impact of the adoption of ASU 2017-11 on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), 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. The new guidance does not amend the optional qualitative assessment of goodwill impairment. A business entity that is a U.S. Securities and Exchange Commission filer must adopt the amendments in this ASU 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 February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). The amendments in this update 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 leases 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. The amendments in ASU No. 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early application of the amendments in ASU No. 2016-02 is permitted. The Company is evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

**NOTE 3 – ACCOUNTS RECEIVABLE**

At March 31, 2018 and December 31, 2017, accounts receivable consisted of the following:

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Accounts receivable	\$ 27,793	\$ 26,762
Less: Allowance for doubtful accounts	—	—
<b>Total</b>	<b>\$ 27,793</b>	<b>\$ 26,762</b>

ACM RESEARCH, INC.  
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(in thousands, except share and per share data)

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 March 31, 2018 and December 31, 2017. At March 31, 2018, \$3,130 of accounts receivable were pledged as collateral for borrowings from financial institutions.

**NOTE 4 – INVENTORY**

At March 31, 2018 and December 31, 2017, inventory consisted of the following:

	March 31, 2018	December 31, 2017
Raw materials	\$ 8,937	\$ 6,181
Work in process	5,496	4,328
Finished goods	5,432	4,879
Total inventory, gross	19,865	15,388
Inventory reserve	-	-
Total inventory, net	\$ 19,865	\$ 15,388

At March 31, 2018 and December 31, 2017, the Company did not have an inventory reserve and no inventory was pledged as collateral for borrowings from financial institutions.

**NOTE 5 – PROPERTY, PLANT AND EQUIPMENT, NET**

At March 31, 2018 and December 31, 2017, property, plant and equipment consisted of the following:

	March 31, 2018	December 31, 2017
Manufacturing equipment	\$ 10,038	\$ 9,660
Office equipment	493	463
Transportation equipment	211	203
Leasehold improvement	289	277
Total cost	11,031	10,603
Less: Total accumulated depreciation	(8,673)	(8,263)
Construction in progress	373	-
Total property, plant and equipment, net	\$ 2,731	\$ 2,340

Depreciation expense was \$85 and \$52 for the three months ended March 31, 2018 and 2017, respectively.

**NOTE 6 – SHORT-TERM BORROWINGS**

At March 31, 2018 and December 31, 2017, short-term borrowings consisted of the following:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Line of credit up to RMB30 million from Bank of China Pudong Branch, due on March 5, 2018 with annual interest rate of 5.69%, secured by certain of the Company’s intellectual property and fully repaid on March 5, 2018	\$ —	\$ 2,219
Line of credit up to RMB30 million from Bank of China Pudong Branch, due on September 11, 2018 with annual interest rate of 5.69%, secured by certain of the Company’s intellectual property and the Company’s CEO	1,590	—
Line of credit up to RMB30 million from Bank of China Pudong Branch, due on September 24, 2018 with annual interest rate of 5.69%, secured by certain of the Company’s intellectual property and the Company’s CEO	1,590	—
Line of credit up to RMB25 million from Bank of Shanghai Pudong Branch, due on various dates in October 2018 with an annual interest rate of 5.66%, guaranteed by the Company’s CEO	2,194	2,111
Line of credit up to RMB25 million from Bank of Shanghai Pudong Branch, due on November 20, 2018 with an annual interest rate of 5.66%, guaranteed by the Company’s CEO	1,027	—
Line of credit up to RMB5 million from Shanghai Rural Commercial Bank, due on November 21, 2018 with an annual interest rate of 5.44%, guaranteed by the Company’s CEO	795	765
Line of credit up to RMB10 million 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 secured by a pledge on accounts receivable (note 3)	1,590	—
Line of credit up to RMB10 million from Bank of Communications, due on December 28, 2018 with an annual interest rate of 5.66%	1,590	—
<b>Total</b>	<u>\$ 10,376</u>	<u>\$ 5,095</u>

For the three months ended March 31, 2018 and 2017, interest expense related to short-term borrowings amounted to \$103 and \$78, respectively.

**NOTE 7 – OTHER PAYABLE AND ACCRUED EXPENSES**

At March 31, 2018 and December 31, 2017, other payable and accrued expenses consisted of the following:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Lease expenses and payable for leasehold improvement due to a related party (note 11)	\$ 2,248	\$ 2,024
Commissions	928	836
Accrued warranty	979	839
Accrued payroll	227	745
Accrued professional fees	196	60
Accrued machine testing fees	1,038	684
Others	926	849
<b>Total</b>	<u>\$ 6,542</u>	<u>\$ 6,037</u>

**NOTE 8 – WARRANT LIABILITY**

On December 9, 2016, Shengxin (Shanghai) Management Consulting Limited Partnership (“SMC”), a related party (note 11), delivered RMB 20,124 (approximately \$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

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 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.

The warrant issued to SMC, while outstanding as of December 31, 2017, was classified as a liability as the warrant was conditional puttable in accordance with FASB ASC 480, *Distinguishing Liabilities from Equity*. The fair value of the 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 methodology used to value the warrant was the Black-Scholes valuation model.

On March 30, 2018, ACM entered into a warrant exercise agreement with ACM Shanghai and SMC pursuant to which SMC exercised its warrant in full by issuing to ACM a senior secured promissory note in the principal amount of approximately \$3,000. ACM then transferred the SMC note to ACM Shanghai in exchange for an intercompany promissory note of ACM Shanghai in the principal amount of approximately \$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 warrant.

**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 March 31, 2018, and December 31, 2017, other long-term liabilities consisted of the following unearned government subsidies:

	March 31, 2018	December 31, 2017
Subsidies to Stress Free Polishing project, commenced in 2008 and 2017	\$ 1,977	\$ 1,952
Subsidies to Electro Copper Plating project, commenced in 2014	4,204	4,265
Total	\$ 6,181	\$ 6,217

**NOTE 10 – EQUITY METHOD 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. Undistributed earnings attributable to ACM’s equity method investment represented \$1 of the consolidated retained earnings at March 31, 2018.

**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. During the three months ended March 31, 2018 and 2017, ACM purchased materials from Ninebell amounting to \$970 and \$840, respectively. As of March 31, 2018 and December 31, 2017, accounts payable due to Ninebell was \$350 and \$2,118, respectively.



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. As of March 31, 2018, ACM Shanghai was leasing the property on a month-to-month basis. On April 26, 2018, ACM Shanghai renewed the operating lease, effective as of January 1, 2018 and continuing through December 31, 2022. During the first year, monthly payments are RMB 366, effective January 1, 2018. The required security deposit is RMB 1,077. During the three months ended March 31, 2018 and 2017, the Company incurred leasing expenses under the lease agreement of \$172 and \$159, respectively. As of March 31, 2018 and December 31, 2017, payables to Zhangjiang Group for lease expenses and leasehold improvements recorded as other payables and accrued expenses amounted to \$2,248 and \$2,024, respectively (note 7).

On December 9, 2016, ACM Shanghai received the SMC Investment from SMC for potential investment pursuant to terms to be subsequently negotiated (note 8). 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 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 warrant and purchased 397,502 shares of Class A common stock (note 8).

**NOTE 12 – LEASES**

ACM entered into a two-year lease agreement in March 2015 for office and warehouse space of approximately 3,000 square feet for its headquarters in Fremont, California, at a rate of \$2 per month. On March 22, 2017, ACM amended the lease agreement to extend the term through March 31, 2019 and increase the base rent to \$3 per month.

ACM Shanghai entered into an operating lease agreement with Zhangjiang Group (a related party, see note 11) in 2007 for manufacturing and office space of approximately 63,510 square feet in Shanghai, China. The lease with Zhangjiang Group expired on December 31, 2017 and as of March 31, 2018, ACM Shanghai was leasing 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 will pay a monthly rental fee of approximately RMB366.

ACM Wuxi leases office space in Wuxi, PRC. The lease for ACM Wuxi's office space was renewed on April 1, 2018 with a two-year term expiring on March 31, 2020. The monthly rental fee is RMB50.

On December 5, 2017 ACM Korea entered into a lease for its office space with a two-year term expiring on December 4, 2019. The monthly rental fee is KRW1,200. On February 5, 2018, ACM Korea entered into a lease for its R&D facility with a two-year term expiring on February 18, 2020. The monthly rental fee is KRW1,800.

Future minimum lease payments under non-cancelable lease agreements as of March 31, 2018 and December 31, 2017 were as follows:

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
2018	\$ 766	\$ 315
2019	739	22
2020	716	—
2021	716	—
2022	716	—
<b>Total</b>	<b>\$ 3,654</b>	<b>\$ 72</b>

Rent expense was \$495 and \$315 for the three months ended March 31, 2018 and 2017, respectively.

**NOTE 13 – COMMON STOCK**

ACM is authorized to issue 100,000,000 shares of Class A common stock and 7,303,533 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 if 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 stock holders.

In August 2017 ACM entered into a securities purchase agreement with PDHTI and its subsidiary Pudong Science and Technology (Cayman) Co., Ltd. (“PST”), in which ACM agreed to bid, in an auction process mandated by PRC regulations, to purchase PDHTI’s 10.78% equity interest in ACM Shanghai and to sell shares of Class A common stock to PST. On September 8, 2017, ACM issued 1,119,576 shares of Class A common stock to PST for a purchase price of \$7.50 per share, representing an aggregate purchase price of \$8,397.

In August 2017 ACM entered into a securities purchase agreement with ZSTVC and its subsidiary Zhangjiang AJ Company Limited (“ZJAJ”), in which ACM agreed to bid, in an auction process mandated by PRC regulations, to purchase ZSTVC’s 7.58% equity interest in ACM Shanghai and to sell shares of Class A common stock to ZJAJ. On September 8, 2017, ACM issued 787,098 shares of Class A common stock to ZJAJ for a purchase price of \$7.50 per share, or an aggregate purchase price of \$5,903.

In September 2017 ACM issued 133,334 shares of Class A common stock to Ninebell for a purchase price of \$7.50 per share, or an aggregate purchase price of \$1,000 (note 10).

In November 2017 ACM issued 2,233,000 shares of Class A common stock and received net proceeds of \$11,664 from the IPO and concurrently ACM issued an additional 1,333,334 shares of Class A common stock in a private placement for net proceeds of \$7,053.

Upon the completion of the IPO on November 2, 2017, the Company issued a five-year warrant (the “Underwriter’s Warrant”) to Roth Capital Partners, LLC, the lead underwriter of the IPO, for the purchase of up to 80,000 shares of Class A common stock at an exercise price of \$6.16 per share. The Underwriter’s Warrant was immediately exercisable and expires on November 1, 2022. The Underwriter’s Warrant is equity classified and its fair value was \$137 at the IPO closing date, using the Black Scholes model with the following assumptions: volatility of 28.26%, a dividend rate of 0%, and a risk-free discount rate of 2%.

In September 2017 ACM issued 133,334 shares of Class A common stock to Ninebell for a purchase price of \$7.50 per share, or an aggregate purchase price of \$1,000 (note 10).

At various dates during 2017, ACM issued 472,889 shares of Class A common stock for options exercised by certain employee and non-employees. At various dates during the three months ended March 31, 2018, ACM issued 57,222 shares of Class A common stock for options exercised by certain employee and non-employees.

On March 30, 2018, SMC exercised its warrant (note 8) and purchased 397,502 shares of Class A common stock.

At March 31, 2018 and December 31, 2017, the number of shares of Class A common stock issued and outstanding was 13,390,270 and 12,935,546, respectively. At March 31, 2018 and December 31, 2017, the number of shares of Class B common stock issued and outstanding was 2,409,738.

**NOTE 14– 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.

**Employee Awards**

The following table summarizes the Company's employee share option activities during the three months ended March 31, 2018:

	Number of Option Shares	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2017	2,045,616	\$ 0.66	\$ 2.46	7.57 years
Granted	500,000	2.26	5.31	
Exercised	(57,222)	0.47	1.09	
Expired	(2,575)	0.55	3.00	
Forfeited	(72,192)	0.54	3.00	
Outstanding at March 31, 2018	2,413,627	1.00	3.06	7.86 years
Vested and exercisable at March 31, 2018	1,120,598			

The Company recognized employee stock-based compensation expense of \$93 and \$61 during the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, \$1,597 and \$1,690 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 2.05 years and 1.77 years, respectively. Total recognized compensation cost may be adjusted for future changes in estimated forfeitures.

The fair value of each option granted to an employee during the three months ended March 31, 2018 was estimated on the grant date using the Black-Scholes valuation model with the following assumptions. No options were granted to employees during the three months ended March 31, 2018.

	March 31, 2018
Fair value of common share(1)	\$ 5.31
Expected term in years(2)	6.25
Volatility(3)	39.14%
Risk-free interest rate(4)	2.55%
Expected dividend(5)	0.00%

- (1) Common stock price was market close price at grant date of January 25, 2018.
- (2) Expected term of share options is based on the average of the vesting period and the contractual term for each grant, in accordance with Staff Accounting Bulletin 110.
- (3) Volatility is calculated based on the historical volatility of comparable companies in the period equal to the expected term of each grant.
- (4) Risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the share options in effect at the time of grant.
- (5) Expected dividend is assumed to be 0% as ACM has no history or expectation of paying a dividend on its common stock.

**Non-employee Awards**

The following table summarizes the Company's non-employee share option activities during the three months ended March 31, 2018:

	Number of Option Shares	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2017	1,326,676	\$ 0.78	\$ 2.52	7.54 years
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
Forfeited	—	—	—	—
Outstanding at March 31, 2018	1,326,676	\$ 0.75	2.52	7.29 years
Vested and exercisable at March 31, 2018	841,329			

The Company recognized non-employee stock-based compensation expense of \$2,083 and \$774 during the three months ended March 31, 2018 and 2017, respectively.

The fair value of each option granted to a non-employee during the three months ended March 31, 2018 was calculated by application of the Black-Scholes valuation model with the following assumptions. No options were granted to any non-employee during the three months ended March 31, 2018.

	March 31, 2018
Fair value of common share(1)	\$12.30
Expected term in years(2)	3.33-5.36
Volatility(3)	45.48%
Risk-free interest rate(4)	2.39%-2.56%
Expected dividend(5)	0.00%

(2) Common stock price was market close price at March 31, 2018.

(3) Expected term of share options is based on the average of the vesting period and the contractual term for each grant, in accordance with Staff Accounting Bulletin 110.

(4) Volatility is calculated based on the historical volatility of comparable companies in the period equal to the expected term of each grant.

(5) Risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the share options in effect at the time of grant.

(6) Expected dividend is assumed to be 0% as ACM has no history or expectation of paying a dividend on its common stock.

**NOTE 15 – 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. Based on all available evidence, in particular the Company's three-year historical cumulative losses, recent operating losses and U.S. pre-tax loss for the three months ended March 31, 2018, the Company recorded a valuation allowance against its U.S. net deferred tax assets. In order to fully realize the U.S. deferred tax assets, the Company will need to generate sufficient taxable income in future periods before the expiration of the deferred tax assets governed by the tax code.

In each period since inception, the Company has recorded a valuation allowance for the full amount of net deferred tax assets in the US, as the realization of deferred tax assets is uncertain. 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 months ended March 31, 2018 and December 31, 2017.

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 a tax provision of \$22 and \$781 for the three months ended March 31, 2018 and 2017, respectively.

As of March 31, 2018, 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 months ended March 31, 2018.

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, 2017. 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 Cuts and Jobs Act (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. As the Company collects and prepares necessary data, and interprets the Tax Act and any additional guidance issued by the U.S. Treasury Department, the U.S. Internal Revenue Service and other standard-setting bodies, the Company may make adjustments to the provisional amounts. Those adjustments may materially affect the Company's provision for income taxes and effective tax rate in the period in which the adjustments are made. There were no adjustments made in the three months ended March 31, 2018. The accounting for the tax effects of the Tax Act will be completed later in 2018.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

The Company leases offices under non-cancelable operating lease agreements. See note 12 for future minimum lease payments under non-cancelable operating lease agreements with initial terms of one year or more.

The Company did not have any capital commitments during the reported periods.

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.

## 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, 2017, 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 I of our Annual Report.*

### Overview

We develop, manufacture and sell single-wafer wet cleaning equipment, which semiconductor manufacturers can use in numerous manufacturing steps to remove particles, contaminants and other random defects, and thereby improve product yield, in fabricating advanced integrated circuits, or chips. Our Ultra C equipment is designed to remove random defects from a wafer surface effectively, without damaging a wafer or its features, even at an increasingly advanced process node (the minimum line width on a chip) of 22 nanometers, or nm, or less. Our equipment is based on our innovative, proprietary Space Alternated Phase Shift, or SAPS, and Timely Energized Bubble Oscillation, or TEBO, technologies. We developed our proprietary technologies to enable manufacturers to produce chips that reach their ultimate physical limitations while maintaining product yield, which is the percentage of chips on a wafer that meet manufacturing specifications

We seek to market our wet processing equipment by first establishing a referenceable base of leading logic and memory chip makers, whose use of our products can influence decisions by other manufacturers. We believe this process will help us to penetrate the mature integrated circuit manufacturing markets and to build credibility with industry leaders. We have placed evaluation SAPS equipment with selected memory and logic chip customers since 2009 and recognized revenue from SAPS equipment since 2011. Using a similar “demo-to-sales” process, we began placing TEBO evaluation equipment with selected customers in 2016 and recognized revenue from our initial sale of TEBO equipment in December 2016. As of March 31, 2018, we had sold and deployed more than 35 single-wafer wet cleaning tools. We recognized revenue from the selected customers’ purchases of single-wafer wet cleaning equipment totaling \$9.5 million, more than 97.97% of our quarterly review for the first three months of 2018 and \$27.1 million, or 74.2% of our revenue, in 2017.

We market and sell our products worldwide using a combination of our direct sales force and third-party representatives. We employ direct sales teams in Asia, Europe and North America, and have located these teams near our customers, primarily in the People’s Republic of China or PRC, Korea, Taiwan and the United States. To supplement our direct sales teams, we have contacts with several independent sales representatives in the PRC, Taiwan and Korea. We also provide after-sales services to our customers by installing new replacement parts as well as making small scale modifications to improve our customers’ product yields.

We established our operational center in Shanghai in 2006 to help us establish and build relationships with chip manufacturers in China and throughout Asia. In addition to our SAPS and TEBO tools, we offer a range of custom-made wafer assembly and packaging equipment, such as coaters and developers, to wafer assembly and packaging factories, principally in the PRC.

### Corporate Background

We incorporated in California in 1998 and redomesticated to Delaware in November 2016. Initially we focused on developing tools for semiconductor 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.

In 2006 we moved our operational center to Shanghai, where we began to conduct our business through our subsidiary ACM Shanghai. This move was made to help us establish and build relationships with chip manufacturers in the PRC. 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, research and development activities.

### Recent Equity Transactions

**Issuance and Subsequent Exercise of Warrant.** In December 2016 Shengxin (Shanghai) Management Consulting Limited Partnership, or SMC, paid 20,123,500 RMB (approximately \$3.0 million as of the date of funding) to ACM Shanghai for investment pursuant to terms to be subsequently negotiated. SMC is a PRC limited partnership owned by Jian Wang and other employees of our subsidiary ACM Shanghai. Jian Wang, who is the general partner of SMC, is our Vice President, Research and Development and the brother of David H. Wang, who is our Chief Executive Officer, President and Chair of the Board. In connection with that investment, we issued to SMC in March 2017 a warrant exercisable to purchase 397,502 shares of Class A common stock at a price of \$7.50 per share, for a total exercise price of approximately \$3.0 million. The warrant was exercisable for cash or on a cashless basis, at the option of SMC, at any time on or before May 17, 2023 to acquire all, but not less than all, of the shares of Class A common stock subject to the warrant. In March 2018 we entered into a warrant exercise agreement with ACM Shanghai and SMC pursuant to which SMC exercised the SMC warrant in full by issuance to us of a senior secured promissory note in the principal amount of approximately \$3.0 million. We transferred the SMC note to ACM Shanghai, in exchange for an intercompany promissory note issued by ACM Shanghai to us in the principal amount of approximately \$3.0 million. 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 warrant.

**Strategic Investment in Key Supplier.** Ninebell Co., Ltd., or Ninebell, which is located in Seoul, Korea, is the principal supplier of robotic delivery system subassemblies used in our single-wafer cleaning equipment. On September 6, 2017 we and Ninebell entered into:

- an ordinary share purchase agreement, effective as of September 11, 2017, pursuant to which, contemporaneously with signing, Ninebell issued to us, for a purchase price of \$1.2 million, ordinary shares representing 20% of Ninebell's post-closing equity; and
- a common stock purchase agreement, effective as of September 11, 2017, pursuant to which, contemporaneously with signing, we issued 133,334 shares of Class A common stock to Ninebell for a purchase price of \$7.50 per share, or an aggregate purchase price of \$1.0 million.

In addition, under the ordinary share purchase agreement, Ninebell granted us a preemptive right for all future issuances of equity-related securities by Ninebell and the founder of Ninebell, who is the only other equity holder of Ninebell, granted us a right of first refusal with respect to any future sales of his equity securities.

**IPO and Concurrent Private Placements.** In November 2017 we issued 2,233,000 shares of Class A common stock and received net proceeds of \$11.7 from our initial public offering, or the IPO, and concurrently we issued an additional 1,333,334 shares of Class A common stock through a private placement for net proceeds of \$7.1 million.

**Acquisition of Outstanding Minority Interests in Our Operating Company.** Until August 31, 2017, ACM Research owned 62.87% of the outstanding equity interests in ACM Shanghai and three PRC-based third-party investors held the remaining 37.13% of equity interests, which were reflected as "non-controlling interests" in our consolidated balance sheets and related notes. In 2017 we took the following actions in order to enable ACM Research to acquire, consistent with requirements of arrangements previously entered into in connection with the investors' acquisition of ACM Shanghai equity interests, the outstanding non-controlling interests in ACM Shanghai:

- In March 2017 we entered into a securities purchase agreement with Shanghai Science and Technology Venture Capital Co., Ltd., or SSTVC, which held 18.77% of the ACM Shanghai equity interests. Pursuant to that agreement, effective as of August 31, 2017, we (a) acquired, for a purchase price of \$5.8 million, SSTVC's equity interests in ACM Shanghai and (b) issued to SSTVC, for a purchase price of \$5.8 million, shares of Series E preferred stock that has converted, upon the closing of the IPO, into 1,666,170 shares of Class A common stock, at an effective purchase price of \$3.48 per share.



- In August 2017 we entered into a securities purchase agreement with Shanghai Pudong High-Tech Investment Co., Ltd., or PDHTI, and its subsidiary Pudong Science and Technology (Cayman) Co., Ltd., or PST, pursuant to which we (a) submitted the winning bid, in an auction process mandated by PRC regulations, to purchase PDHTI's 10.78% equity interests in ACM Shanghai, which we completed on November 8, 2017, and (b) issued to PST, on September 8, 2017, 1,119,576 shares of Class A common stock for a purchase price of \$7.50 per share, representing an aggregate purchase price of \$8.4 million.
- In August 2017 we entered into a securities purchase agreement with Shanghai Zhangjiang Science & Technology Venture Capital Co., Ltd., or ZSTVC, and its subsidiary Zhangjiang AJ Company Limited, or ZJAJ, pursuant to which we (a) submitted the winning bid, in an auction process mandated by PRC regulations, to purchase ZSTVC's 7.58% equity interests in ACM Shanghai, which we completed on November 8, 2017, and (b) issued to ZJAJ, on September 8, 2017, 787,098 shares of Class A common stock for a purchase price of \$7.50 per share, or an aggregate purchase price of \$5.9 million.

Since November 8, 2017, ACM Research has owned all of the outstanding equity interests in ACM Shanghai.

## PRC Government Research and Development Funding

ACM Shanghai has received three 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 most recent grant was made in 2014 and relates to the development of electro copper-plating technology. 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 \$240,000 in the first three months of 2018, compared to \$960,000 in the first three months of 2017.
- Government subsidies for interest on short-term borrowings are reported as reductions of interest expense in the periods the interest is accrued. We had no such reductions of interest expense in the first three months of 2018 or the first three months of 2017.
- 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 \$38,000 in the first three months of 2018 and \$32,000 in the first three months of 2017.

## How We Evaluate Our Operations

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

- 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 (loss)” as our income (loss) 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 adjusted EBITDA, free cash flow and adjusted operating income (loss) 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 (loss) 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.

Adjusted EBITDA, free cash flow and adjusted operating income (loss) 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. There are a number of limitations related to the use of adjusted EBITDA rather than net income (loss), 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 (loss), 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 (loss), 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 (loss), the most directly comparable GAAP financial measure, to adjusted EBITDA:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>	
<b>Adjusted EBITDA Data:</b>		
Net loss	\$ (2,780)	\$ (2,089)
Interest expense, net	100	75
Income tax expense (benefit)	22	781
Depreciation and amortization	80	57
Stock-based compensation	2,175	835
Adjusted EBITDA	<u>\$ (403)</u>	<u>\$ (341)</u>

Adjusted EBITDA in the first three months of 2018, as compared with the comparable period in 2017, reflected an increase of \$700,000 in net loss and a \$1.3 million increase in stock based compensation offset by a decrease of \$760,000 in income tax 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 affected, to the extent we have accurately anticipated the amounts of the grants. For additional information regarding our PRC grants, please see “—PRC Government Research and Development Funding.”

In the first three months of 2018 and 2017, free cash flow did not differ from net cash provided by operating activities, the most directly comparable GAAP financial measure:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>	
<b>Free Cash Flow Data:</b>		
Net cash (used in) provided by operating activities	\$ (7,393)	\$ 352
Purchase of property and equipment	(395)	(12)
Purchase of intangible assets	—	(24)
Free cash flow	<u>\$ (7,788)</u>	<u>\$ 316</u>

Free cash flow in the first three months of 2018, as compared with the comparable period in 2017, reflected the factors driving net cash provided by operating activities, principally decreases in accounts receivable, accounts payable and inventory and an increase in stock-based compensation expense. 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 (loss) excludes stock-based compensation from income (loss) 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 (loss) from operations:

	<b>Three Months Ended March 31,</b>					
	<b>2018</b>			<b>2017</b>		
	<u>Actual (GAAP)</u>	<u>SBC</u>	<u>Adjusted (Non-GAAP)</u>	<u>Actual (GAAP)</u>	<u>SBC</u>	<u>Adjusted (Non-GAAP)</u>
<b>Adjusted Operating Income (Loss):</b>						
Revenue	\$ 9,743	\$ —	\$ 9,743	\$ 5,660	\$ —	\$ 5,660
Cost of revenue	(4,621)	(8)	(4,613)	(3,258)	(5)	(3,253)
Gross profit	5,122	(8)	5,130	2,402	(5)	2,407
Operating expenses:						
Sales and marketing	(1,855)	(34)	(1,821)	(1,163)	(6)	(1,157)
Research and development	(1,541)	(27)	(1,514)	(928)	(13)	(915)
General and administrative	(3,630)	(2,106)	(1,524)	(1,864)	(811)	(1,053)
Income (loss) from operations	<u>\$ (1,904)</u>	<u>\$ (2,175)</u>	<u>\$ 271</u>	<u>\$ (1,553)</u>	<u>\$ (835)</u>	<u>\$ (718)</u>

Adjusted operating loss in the first three months of 2018, as compared with the comparable period in 2017, reflected an increase of \$1.3 million in stock-based compensation expense.

#### Stock-Based Compensation Expense

Cost of revenue and operating expenses during the periods presented below have included stock-based compensation as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>	
<b>Stock-Based Compensation Expense:</b>		
Cost of revenue	\$ 8	\$ 5
Sales and marketing expense	34	6
Research and development expense	27	13
General and administrative expense	2,106	811
	<u>\$ 2,175</u>	<u>\$ 835</u>

We recognized stock-based compensation expense to employees of \$93,000 in the first three months of 2018, compared to \$61,000 in the first three months of 2017. As of March 31, 2018 and December 31, 2017, \$1.6 million and \$1.7 million, 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 2.05 years and 1.77 years, respectively. Total recognized compensation cost may be adjusted for future changes in estimated forfeitures.

We recognized stock-based compensation expense to non-employees of \$2.1 million in the first three months of 2018, compared to \$774,000 in the first three months of 2017. The fair value of each option granted to a non-employee is re-measured at each period end until the vesting date.

#### Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions in applying our accounting policies that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. We base these estimates and assumptions on historical experience, and evaluate them on an on-going basis to ensure that they remain reasonable under current conditions. Actual results could differ from those estimates. There were no significant changes in our critical accounting estimates during the first three months of 2018 to augment the critical accounting estimates disclosed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Significant Judgments and Estimates" included in our Annual Report, except we note that:

- *Revenue Recognition:* Effective January 1, 2018, we adopted FASB's ACS Topic 606, *Revenue From Contracts With Customers*, regarding the recognition, presentation and disclosure of revenue in our financial statements. Adoption of this new revenue standard did not impact our financials presented previously. We recognize revenue when control of the promised goods or services is transferred to our customer, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.
- *Stock-Based Compensation:* Please see note 14 to our condensed consolidated financial statements included elsewhere in this report for, among other things, a presentation of weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of stock option grants made during the first three months of 2018.

## Results of Operations

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

	<u>2018</u>	<u>2017</u>
Revenue	100.0%	100.0%
Cost of revenue	47.4	57.6
Gross margin	<u>52.6</u>	<u>42.4</u>
Operating expenses:		
Sales and marketing	19.0	20.5
Research and development	15.8	16.4
General and administrative	37.3	32.9
Total operating expenses, net	<u>72.1</u>	<u>69.8</u>
Income (loss) from operations	<u>(19.5)</u>	<u>(27.4)</u>
Interest expense, net	(1.0)	(1.4)
Other income (expense), net	(7.8)	(1.1)
Income (loss) before income taxes	<u>(28.3)</u>	<u>(29.9)</u>
Income tax (expense) benefit	<u>(0.2)</u>	<u>(13.8)</u>
Net loss	<u>(28.5)</u>	<u>(43.7)</u>
Less: Net income (loss) attributable to non-controlling interests	—	6.8
Net loss attributable to ACM Research, Inc.	<u>(28.5)%</u>	<u>(36.9)%</u>

### Comparison of Three Months Ended March 31, 2018 and 2017

#### Revenue

	<u>Three Months Ended March 31,</u>		<u>% Change 2017 v 2018</u>
	<u>2018</u>	<u>2017</u>	
	<i>(in thousands)</i>		
Revenue	\$ 9,743	\$ 5,660	72.1%

The increase in revenue of \$4.1 million in the three months ended March 31, 2018 reflected increases in revenue from single-wafer cleaning equipment of \$4.0 million and \$0.1 million increase from service and parts. The increases are from our existing customers.

Our revenue from sales of single-wafer wet cleaning equipment totaled \$9.5 million, or 97.97% of our revenue, in the first three months of 2018, compared with \$7.5 million, or 99.43% of revenue, in the first three months of 2017.

We have generated most of our revenue from a limited number of customers as the result of our strategy of initially placing SAPS- and TEBO-based equipment with a small number of leading chip manufacturers that are driving technology trends and key capability implementation. In the first three months of 2018, 97.97% of our revenue was derived from SK Hynix, Inc., a leading Korean memory chip company. In the first three months of 2017, 99.43% of our revenue was derived from three customers: Sky Hynix, Inc. accounted for 58.06% of our revenue; JiangYin ChangDian Advanced Packaging Co. Ltd., a leading PRC foundry, accounted for 27.32% of our revenue; and Semiconductor Manufacturing International Corporation, a leading PRC foundry, accounted for 14.05% of our revenue. Please see “Item 1A. Risk Factors—Business—We depend on a small number of customers for a substantial portion of our revenue, and the loss of, or a significant reduction in orders from, one or more of our major customers could have a material adverse effect on our revenue and operating results. There are also a limited number of potential customers for our products” of our Annual Report.

All of our sales in 2017 and the first three months of 2018 were to customers located in Asia, and we anticipate that a substantial majority of our revenue will continue to come from customers located in this region for the near future. We have increased our sales efforts to penetrate the markets in North America and Western Europe.

#### *Cost of Revenue and Gross Margin*

	<b>Three Months Ended March 31,</b>		<b>% Change 2017 v 2018</b>
	<b>2018</b>	<b>2017</b>	
	<i>(in thousands)</i>		
Cost of revenue	\$ 4,621	\$ 3,258	41.8%
Gross profit	\$ 5,122	\$ 2,402	113.2
Gross margin	52.6%	42.4%	10.2

Cost of revenue increased \$1.4 million, and gross profit increased \$2.7 million, from the three months ended March 31, 2018 to the comparable period in 2017.

Gross margin increased 10%, primarily due to the sale of three higher-margin SAPs tools compared to the mixed front and back end tools in 2017. 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% and 45% for the foreseeable future, with direct manufacturing costs approximating 50% to 55% of revenue and overhead costs totaling approximately 5% of revenue.

## Operating Expenses

	<b>Three Months Ended March 31,</b>		<b>% Change 2017 v 2018</b>
	<b>2018</b>	<b>2017</b>	
	<i>(in thousands)</i>		
Sales and marketing expense	\$ 1,855	\$ 1,163	59.5%
Research and development expense	1,541	928	66.1
General and administrative expense	3,630	1,864	94.7
Total operating expenses	\$ 7,026	3,955	77.6%

*Sales and marketing expense* increased \$692,000 in the three months ended March 31, 2018 as compared to the corresponding period in 2017, primarily due to increases in service expenses, personnel costs and sales commissions. Sales and marketing expense accounted for 19.0% of our revenue in the first three months of 2018 compared with 20.5% of revenue in the first three months of 2017. Sales and marketing expense consists primarily of:

- compensation of personnel associated with pre- and after-sales 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 \$613,000 in the three months ended March 31, 2018 as compared to the corresponding period in 2017, principally as a result of increases in testing fees and personnel costs. Research and development expense represented 15.3% and 16.3% of our revenue in the three months ended March 31, 2018 and 2017, respectively. Without reduction by grant amounts received from PRC governmental authorities (see “—PRC Government Research and Development Funding”), gross research and development expense totaled \$1.8 million, or 18.1% of revenue, in the three months ended March 31, 2018 and \$1.9 million, or 33.4% of revenue, in the three months ended March 31, 2017. 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 \$1.8 million in the three months ended March 31, 2018 as compared to the corresponding period in 2017, principally resulting from a \$1.3 million increase in stock based compensation expenses and from expenses associated with being a publicly traded company. General and administrative expense accounted for 37.3% of our revenue in the first three months of 2018 compared with 32.9% of revenue in the first three months of 2017. 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.

## Other Income and Expenses

	<b>Three Months Ended March 31,</b>		<b>% Change 2017 v 2018</b>
	<b>2018</b>	<b>2017</b>	
	<i>(in thousands)</i>		
Interest expense, net	\$ (100)	\$ (76)	31.6%
Other income (expense), net	(755)	(64)	1,079.7

Interest expense consists of interest incurred from outstanding short-term borrowings. Interest expense increased by \$24,000 in the three months ended March 31, 2018 from \$76,000 in the three months ended March 31, 2017, principally as a result of increased borrowings under short-term bank loans. We earn interest income from depositary accounts. Interest income was nominal in the three months ended March 31, 2018 and 2017.

Non-operating income (expense), net primarily reflects (a) gains or losses recognized from the effect of exchange rates on our foreign currency-denominated asset and liability balances and (b) depreciation of assets acquired with government subsidies, as described under “—PRC Government Research and Development Funding” above.

## Income Tax Expense

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

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>	
<b>Current:</b>		
U.S. federal	\$ —	\$ —
U.S. state	—	—
Foreign	(22)	—
<b>Total current income tax expense</b>	<b>(22)</b>	<b>—</b>
<b>Deferred:</b>		
U.S. federal	—	—
U.S. state	—	—
Foreign	—	(781)
<b>Total deferred income tax expense</b>	<b>—</b>	<b>(781)</b>
<b>Total current income tax expense</b>	<b>\$ (22)</b>	<b>\$ (781)</b>

On December 22, 2017, the 2017 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.

As we collect and prepare necessary data, and interpret the Tax Act and any additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service, and other standard-setting bodies, we may make adjustments to the provisional amounts. Those adjustments may materially affect our provision for income taxes and effective tax rate in the period in which the adjustments are made. There were no adjustments made in the first three months of 2018. The accounting for the tax effects of the Tax Act will be completed later 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 purpose 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, 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.



## Liquidity and Capital Resources

During the first three months of 2018, we funded our technology development and operations principally through application of proceeds from the IPO and concurrent private placements in November 2017 and, to a lesser extent, from short-term borrowings by ACM Shanghai from local financial institutions. During the three-month period, our operations used cash flow of \$7.4 million and we did not received research and development grants from local and central PRC governmental authorities.

We believe our existing cash and cash equivalents (including our net proceeds of the IPO and the concurrent private placements), 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, we may need to raise additional funds through additional bank credit arrangements or public or private debt or equity financings. 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 required, 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.

### Sources of Funds

*Equity and Equity-Related Securities.* During the first three months of 2018, we received proceeds of \$62,000 from sales of common stock pursuant to option exercises.

*Indebtedness.* ACM Shanghai is a party to lines of credit with three 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 March 31, 2018(1)</u>
				<i>(in thousands)</i>	
Bank of China Pudong Branch	August 2017	September 2018	5.69%	RMB30,000	RMB20,000
				\$4,770	\$3,180
Bank of Shanghai Pudong Branch	August 2017	September 2018	5.66	RMB25,000	RM20,260
				\$3,975	\$3,221
Shanghai Rural Commercial Bank	November 2017	November 2018 —January 2019	5.44	RMB15,000	RM15,000
				\$4,770	\$2,385
Bank of Communications	November 2017	December 2018	5.66	RMB10,000	RMB10,000
				\$1,590	\$1,590
				RMB70,000	RMB65,260
				\$12,720	\$10,376

(1) Converted from RMB to dollars as of March 31, 2018.

All of the amounts owing under the line of credit with Bank of China Pudong Branch are secured by ACM Shanghai's intellectual property. All of the amounts owing under the lines of credit with Bank of Shanghai Pudong Branch and Shanghai Rural Commercial Bank are guaranteed by David Wang, our Chair of the Board, Chief Executive Officer and President.

## Working Capital

The following table sets forth selected working capital information:

	<b>March 31, 2018</b>
	<i>(in thousands)</i>
Cash and cash equivalents	\$ 15,186
Accounts receivable, less allowance for doubtful amounts	27,793
Inventory	19,865
Working capital	<u>\$ 62,844</u>

Our cash and cash equivalents at March 31, 2018 were unrestricted and 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 for Operating Activities.* Our operations used cash flow of \$7.4 million in the first three months of 2018. 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) increases in the number of customers using our products and services, and (c) the amount and timing of payments by customers.

*Capital Expenditures.* We estimate that our capital expenditures in 2018 will total approximately \$3.2 million. We are not currently party to any purchase contracts related to future capital expenditures. We incurred \$386,000 of capital expenditures in the first three months of 2018. We are not currently party to any purchase contracts related to future capital expenditures.

*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 three months of 2018. For additional discussion, see note 17 to our condensed consolidated financial statements included elsewhere in this report.

### **Effects of Inflation**

Inflation and changing prices have not had a material effect on our business, and we do not expect that they will materially affect our business in the foreseeable future. Any impact of inflation on cost of revenue and operating expenses, especially employee compensation costs, may not be readily recoverable in the price of our product offerings.

### **Off-Balance Sheet Arrangements**

As of March 31, 2018, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K of the Securities and Exchange Commission, except the operating lease commitment disclosed in the unaudited condensed consolidated financial statements.

### **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**

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in foreign exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

#### **Foreign Exchange Risk**

Although our financial statements are denominated in U.S. dollars, a sizable portion of our revenues and costs are denominated in other currencies, primarily the Renminbi. The Renminbi is not freely convertible into foreign currencies for capital account transactions. The value of the Renminbi against the U.S. dollar and other currencies is affected by changes in the PRC's political and economic conditions and by the PRC's foreign exchange policies, among other things. In July 2005, the PRC government changed its decades-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation subsided and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk.

#### **Interest Rate Risk**

At March 31, 2018, we had unrestricted cash and cash equivalents totaling \$15.2 million. These amounts were held for working capital purposes and were held primarily in checking accounts of various banks. We believe we do not have any material exposure to changes in our cash balance as a result of changes in interest rates. Declines in interest rates, however, would reduce future interest income.

### **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 March 31, 2018. 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 SEC's rules and forms. 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 March 31, 2018, and due to the material weakness in our internal control over financial reporting described in "Item 1A. Risk Factors— Our management and auditors identified a material weakness in our internal control over financial reporting that, if not properly remediated, could result in material misstatements in our consolidated financial statements that could cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our stock" in our Annual Report, our chief executive officer and interim chief financial officer concluded that, as of such date, our disclosure controls and procedures over financial reporting were not effective during the three months ended March 31, 2018, as discussed below.

### **Changes in Internal Control over Financial Reporting and Remediation Efforts**

During the three months ended March 31, 2018, no changes, other than those in conjunction with certain remediation efforts described below, 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.

In connection with its audits of our consolidated financial statements as of, and for the year ended, December 31, 2017, BDO China Shu Lun Pan Certified Public Accountants LLP informed us that it had identified a material weakness in our internal control over financial reporting relating to our lack of sufficient qualified financial reporting and accounting personnel with an appropriate level of expertise to properly address complex accounting issues under GAAP and to prepare and review our consolidated financial statements and related disclosures to fulfill GAAP and Securities and Exchange Commission financial reporting requirements.

In the three months ended March 31, 2018, we hired additional accounting and finance personnel and engaged outside consulting firms in order to improve our internal control over the financial reporting process. We will continue to monitor the effectiveness of our internal control over financial reporting and will seek to employ any additional tools and resources deemed necessary to enhance our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

Investing in Class A common stock involves a high degree of risk. You should consider and read carefully all of the information contained in this report, including the consolidated financial statements and related notes set forth in “Item 1. Financial Statements” of Part I above, before making an investment decision. You should also review carefully the risk factors discussed in “Item 1A. Risk Factors” in our Annual Report. There have been no material changes to those risk factors since the filing of our Annual Report with the Securities and Exchange Commission on March 23, 2018. The occurrence of any of the risks described in our Annual Report, or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial, could materially and adversely affect our business, financial condition, results of operations or cash flows. In any such case, the trading price of Class A common stock could decline, and you may lose all or part of your investment.

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

#### *Recent Sales of Unregistered Equity Securities*

In January 2018 we issued and sold to an employee an aggregate of 22,915 unregistered shares of Class A common stock upon the exercise of stock options at a per share exercise price of \$1.50. This transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. We believe the offer, sale and issuance of these shares was 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 recipient did not involve a public offering, or in reliance on Rule 701 because the transaction was pursuant to a contract relating to compensation as provided under such rule. The recipient of the shares represented his 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 recipient 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.

In March 2018 we agreed to issue 397,502 shares of Class A common stock pursuant to an exercise of a warrant in exchange for a senior secured promissory note in the principal amount of approximately \$3 million, as described above under “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Equity Transactions—Issuance and Subsequent Exercise of Warrant.” This transaction did not involve any underwriters, underwriting discounts or commissions or any public offering. We believe the offers, sales and issuance of these shares was exempt from registration under the Securities Act of 1933 by virtue of Section 4(a)(2) thereof because the issuance of securities to the recipients did not involve a public offering. SMC, the recipient of the shares, represented its intentions to acquire the shares 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 stock certificates issued in these transactions. SMC represented that it had adequate access to information about us. The issuance and sale of these shares were made without any general solicitation or advertising.

#### *Use of IPO Proceeds*

The Registration Statement on Form S-1 (File No. 333- 220451) for the IPO was declared effective by the SEC on November 2, 2017. Shares of Class A common stock began trading on the Nasdaq Global Market on November 3, 2017.

The underwriters of the IPO were Roth Capital Partners, LLC, Craig-Hallum Capital Group LLC and The Benchmark Company, LLC. The offering commenced on November 2, 2017 and did not terminate until the sale of all of the shares offered.

We paid to the underwriters of the IPO underwriting discounts and commissions totaling \$841,036 in connection with the sale of 2,233,000 shares of Class A common stock. In addition, we incurred expenses of \$1.9 million which, when added to the underwriting discounts and commissions, amounted to total expenses of \$2.7 million. As a result, the IPO net proceeds, after deducting underwriting discounts and commissions and offering expenses, were \$17.3 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning 10.0% or more of any class of our equity securities or to any other affiliates.

There has been no material change in the planned use of IPO proceeds from that described in the final prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b)(4) under the Securities Act of 1933 on November 3, 2017.

To date we have applied \$9 million of the proceeds to purchase inventories and \$2 million in the ordinary course of business operations.

**Item 6. Exhibits**

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

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">10.01</a>	Advisory Board Agreement dated May 1, 2016 by and between ACM Research, Inc. and Chenming Hu
<a href="#">10.02</a>	Warrant Exercise Agreement dated March 30, 2018 by and among ACM Research, Inc., ACM Research (Shanghai), Inc., and Shengxin (Shanghai) Management Consulting Limited Partnership
<a href="#">10.03</a>	Senior Secured Promissory Note dated March 30, 2018 issued by Shengxin (Shanghai) Management Consulting Limited Partnership to ACM Research (Shanghai), Inc.
<a href="#">10.04</a>	Intercompany Promissory Note dated March 30, 2018 issued by ACM Research (Shanghai), Inc. to ACM Research, Inc.
<a href="#">31.01</a>	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31.02</a>	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">32.01</a>	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.

ACM RESEARCH, INC.

Date: May 11, 2018

By: /s/ Lisa Feng

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Lisa Feng  
Interim Chief Financial Officer,  
Chief Accounting Officer and Treasurer

**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 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 quarterly 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)) 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) 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
  - (c) 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.
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.

Dated: May 11, 2018

By: /s/ David H. Wang  
David H. Wang  
Chief Executive Officer and President  
(Principal Executive Officer)

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

I, Lisa Feng, 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 quarterly 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)) 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) 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
  - (c) 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.
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.

Dated: May 11, 2018

By: /s/ Lisa Feng  
Lisa Feng  
Interim Chief Financial Officer, Chief Accounting Officer and  
Treasurer(Principal Financial Officer)

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER 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 March 31, 2018, 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. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his or her knowledge:

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

Dated: May 11, 2018

By: /s/ David H. Wang  
David H. Wang  
Chief Executive Officer and President  
(Principal Executive Officer)

Dated: May 11, 2018

By: /s/ Lisa Feng  
Lisa Feng  
Interim Chief Financial Officer, Chief Accounting Officer and  
Treasurer(Principal Financial Officer)

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**ADVISORY BOARD AGREEMENT**

**THIS ADVISORY BOARD AGREEMENT** is made effective as of May 1st, 2016, (the “Effective Date”) by and between ACM Research, Inc., a State of California U.S.A. corporation (the “Company”), and Prof. Chenming Hu (the “Advisor”).

**RECITALS**

**A.** Company desires to obtain the services of Advisor to serve on the Company’s Board of Advisors (the “AB”), and the Advisor desires to serve on the AB, upon the following terms and conditions.

**B.** Company has spent significant time, effort, and money to develop certain Proprietary Information (as defined below), which Company considers vital to its business and goodwill.

**C.** The Proprietary Information may necessarily be communicated to or received by Advisor in the course of serving on the AB for the Company, and Company desires to obtain the Services of Advisor, only if, in doing so, it can protect its Proprietary Information and goodwill.

**D.** Company does not, however, desire to receive from Advisor, or for Advisor to either induce the use of or use in connection with the performance of the Services, any information which is confidential to or ownership of which resides in a third party, whether acquired either prior to or subsequent to Advisor’s retention hereunder.

**AGREEMENT**

**NOW, THEREFORE**, the parties hereto hereby agree as follows:

**1. Advisory Board Member.** Company hereby retains Advisor to serve on its Advisory Board. The term of this Agreement (the “Term”) shall be the period commencing on the Effective Date and terminating upon ten (10) calendar days prior written notice delivered by either party to the other for any reason.

Upon any termination of the Services as provided in the preceding sentence, this Agreement shall terminate except that the provisions set forth in Sections 2.b, 4 and 6 of this Agreement shall survive such termination.

**2. Position, Duties, Responsibilities.**

**a. Duties.** Advisor shall perform those services (“Services”) as reasonably requested by the Company from time to time, including but not limited to, the Services described on Exhibit A attached hereto. Advisor shall devote Advisor’s commercially reasonable efforts and attention to the performance of the Services for the Company on a timely basis. Advisor shall also make himself available to answer questions, provide advice and provide Services to the Company upon reasonable request and notice from the Company.

**b. Independent Contractor; No Conflict.** It is understood and agreed, and it is the intention of the parties hereto, that Advisor is an independent contractor, and not the employee, agent, joint venturer, or partner of Company for any purposes whatsoever. Advisor is skilled in providing the Services,

To the extent necessary, Advisor shall be solely responsible for any and all taxes related to the receipt of any compensation under this Agreement. Advisor hereby represents, warrants and covenants that Advisor has the right, power and authority to enter into this Agreement and that neither the execution nor delivery of this Agreement, nor the performance of the Services by Advisor will conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which Advisor is now or hereinafter becomes obligated.

Advisor further warrants and represents that he has not relied upon nor will rely upon the Company or any of its officers, directors, attorneys, employees, agents and other representatives for any tax advice and that Advisor has his/her own professional advisors for all legal and tax matters.

### **3. Compensation, Benefits, Expenses.**

**a. Compensation.** As full and complete consideration of the Services to be rendered hereunder, the Company shall pay Advisor the Compensation described on Exhibit A attached hereto.

**b. Reimbursement of Expenses.** Company shall promptly reimburse Advisor for any reasonable costs and expenses incurred by Advisor in connection with any Services specifically requested by Company and actually performed by Advisor pursuant to the terms of this Agreement. Each such expenditure or cost shall be reimbursed only if: (i) with respect to costs in excess of \$100, individually, Advisor receives prior approval from the Company's CEO or CFO or other executive for such expenditure or cost, and (ii) with respect to costs in less than \$100, individually, provided Advisor furnishes to Company adequate records and other documents reasonably acceptable to Company evidencing such expenditure or cost.

### **4. Proprietary Information; Work Product; Non-Disclosure.**

**a. Defined.** Company has conceived, developed and owns, and continues to conceive and develop, certain property rights and information, including but not limited to its business plans and objectives, client and customer information, financial projections, marketing plans, marketing materials, logos, and designs, and technical data, inventions, processes, know-how, algorithms, formulae, franchises, databases, computer programs, computer software, user interfaces, source codes, object codes, architectures and structures, display screens, layouts, development tools and instructions, templates, and other trade secrets, intangible assets and industrial or proprietary property rights which may or may not be related directly or indirectly to Company's software business and all documentation, media or other tangible embodiment of or relating to any of the foregoing and all proprietary rights therein of Company (all of which are hereinafter referred to as the "Proprietary Information"). Although certain information may be generally known in the relevant industry, the fact that Company uses it may not be so known. In such instance, the knowledge that Company uses the information would comprise Proprietary Information. Furthermore, the fact that various fragments of information or data may be generally known in the relevant industry does not mean that the manner in which Company combines them, and the results obtained thereby, are known. In such instance, that would also comprise Proprietary Information.

**b. General Restrictions on Use.** Advisor agrees to hold all Proprietary Information in confidence and not to, directly or indirectly, disclose, use, copy, publish, summarize, or remove from Company's premises any Proprietary Information (or remove from the premises any other property of Company), except (i) during the consulting relationship to the extent authorized and necessary to carry out Advisor's responsibilities under this Agreement, and (ii) after termination of the consulting relationship, only as specifically authorized in writing by Company. Notwithstanding the foregoing, such restrictions shall not apply to: (x) information which Advisor can show was rightfully in Advisor's possession at the time of disclosure by Company; (y) information which Advisor can show was received from a third party who lawfully developed the information independently of Company or obtained such information from Company under conditions which did not require that it be held in confidence; or (z) information which, at the time of disclosure, is generally available to the public.

**c. Ownership of Work Product.** All Work Product shall be considered work(s) made by Advisor for hire for Company and shall belong exclusively to Company and its designees. If by operation of law, any of the Work Product, including all related intellectual property rights, is not owned in its entirety by Company automatically upon creation thereof, then Advisor agrees to assign, and hereby assigns, to Company and its designees the ownership of such Work Product, including all related intellectual property rights. "Work Product" shall mean any writings (including excel, power point, emails, etc.), programming, documentation, data compilations, reports, and any other media, materials, or other objects produced as a result of Advisor's work or delivered by Advisor in the course of performing that work.

**d. Incidents and Further Assurances.** Company may obtain and hold in its own name copyrights, registrations, and other protection that may be available in the Advisor. Advisor agrees to provide any assistance required to perfect such protection. Advisor agrees to take such further actions and execute and deliver such further agreements and other instruments as Company may reasonably request to give effect to this Section 4.

**e. Return of Proprietary information.** Upon termination of this Agreement, Advisor shall upon request by the Company promptly deliver to Company at Company's sole cost and expense. all drawings, blueprints, manuals, specification documents, documentation, source or object codes, tape discs and any other storage media, letters, notes, notebooks, reports, flowcharts, and all other materials in its possession or under its control relating to the Proprietary Information and/or Services, as well as all other property belonging to Company which is then in Advisor's possession or under its control. Notwithstanding the foregoing, Advisor shall retain ownership of all works owned by Advisor prior to commencing work for Company hereunder, subject to Company's nonexclusive, perpetual, paid up right and license to use such works in connection with its use of the Services and any Work Product.

**f. Remedies/Additional Confidentiality Agreements.** Nothing in this Section 4 is intended to limit any remedy of Company under applicable state or federal law. At the request of Company, Advisor shall also execute Company's standard "Confidentiality Agreement" or similarly named agreement as such agreement is currently applied to and entered into by Company's most recent employees.

**5. Non-Compete.** During the Term, Advisor shall provide the Company with prior written notice if Consultant intends to provide any services, as an employee, consultant or otherwise, to any person, company or entity that competes directly with the Company, which written notice shall include the name of the competitor. During the period that is six (6) months after the termination of this Agreement, Advisor shall provide the Company with written notice any time that Advisor provides any services, as an employee, consultant or otherwise, to any person, company or entity that competes directly with the Company. Notwithstanding anything to the contrary contained herein, Company hereby consents to Consultant providing services, as an employee, consultant or otherwise, to the following companies.

**6. Miscellaneous.**

**a. Notices.** All notices required under this Agreement shall be deemed to have been given or made for all purposes upon receipt of such written notice or communication. Notices to each party shall be sent to the address set forth below the party's signature on the signature page of this Agreement. Either party hereto may change the address to which such communications are to be directed by giving written notice to the other party hereto of such change in the manner provided above.

**b. Entire Agreement.** This Agreement and any documents attached hereto as Exhibits constitute the entire agreement and understanding between the parties with respect to the subject matter herein and therein, and supersede and replace any and all prior agreements and understandings, whether oral or written with respect to such matters. The provisions of this Agreement may be waived, altered, amended or replaced in whole or in part only upon the written consent of both parties to this Agreement.

**c. Severability, Enforcement.** If, for any reason, any provision of this Agreement shall be determined to be invalid or inoperative, the validity and effect of the other provisions herein shall not be affected thereby, provided that no such severability shall be effective if it causes a material detriment to any party.

**d. Governing Law.** The validity, interpretation, enforceability, and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of California. Venue for any and all disputes arising out of this Agreement shall be the City of Fremont, County of Alameda, State of California.

**e. Injunctive Relief.** The parties agree that in the event of any breach or threatened breach of any of the covenants in Section 4, the damage or imminent damage to the value and the goodwill of Company's business will be irreparable and extremely difficult to estimate, making any remedy at law or in damages inadequate. Accordingly, the parties agree that Company shall be entitled to injunctive relief against Advisor in the event of any breach or threatened breach of any such provisions by Advisor, in addition to any other relief (including damages) available to Company under this Agreement or under applicable state or federal law.

**f. Publicity.** Advisor is aware that the Company may incorporate Advisor's name, biography, picture, image or personal likeness (collectively Advisor's "Personal Likeness") into the Company's website, private placement memorandum, Company documents and advertising/promotional materials. Advisor hereby grants to the Company a royalty-free, irrevocable license and permission to use, exploit, adapt, modify, reproduce, distribute, and publicly display in any manner now known or later developed, Advisor's image, name, biographical information, voice, or Personal Likeness, throughout the world, by incorporating Advisor's Personal Likeness into Company's Internet websites, Company's financing documents, advertising and marketing materials of the Company. There shall be no separate royalty due me for use of Advisor's Personal Likeness and that Advisor has been fully compensated by the Company through payments for Advisor's services as an independent contractor under this Agreement.

If Advisor's Services to Company is terminated for any reason, Company shall cease use of Advisor's Personal Likeness within six months of the termination of such services except for factual statements of Advisor's prior involvement with Company.

**IN WITNESS WHEREOF**, each party hereto has duly executed this Agreement as of the Effective Date.

**COMPANY**

Signature: /s/ David H. Wang

Name: David H. Wang

Co. Title: CEO

**ADVISORY BOARD MEMBER**

Signature: /s/ Chenming Hu

Name: Chenming Hu

## EXHIBIT A

**SERVICES:** Initially 48 months beginning May 1st, 2016. This will be extended upon the written agreement of both parties.

Consultant will be a member of the Advisory Board. The term -Advisory Board” is used to enhance the Company’s image and is a group of senior advisors and is not part of the governing Board. Advisor is not a member of the Company’s governing Board of Directors.

As a member of the Advisory Board, Consultant will use commercially reasonable efforts to:

- > Advise the company on business development plan proposed by the management.
- > Review and advise the Company’s management on its technical and business presentation for use with potential investors.
- > Help make introductions to potential industry partners and customers.
- > Help management understand the Company’s industry and future technology trend.
- > Consult on specific projects requested from the Company and agreed to by Consultant from time to time.

### **Cash Compensation**

A consulting fee of \$100,000 per year paid on a calendar quarterly basis will be paid to Advisor.

### **Stock Options**

Subject to the appropriate option agreement and usual investor representations and securities law compliance requirements, the Board of Directors of the Company agree that Advisor will be granted the opportunity to purchase up to 250,000 common stock shares to vest over four years under the Company’s Incentive Stock Plan and Stock Option Agreement (the Plan). The options would be Non-Statutory Options and Advisor is strongly advised to consult with his/her professional legal and/or tax advisor. The exercise price for the option shares shall be at the fair market value of the Company’s Common Stock, as determined by the Board of Directors on the date the Board approves such grant. The shares you will be given the opportunity to purchase will vest in equal installments over the term of this Agreement.



## WARRANT EXERCISE AGREEMENT

THIS WARRANT EXERCISE AGREEMENT (this “*Agreement*”) is made as of March 30, 2018, by and among ACM Research, Inc. (“*ACM*”), ACM Research (Shanghai), Inc., a wholly owned subsidiary of ACM (“*ACM Shanghai*”), and Shengxin (Shanghai) Management Consulting Limited Partnership (“*SMC*,” and together with ACM and ACM Shanghai, the “*Parties*”).

## RECITALS

- A. On December 9, 2016, SMC delivered to ACM Shanghai an aggregate amount of \$2,981,259.26 (the “*SMC Investment*”) for potential investment in ACM Shanghai.
- B. On March 14, 2017, the Parties entered into a Securities Purchase Agreement (the “*Securities Purchase Agreement*”) pursuant to which, among other things, (1) ACM issued to SMC a warrant (the “*Warrant*”) currently exercisable to purchase 397,502 Warrant Shares of ACM’s Class A common stock (the “*Warrant Shares*”), at a price of \$7.50 per Warrant Share, for an aggregate exercise price of \$2,981,259.26 (the “*Aggregate Exercise Price*”), subject to the terms, conditions and adjustments set forth in the Warrant, and (2) the Parties set forth the terms pursuant to which ACM Shanghai would repay the SMC Investment to SMC in cash or, in specified circumstances, by delivery of an equity interest in ACM Shanghai.
- C. The Parties wish to set forth terms pursuant to which, in effect, (1) in connection with its exercise of the Warrant in full on the date of this Agreement, SMC will pay the Aggregate Exercise Price by borrowing funds from ACM and (2) in exchange for ACM’s rights to receive repayment of such borrowed funds from SMC, ACM Shanghai will deliver to ACM evidence of indebtedness in an amount equal to the Aggregate Exercise Price.
- D. In order to give effect to the foregoing, contemporaneously with the execution and delivery of this Agreement, (1) SMC is exercising the Warrant in full and, in connection therewith, is delivering to ACM Shanghai (upon order of ACM), in full satisfaction of the Aggregate Exercise Price, a senior secured promissory note in the principal amount of the Aggregate Exercise Price (the “*SMC Note*”), and (2) ACM Shanghai is delivering to ACM an intercompany promissory note in the principal amount of the Aggregate Exercise Price (the “*Intercompany Note*”).

In consideration of the mutual covenants and agreements set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Purchase and Sale of Warrant Shares.

- 1.1 Documents. Contemporaneously with the execution and delivery of this Agreement:
- (a) SMC is exercising the Warrant to purchase the Warrant Shares, pursuant to Subsection 3(a)(i) of the Warrant, by (a) surrendering the Warrant to ACM and (b) executing and delivering the SMC Note to ACM Shanghai, upon the request of ACM; and
  - (b) ACM Shanghai is executing and delivering the Intercompany Note to ACM in consideration for the SMC Note.
-

1.2 Closing; Delivery. Subject to the satisfaction of each of the conditions set forth in this Agreement, a closing for the purchase and sale of the Warrant Shares and the execution and delivery of the SMC Note and the Intercompany Note (the “Closing”) shall take place at the corporate headquarters of ACM on the date of this Agreement. At the Closing, ACM shall issue and sell the Warrant Shares to SMC and shall cause its transfer agent to register the Warrant Shares in book-entry form, against delivery at the Closing of the SMC Note and the Intercompany Note.

1.3 Conditions to ACM’s Obligations. The obligation of ACM to deliver the Warrant Shares at the Closing is subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

(a) The representations and warranties of each of ACM Shanghai and SMC contained in Sections 3 and 4, respectively, shall be true and correct in all material respects as of the Closing.

(b) Each of ACM Shanghai and SMC shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by each of ACM Shanghai and SMC as of or before the Closing.

(c) All authorizations, approvals or permits of any governmental authority or regulatory body that are required in connection with the lawful purchase and sale of the Warrant Shares pursuant to this Agreement shall have been obtained and be effective as of the Closing.

1.4 Conditions to ACM Shanghai’s Obligations. The obligation of ACM Shanghai to deliver the Intercompany Note at the Closing is subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

(a) The representations and warranties of each of ACM and SMC contained in Sections 2 and 4, respectively, shall be true and correct in all material respects as of the Closing.

(b) Each of ACM and SMC shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by each of ACM and SMC as of or before the Closing.

(c) All authorizations, approvals or permits of any governmental authority or regulatory body that are required in connection with the lawful purchase and sale of the Warrant Shares pursuant to this Agreement shall have been obtained and be effective as of the Closing.

1.5 Conditions to SMC’s Obligations. The obligations of SMC to deliver the SMC Note and to acquire the Warrant Shares at the Closing are subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

(a) The representations and warranties of each of ACM and ACM Shanghai contained in Sections 2 and 3, respectively, shall be true and correct in all material respects as of the Closing.

(b) Each of ACM and ACM Shanghai shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by each of ACM and ACM Shanghai as of or before the Closing.

(c) All authorizations, approvals or permits of any governmental authority or regulatory body that are required in connection with the lawful issuance and sale of the Warrant Shares pursuant to this Agreement shall have been obtained and be effective as of the Closing.

2. Representations and Warranties of ACM. ACM represents and warrants to each of ACM Shanghai and SMC as follows:

2.1 Authorization. All corporate action required to be taken to authorize ACM to enter into and perform this Agreement has been taken.

2.2 Binding Obligation. This Agreement constitutes a valid and legally binding obligation of ACM, enforceable against ACM in accordance with its terms except as limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other laws of general application relating to or affecting the enforcement of creditors' rights generally or (b) laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

2.3 Valid Issuance of Warrant Shares. The Warrant Shares, when issued, sold and delivered in accordance with the terms and for the consideration set forth in this Agreement, will be validly issued, fully paid and nonassessable, and free of restrictions on transfer other than restrictions on transfer under this Agreement and the SMC Note, applicable U.S. federal and state securities laws, and liens or encumbrances created by or imposed by SMC, including liens or encumbrances under this Agreement and the SMC Note.

2.4 Governmental Consents and Filings. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any national, provincial or local governmental authority of any jurisdiction is required to be obtained by ACM in connection with the consummation of the transactions contemplated by this Agreement.

2.5 Compliance with Other Instruments. ACM is not in violation or default (a) of any provisions of its organizational documents, (b) of any instrument, judgment, order, writ or decree, (c) under any note, indenture or mortgage, or (d) under any lease, agreement, contract or purchase order to which it is a party or by which it is bound, or, to its knowledge, of any provision of any statute, rule or regulation applicable to ACM, the violation of which would have a material adverse effect on the business, assets (including intangible assets), liabilities, financial condition, property or operating results of ACM. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement will not result in any such violation or be in conflict with or constitute, with or without the passage of time and giving of notice, either (x) a default under any such provision, instrument, judgment, order, writ, decree, contract or agreement or (y) an event that results in the creation of any lien, charge or encumbrance upon any assets of ACM or the suspension, revocation, forfeiture, or nonrenewal of any material permit or license applicable to ACM.

3. Representations and Warranties of ACM Shanghai. ACM Shanghai represents and warrants to each of ACM and SMC as follows:

3.1 Authorization. All action required to be taken to authorize ACM Shanghai to enter into and perform this Agreement and the Intercompany Note has been taken.

3.2 Binding Obligation. Each of this Agreement and the Intercompany Note constitutes a valid and legally binding obligation of ACM Shanghai, enforceable against ACM Shanghai in accordance with its terms except as limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other laws of general application relating to or affecting the enforcement of creditors' rights generally or (b) laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

3.3 Governmental Consents and Filings. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any national, provincial or local governmental authority of any jurisdiction is required to be obtained by ACM Shanghai in connection with the consummation of the transactions contemplated by this Agreement.

3.4 Compliance with Other Instruments. ACM Shanghai is not in violation or default (a) of any provisions of its organizational documents, (b) of any instrument, judgment, order, writ or decree, (c) under any note, indenture or mortgage, or (d) under any lease, agreement, contract or purchase order to which it is a party or by which it is bound, or, to its knowledge, of any provision of any statute, rule or regulation applicable to ACM Shanghai, the violation of which would have a material adverse effect on the business, assets (including intangible assets), liabilities, financial condition, property or operating results of ACM Shanghai. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement will not result in any such violation or be in conflict with or constitute, with or without the passage of time and giving of notice, either (x) a default under any such provision, instrument, judgment, order, writ, decree, contract or agreement or (y) an event that results in the creation of any lien, charge or encumbrance upon any assets of ACM Shanghai or the suspension, revocation, forfeiture, or nonrenewal of any material permit or license applicable to ACM Shanghai.

4. Representations and Warranties of SMC. SMC represents and warrants to each of ACM and ACM Shanghai as follows:

4.1 Authorization. All action required to be taken to authorize SMC to enter into and perform this Agreement and the SMC Note has been taken.

4.2 Binding Obligation. Each of this Agreement and the SMC Note constitutes a valid and legally binding obligation of SMC, enforceable against SMC in accordance with its terms except as limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other laws of general application relating to or affecting the enforcement of creditors' rights generally or (b) laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

4.3 Governmental Consents and Filings. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any national, provincial or local governmental authority of any jurisdiction is required to be obtained by SMC in connection with the consummation of the transactions contemplated by this Agreement.

4.4 Compliance with Other Instruments. SMC is not in violation or default (a) of any provisions of its organizational documents, (b) of any instrument, judgment, order, writ or decree, (c) under any note, indenture or mortgage, or (d) under any lease, agreement, contract or purchase order to which it is a party or by which it is bound, or, to its knowledge, of any provision of any statute, rule or regulation applicable to SMC, the violation of which would have a material adverse effect on the business, assets (including intangible assets), liabilities, financial condition, property or operating results of SMC. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement will not result in any such violation or be in conflict with or constitute, with or without the passage of time and giving of notice, either (x) a default under any such provision, instrument, judgment, order, writ, decree, contract or agreement or (y) an event that results in the creation of any lien, charge or encumbrance upon any assets of SMC or the suspension, revocation, forfeiture, or nonrenewal of any material permit or license applicable to SMC.

4.5 Purchase Entirely for Own Account. SMC is acquiring the Warrant Shares for investment for its own account, not as a nominee or agent and not with a view to the resale or distribution of any interest in the Warrant Shares. SMC has no present intention of selling, granting any participation in or otherwise distributing any interest in the Warrant Shares. SMC does not presently have any contract, undertaking, agreement or arrangement with any individual or entity to sell, transfer or grant participations to either such individual or entity or any third party, with respect to the Warrant Shares.

4.6 Disclosure of Information. SMC has had an opportunity to discuss with ACM's management the business, management and financial affairs of ACM and ACM Shanghai and the terms and conditions of the offering of the Warrant Shares, and SMC has had an opportunity to review ACM Shanghai's facilities. The foregoing, however, does not limit or modify the representations and warranties of ACM and ACM Shanghai in Sections 2 and 3, respectively, or the right of SMC to rely thereon.

4.7 Restricted Securities. SMC understands that the Warrant Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "*Securities Act*"), by reason of a specific exemption from the registration provisions of the Securities Act that depends upon, among other things, the bona fide nature of the investment intent and the accuracy of SMC's representations as expressed in this Agreement. SMC understands that the Warrant Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to those laws, SMC must hold the Warrant Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available, including a transfer outside of the United States in an offshore transaction in compliance with Rule 904 under the Securities Act of (if applicable). SMC acknowledges that ACM has no obligation to register or qualify for resale the Warrant Shares, except as set forth in the Registration Rights Agreement by and among ACM and certain of its stockholders (the "*Registration Rights Agreement*"). SMC further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including the time and manner of sale, the holding period for the Warrant Shares, and on requirements relating to ACM that are outside of SMC's control and that ACM is under no obligation, and may not be able, to satisfy.

4.8 Legends. SMC understands that the Warrant Shares, which will be held in book-entry form, may be notated with restrictive legends as ACM and its counsel deem necessary or advisable under applicable law or pursuant to this Agreement, including a legend substantially to the following effect:

"THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR A VALID EXEMPTION FROM THE REGISTRATION OF THE U.S. SECURITIES ACT OF 1933."

4.9 Investor Status. SMC is an accredited investor as defined in Rule 501(a) of Regulation D promulgated under the Securities Act and is not a U.S. person as defined in Regulation S under the Securities Act and the Warrant Shares have not been offered or sold within the United States as defined under the Securities Act. At the time of the origination of discussion regarding the offer and sale of the Warrant Shares and the date of the execution and delivery of this Agreement, SMC was at all times outside of the United States. SMC has satisfied itself as to the full observance of the laws of its jurisdiction in connection with any invitation to receive the Warrant Shares or any use of this Agreement, including (a) the legal requirements within its jurisdiction for the purchase of the Warrant Shares, (b) any foreign exchange restrictions applicable to such purchase, (c) any governmental or other consents that may need to be obtained, (d) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale, or transfer of the Warrant Shares, and (e) SMC's receipt and continued beneficial ownership of the Warrant Shares will not violate any applicable securities or other laws of SMC's jurisdiction.

5. Grant and Release of Security Interest.

5.1 Grant of Security Interest. As security for the performance of any and all obligations of SMC pursuant to the SMC Note, SMC pledges and grants to ACM Shanghai a continuing security interest in all right, title and interest of SMC in and to the Warrant Shares. SMC understands that the Warrant Shares, which will be held in book-entry form, may be notated with legends to evidence ACM Shanghai's security interest, and SMC agrees to cooperate with ACM Shanghai in taking such other steps as ACM Shanghai may reasonably determine to be desirable to evidence, protect and preserve its security interest in the Warrant Shares.

5.2 Release of Security Interest. In the event SMC wishes to sell any of the Warrant Shares while the SMC Note remains outstanding, ACM Shanghai agrees that its security interest in such Warrant Shares will be released if, and only if, SMC complies with the provisions of this Subsection 5.2. In order to release the security interest in Warrant Shares in connection with a sale of such Warrant Shares, SMC must pay with respect to the SMC Note (a) principal of the SMC Note in an amount equal to \$7.50 multiplied by the number of Warrant Shares being sold plus (b) the amount of interest accrued on such principal amount since the issue date of the SMC Note (with respect to such proposed sale, the "*Required Note Payment*"). In furtherance of the foregoing:

- (a) SMC shall provide to ACM Shanghai, at least ten days before the date of any such sale, a notice (a "*Sale Notice*") specifying the number of Warrant Shares proposed to be sold and the date on which such sale is to occur and describing the manner in which SMC will pay the Required Note Payment with respect to such sale;
- (b) SMC shall promptly respond to any questions that ACM Shanghai may have with respect to such Sale Notice;
- (c) ACM Shanghai shall notify SMC, within five days of receipt of such Sale Notice, whether the proposed arrangements for the Required Note Payment are acceptable to ACM Shanghai in its sole discretion, it being understood that if such arrangements are not acceptable to ACM Shanghai, ACM Shanghai's security interest in the Warrant Shares proposed to be sold will not be released and the sale cannot proceed; and
- (d) if the proposed arrangements for the Required Note Payment are acceptable to ACM Shanghai and SMC chooses to proceed with the sale of the Warrant Shares in accordance with the terms described in such Sale Notice,
  - (i) SMC shall pay the amount of the Required Note Payment to ACM, upon order of ACM Shanghai;
  - (ii) the amount of the Required Note Payment shall be applied to payment of the SMC Note in the principal and interest allocations set forth in the preceding sentence;
  - (iii) in consideration of ACM Shanghai's order for SMC to pay the Required Note Payment to ACM, the amount of the Required Note Payment shall be applied to payment of the Intercompany Note in the same principal and interest allocations as applicable to the SMC Note; and

- (iv) ACM Shanghai shall arrange for release of its security interest in such Warrant Shares, including the removal of any legends notated on such Warrant Shares to evidence ACM Shanghai's security interest.

6. Miscellaneous.

6.1 Survival. Unless otherwise set forth in this Agreement, the representations and warranties of each Party contained in this Agreement shall survive the execution and delivery of this Agreement and shall in no way be affected by any investigation or knowledge of the subject matter thereof made by or on behalf of the other Parties.

6.2 Successors and Assigns. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the Parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the Parties to this Agreement or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

6.3 Governing Law. This Agreement and any controversy arising out of or relating to this Agreement shall be governed by and construed in accordance with the General Corporation Law of the State of Delaware as to matters within the scope thereof, and as to all other matters shall be governed by and construed in accordance with the internal laws of the State of Delaware, without regard to conflict of law principles that would result in the application of any law other than the law of the State of Delaware.

6.4 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Counterparts may be delivered via electronic mail (including pdf or any electronic signature complying with the U.S. federal ESIGN Act of 2000, *e.g.*, [www.docusign.com](http://www.docusign.com)) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

6.5 Interpretation. For purposes of this Agreement:

- (a) headings used in this Agreement are for convenience of reference only and shall not, for any purpose, be deemed a part of this Agreement;
- (b) references to a Section or Subsection refer to a Section or Subsection of this Agreement, unless specified otherwise;
- (c) the words "include" and "including" shall not be construed so as to exclude any other thing not referred to or described;
- (d) the word "or" is not exclusive;
- (e) the definition given for any term shall apply equally to both the singular and plural forms of the term defined;
- (f) unless the context otherwise requires otherwise, references (i) to an agreement, instrument or other document (including this Agreement) mean such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (ii) to a statute mean such statute as amended from time to time and include any successor legislation thereto and any rules and regulations promulgated thereunder; and

- (g) this Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

6.6 Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given upon the earlier of (a) personal delivery to, or other actual receipt by, the Party to be notified and (b) when sent, if sent by electronic mail during normal business hours of the recipient, or, if not sent during the recipient's normal business hours, then on the recipient's next business day. All communications shall be sent to the respective Parties at their addresses or e-mail addresses as set forth on the signature page, or to such address or e-mail address as subsequently modified by written notice given in accordance with this Subsection 6.6. If notice is given to ACM or ACM Shanghai, a copy shall also be sent to Mark L. Johnson at K&L Gates LLP, State Street Financial Center, 1 Lincoln Street, Boston, Massachusetts 02111.

6.7 Attorneys' Fees. If any action at law or in equity (including arbitration) is necessary to enforce or interpret the terms of any of this Agreement, the prevailing Party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which such Party may be entitled.

6.8 Amendments. Any term of this Agreement may be amended or terminated only with the written consent of the Parties.

6.9 Severability. In case any one or more of the provisions contained in this Agreement is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, and such invalid, illegal, or unenforceable provision shall be reformed and construed so that it will be valid, legal, and enforceable to the maximum extent permitted by law.

6.10 Entire Agreement. This Agreement, the SMC Note, the Intercompany Note and the Registration Rights Agreement collectively constitute the full and entire understanding and agreement between the Parties with respect to the subject matter of this Agreement, the SMC Note, the Intercompany Note and the Registration Rights Agreement, and any other written or oral agreement relating to the subject matter of this Agreement, the SMC Note, the Intercompany Note or the Registration Rights Agreement existing between the Parties is expressly canceled. Upon execution and delivery of this Agreement, the Securities Purchase Agreement shall be of no further force and effect.

6.11 Dispute Resolution.

(a) The Parties (a) irrevocably and unconditionally submit to the jurisdiction of the state courts of the State of Delaware and to the jurisdiction of the U.S. District Court for the District of Delaware for the purpose of any suit, action or other proceeding arising out of or based upon this Agreement, (b) agree not to commence any suit, action or other proceeding arising out of or based upon this Agreement except in the state courts of Delaware or the U.S. District Court for the District of Delaware, and (c) waive, and agree not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Agreement or the subject matter of this Agreement may not be enforced in or by such court.



(b) **WAIVER OF JURY TRIAL:** EACH PARTY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE WARRANT SHARES, OR THE SUBJECT MATTER OF THIS AGREEMENT. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING CONTRACT CLAIMS, TORT CLAIMS (INCLUDING NEGLIGENCE), BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THIS **SUBSECTION 6.11(b)** HAS BEEN FULLY DISCUSSED BY EACH OF THE PARTIES AND THESE PROVISIONS WILL NOT BE SUBJECT TO ANY EXCEPTIONS. EACH PARTY FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

*[Remainder of Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

ACM RESEARCH, INC.

By: /s/ David H. Wang  
Name: David H. Wang  
Title: Chief Executive Officer and President

*Address:*  
42307 Osgood Road, Suite I  
Fremont, CA 94539

ACM RESEARCH (SHANGHAI), INC.

By: /s/ David H. Wang  
Name: David H. Wang  
Title: Chief Executive Officer and President

*Address:*  
Building 4, No.1690  
Cai Lun Road  
Zhangjiang High Tech Park  
Shanghai, P.R. China 201203

SHENGXIN (SHANGHAI) MANAGEMENT CONSULTING LIMITED PARTNERSHIP

By: /s/ Jian Wang  
Name: Jian Wang  
Title: General Partner

*Address:*  
Rm. 210-32, 2<sup>nd</sup> Fl. Building 1  
38 Debao Rd.  
Pilot Free Trade Zone  
Shanghai, China

*Signature Page to Warrant Exercise Agreement*

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## Shengxin (Shanghai) Management Consulting Limited Partnership

## SENIOR SECURED PROMISSORY NOTE

\$2,981,259.26

Issue Date: March 30, 2018

FOR VALUE RECEIVED, and subject to the terms and conditions set forth herein, Shengxin (Shanghai) Management Consulting Limited Partnership (“SMC”) hereby unconditionally promises to pay to the order of ACM Research (Shanghai), Inc. or its assigns (the “Holder,” and together with SMC, the “Parties”), the principal amount of \$2,981,259.26 (the “Loan”), together with all accrued interest thereon, as provided in this Senior Secured Promissory Note (this “Note”). This Note is being issued pursuant to the terms of a Warrant Exercise Agreement, dated as of the Issue Date hereof, by and among SMC, the Holder and ACM Research, Inc. (the “Warrant Exercise Agreement”).

1. Definitions. Capitalized terms used herein shall have the meanings set forth in this Section 1.

“Default” means any of the events specified in Section 5 that constitutes an Event of Default or that, upon the giving of notice, the lapse of time or both pursuant to Section 5 would, unless cured or waived, become an Event of Default.

“Event of Default” has the meaning set forth in Section 5.

“Law,” as to any person, means any law (including common law), statute, ordinance, treaty, rule, regulation, policy or requirement (including any authoritative interpretation thereon) of any government of any nation or any political subdivision thereof (whether at the national, state, territorial, provincial, municipal or any other level), or any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of, or pertaining to, government, whether now or hereafter in effect, in each case, applicable to or binding on such person or any of its properties or to which such person or any of its properties is subject.

“Maturity Date” means the earlier of (a) August 17, 2023 and (b) the date on which all amounts under this Note shall become due and payable pursuant to Section 6.

2. Payment Dates; Optional Prepayments.

2.1 Payment Dates. The aggregate unpaid amount of the Loan, all accrued and unpaid interest on the Loan, and all other amounts payable under this Note shall be due and payable on the Maturity Date.

2.2 Optional Prepayments. SMC may prepay the Loan in whole or in part at any time or from time to time without penalty or premium by paying the amount of the Loan to be prepaid together with accrued interest thereon to the date of prepayment. No prepaid amount may be reborrowed.

2.3 Offset. Upon the occurrence of an Event of Default, the Holder may, by notice to SMC, elect to apply any amount that is payable under this Note and that is the subject of such Event of Default to pay by offset all or a portion of the amounts outstanding under the SMC Investment (as defined in the Warrant Exercise Agreement), whether then due or by prepayment.

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3. Interest.

3.1 Interest Rate. Except as otherwise provided herein, the outstanding amount of the Loan shall bear interest at a rate of 3.01% per annum from the date the Loan was made until the Loan is paid in full, whether at the Maturity Date, upon acceleration, by prepayment or otherwise.

3.2 Default Interest. If any amount payable hereunder is not paid when due (without regard to any applicable grace periods), whether at the Maturity Date, by acceleration, or otherwise, such overdue amount shall bear interest at the rate of 12.0% per annum from the date of such non-payment until such amount is paid in full.

3.3 Computation of Interest. All computations of interest shall be made on the basis of a year of 365 days and the actual number of days elapsed. Interest shall accrue on the Loan on the day it is made, and shall not accrue on the Loan for the day on which it is paid.

3.4 Interest Rate Limitation. If at any time and for any reason whatsoever, the interest rate payable on the Loan shall exceed the maximum rate of interest permitted to be charged by the Holder to SMC under applicable Law, such interest rate shall be reduced automatically to the maximum rate of interest permitted to be charged under applicable Law.

4. Payment Mechanics. Subject to Subsection 2.3, payment of the Loan and interest thereon shall be made in lawful money of the United States of America no later than 5:00 p.m., Pacific time, on the date on which such payment is due by wire transfer of immediately available funds to the Holder's account at a bank specified by the Holder in writing to SMC from time to time.

5. Events of Default. The occurrence and continuance of any of the following shall constitute an Event of Default hereunder:

5.1 Failure to Pay. SMC fails to pay (a) any amount of the Loan when due or (b) interest or any other amount when due and such failure continues for five days.

5.2 Bankruptcy.

(a) SMC commences any case, proceeding or other action (i) under any existing or future Law relating to bankruptcy, insolvency, reorganization, or other relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts or (ii) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or SMC makes a general assignment for the benefit of its creditors.

(b) There is commenced against SMC any case, proceeding or other action of a nature referred to in Subsection 5.2(a) that (i) results in the entry of an order for relief or any such adjudication or appointment or (ii) remains undismissed, undischarged or unbonded for a period of thirty days.

(c) There is commenced against SMC any case, proceeding or other action seeking issuance of a warrant of attachment, execution or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that has not been vacated, discharged, or stayed or bonded pending appeal within thirty days from the entry thereof.

(d) SMC takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in Subsection 5.2(a), (b) or (c).

(e) SMC is generally not able to, or shall be unable to, or admits in writing its inability to, pay its debts as they become due.

5.3 Judgments. One or more judgments or decrees shall be entered against SMC and all of such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within thirty days from the entry thereof.

5.4 Breach. SMC defaults in any material respect in its performance of any material covenant or obligation required to be performed or satisfied by it under this Note or the Warrant Exercise Agreement.

6. Remedies. Upon the occurrence of any Event of Default and at any time thereafter during the continuance of such Event of Default, the Holder may at its option, by written notice to SMC, declare the entire amount of the Loan, together with all accrued interest thereon and all other amounts payable hereunder, immediately due and payable, *provided, however*, that, if an Event of Default described in Subsection 5.2 shall occur, the amount of the Loan, and accrued interest thereon, shall become immediately due and payable without any notice, declaration or other act on the part of the Holder.

7. Security. As security for its obligations hereunder and under the Warrant Exercise Agreement, SMC has granted to the Holder a continuing security interest in all right, title and interest in and to the Warrant Shares (as defined in the Warrant Exercise Agreement). The existence of such security shall not limit any other rights or remedies that the Holder may have in an Event of Default hereunder. SMC hereby irrevocably authorizes the Holder at any time and from time to time to file in any relevant jurisdiction any financing statements and amendments thereto that contain the information required by Article 9 of the Uniform Commercial Code of each applicable jurisdiction for the filing of any financing statement or amendment relating to the collateral, including any financing or continuation statements or other documents for the purpose of perfecting, confirming, continuing, enforcing or protecting the security interest granted by SMC hereunder, without the signature of SMC where permitted by law.

8. Miscellaneous.

8.1 Notices. All notices, requests or other communications required or permitted to be delivered hereunder shall be delivered in writing and in accordance with the Warrant Exercise Agreement.

8.2 Governing Law. This Note and any claim, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Note and the transactions contemplated hereby shall be governed by the laws of the State of Delaware.

8.3 Submission to Jurisdiction.

(a) SMC hereby irrevocably and unconditionally (i) agrees that any legal action, suit or proceeding arising out of or relating to this Note may be brought in the state courts of Delaware and the U.S. District Court for the District of Delaware and (ii) submits to the jurisdiction of any such court in any such action, suit or proceeding. Final judgment against SMC in any action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment.

(b) Nothing in this Subsection 8.3 shall affect the right of the Holder to (i) commence legal proceedings or otherwise sue SMC in any other court having jurisdiction over SMC or (ii) serve process upon SMC in any manner authorized by the laws of any such jurisdiction.

8.4 Venue. SMC irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Note in any court referred to in Subsection 8.3 and the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

8.5 Waiver of Jury Trial. SMC HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY RELATING TO THIS NOTE OR THE TRANSACTIONS CONTEMPLATED HEREBY WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY.

8.6 Successors and Assigns. This Note may not be assigned or transferred by the Holder or SMC without the prior written consent of the other Party. This Note shall inure to the benefit of, and be binding upon, the Parties and their permitted assigns.

8.7 Waiver of Notice. SMC hereby waives demand for payment, presentment for payment, protest, notice of payment, notice of dishonor, notice of nonpayment, notice of acceleration of maturity and diligence in taking any action to collect sums owing hereunder.

8.8 Interpretation. For purposes of this Note: (a) the words “include” and “including” shall be deemed to be followed by the words “without limitation”; (b) the word “or” is not exclusive; and (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Note as a whole. The definitions given for any defined terms in this Note shall apply equally to both the singular and plural forms of the terms defined. Unless the context otherwise requires, references herein (x) to an agreement, instrument or other document mean such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (y) to a statute mean such statute as amended from time to time and include any successor legislation thereto and any regulations promulgated thereunder. This Note shall be construed without regard to any presumption or rule requiring construction or interpretation against the Party drafting an instrument or causing any instrument to be drafted.

8.9 Amendments. No term of this Note may be waived, modified or amended except by an instrument in writing signed by both of the Parties. Any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given.

8.10 Headings. The headings of the various Sections and Subsections herein are for reference only and shall not define, modify, expand or limit any of the terms or provisions hereof.

8.11 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising on the part of the Holder, of any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

8.12 Electronic Execution. The words “execution,” “signed,” “signature,” and words of similar import in this Note shall be deemed to include electronic or digital signatures or the keeping of records in electronic form, each of which shall be of the same effect, validity and enforceability as manually executed signatures or a paper-based recordkeeping system, as the case may be, to the extent and as provided for under applicable law, including the Electronic Signatures in Global and National Commerce Act of 2000 (15 USC § 7001 et seq.), the Electronic Signatures and Records Act of 1999 (N.Y. State Tech. Law §§ 301-309), or any other similar state laws based on the Uniform Electronic Transactions Act.

8.13 Severability. If any term or provision of this Note is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Note or invalidate or render unenforceable such term or provision in any other jurisdiction.

IN WITNESS WHEREOF, SMC has caused this Note to be signed in its name as of the Issue Date written above.

SHENGXIN (SHANGHAI) MANAGEMENT CONSULTING LIMITED PARTNERSHIP

By: /s/ Jian Wang  
Name: Jian Wang  
Title: General Partner

**ACM Research (Shanghai), Inc.**  
**INTERCOMPANY PROMISSORY NOTE**

\$2,981,259.26

Issue Date: March 30, 2018

FOR VALUE RECEIVED, and subject to the terms and conditions set forth herein, ACM Research (Shanghai), Inc. (“*ACM Shanghai*”) unconditionally promises to pay to the order of ACM Research, Inc. or its assigns (the “*Holder*,” and together with ACM Shanghai, the “*Parties*”), the principal amount of \$2,981,259.26 (the “*Loan*”), together with all accrued interest thereon, as provided in this Intercompany Promissory Note (this “*Note*”). This Note is being issued pursuant to the terms of a Warrant Exercise Agreement, dated as of the Issue Date hereof, by and among ACM Shanghai, the Holder and Shengxin (Shanghai) Management Consulting Limited Partnership (the “*Warrant Exercise Agreement*”).

1. Definitions. Capitalized terms used herein shall have the meanings set forth in this Section 1.

“*Default*” means any of the events specified in Section 5 that constitutes an Event of Default or that, upon the giving of notice, the lapse of time or both pursuant to Section 5 would, unless cured or waived, become an Event of Default.

“*Event of Default*” has the meaning set forth in Section 5.

“*Law*,” as to any person, means any law (including common law), statute, ordinance, treaty, rule, regulation, policy or requirement (including any authoritative interpretation thereon) of any government of any nation or any political subdivision thereof (whether at the national, state, territorial, provincial, municipal or any other level), or any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of, or pertaining to, government, whether now or hereafter in effect, in each case, applicable to or binding on such person or any of its properties or to which such person or any of its properties is subject.

“*Maturity Date*” means the earlier of (a) August 17, 2023 and (b) the date on which all amounts under this Note shall become due and payable pursuant to Section 6.

2. Payment Dates; Optional Prepayments.

2.1 Payment Dates. The aggregate unpaid amount of the Loan, all accrued and unpaid interest on the Loan, and all other amounts payable under this Note shall be due and payable on the Maturity Date.

2.2 Optional Prepayments. ACM Shanghai may prepay the Loan in whole or in part at any time or from time to time without penalty or premium by paying the amount of the Loan to be prepaid together with accrued interest thereon to the date of prepayment. No prepaid amount may be reborrowed.

3. Interest.

3.1 Interest Rate. Except as otherwise provided herein, the outstanding amount of the Loan shall bear interest at a rate of 3.01% per annum from the date the Loan was made until the Loan is paid in full, whether at the Maturity Date, upon acceleration, by prepayment or otherwise.

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3.2 Default Interest. If any amount payable hereunder is not paid when due (without regard to any applicable grace periods), whether at the Maturity Date, by acceleration, or otherwise, such overdue amount shall bear interest at the rate of 12.0% per annum from the date of such non-payment until such amount is paid in full.

3.3 Computation of Interest. All computations of interest shall be made on the basis of a year of 365 days and the actual number of days elapsed. Interest shall accrue on the Loan on the day it is made, and shall not accrue on the Loan for the day on which it is paid.

3.4 Interest Rate Limitation. If at any time and for any reason whatsoever, the interest rate payable on the Loan shall exceed the maximum rate of interest permitted to be charged by the Holder to ACM Shanghai under applicable Law, such interest rate shall be reduced automatically to the maximum rate of interest permitted to be charged under applicable Law.

4. Payment Mechanics. Payment of the Loan and interest thereon shall be made in lawful money of the United States of America no later than 5:00 p.m., Pacific time, on the date on which such payment is due by wire transfer of immediately available funds to the Holder's account at a bank specified by the Holder in writing to ACM Shanghai from time to time.

5. Events of Default. The occurrence and continuance of any of the following shall constitute an Event of Default hereunder:

5.1 Failure to Pay. ACM Shanghai fails to pay (a) any amount of the Loan when due or (b) interest or any other amount when due and such failure continues for five days.

5.2 Bankruptcy.

(a) ACM Shanghai commences any case, proceeding or other action (i) under any existing or future Law relating to bankruptcy, insolvency, reorganization, or other relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts or (ii) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or ACM Shanghai makes a general assignment for the benefit of its creditors.

(b) There is commenced against ACM Shanghai any case, proceeding or other action of a nature referred to in Subsection 5.2(a) that (i) results in the entry of an order for relief or any such adjudication or appointment or (ii) remains undismitted, undischarged or unbonded for a period of thirty days.

(c) There is commenced against ACM Shanghai any case, proceeding or other action seeking issuance of a warrant of attachment, execution or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that has not been vacated, discharged, or stayed or bonded pending appeal within thirty days from the entry thereof.

(d) ACM Shanghai takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in Subsection 5.2(a), 5.2(b) or (c).

(e) ACM Shanghai is generally not able to, or shall be unable to, or admits in writing its inability to, pay its debts as they become due.

5.3 Judgments. One or more judgments or decrees shall be entered against ACM Shanghai and all of such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within thirty days from the entry thereof.

5.4 Breach. ACM Shanghai defaults in any material respect in its performance of any material covenant or obligation required to be performed or satisfied by it under this Note or the Warrant Exercise Agreement.

6. Remedies. Upon the occurrence of any Event of Default and at any time thereafter during the continuance of such Event of Default, the Holder may at its option, by written notice to ACM Shanghai, declare the entire amount of the Loan, together with all accrued interest thereon and all other amounts payable hereunder, immediately due and payable, *provided* that, if an Event of Default described in Subsection 5.2 shall occur, the amount of the Loan, and accrued interest thereon, shall become immediately due and payable without any notice, declaration or other act on the part of the Holder.

7. Miscellaneous.

7.1 Notices. All notices, requests or other communications required or permitted to be delivered hereunder shall be delivered in writing and in accordance with the Warrant Exercise Agreement.

7.2 Governing Law. This Note and any claim, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Note and the transactions contemplated hereby shall be governed by the laws of the State of Delaware.

7.3 Submission to Jurisdiction.

(a) ACM Shanghai hereby irrevocably and unconditionally (i) agrees that any legal action, suit or proceeding arising out of or relating to this Note may be brought in the state courts of Delaware and the U.S. District Court for the District of Delaware and (ii) submits to the jurisdiction of any such court in any such action, suit or proceeding. Final judgment against ACM Shanghai in any action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment.

(b) Nothing in this Subsection 7.3 shall affect the right of the Holder to (i) commence legal proceedings or otherwise sue ACM Shanghai in any other court having jurisdiction over ACM Shanghai or (ii) serve process upon ACM Shanghai in any manner authorized by the laws of any such jurisdiction.

7.4 Venue. ACM Shanghai irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Note in any court referred to in Subsection 7.3 and the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

7.5 Waiver of Jury Trial. ACM Shanghai HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY RELATING TO THIS NOTE OR THE TRANSACTIONS CONTEMPLATED HEREBY WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY.

7.6 Successors and Assigns. This Note may not be assigned or transferred by the Holder or ACM Shanghai without the prior written consent of the other Party. This Note shall inure to the benefit of, and be binding upon, the Parties and their permitted assigns.

7.7 Waiver of Notice. ACM Shanghai hereby waives demand for payment, presentment for payment, protest, notice of payment, notice of dishonor, notice of nonpayment, notice of acceleration of maturity and diligence in taking any action to collect sums owing hereunder.

7.8 Interpretation. For purposes of this Note: (a) the words “include” and “including” shall be deemed to be followed by the words “without limitation”; (b) the word “or” is not exclusive; and (c) the words “herein,” “hereof,” “hereby” and “hereunder” refer to this Note as a whole. The definitions given for any defined terms in this Note shall apply equally to both the singular and plural forms of the terms defined. Unless the context otherwise requires, references herein (x) to an agreement, instrument or other document mean such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (y) to a statute mean such statute as amended from time to time and include any successor legislation thereto and any regulations promulgated thereunder. This Note shall be construed without regard to any presumption or rule requiring construction or interpretation against the Party drafting an instrument or causing any instrument to be drafted.

7.9 Amendments. No term of this Note may be waived, modified or amended except by an instrument in writing signed by both of the Parties. Any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given.

7.10 Headings. The headings of the various Sections and Subsections herein are for reference only and shall not define, modify, expand or limit any of the terms or provisions hereof.

7.11 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising on the part of the Holder, of any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

7.12 Electronic Execution. The words “execution,” “signed,” “signature,” and words of similar import in this Note shall be deemed to include electronic or digital signatures or the keeping of records in electronic form, each of which shall be of the same effect, validity and enforceability as manually executed signatures or a paper-based recordkeeping system, as the case may be, to the extent and as provided for under applicable law, including the Electronic Signatures in Global and National Commerce Act of 2000 (15 USC § 7001 et seq.), the Electronic Signatures and Records Act of 1999 (N.Y. State Tech. Law §§ 301-309), or any other similar state laws based on the Uniform Electronic Transactions Act.

7.13 Severability. If any term or provision of this Note is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Note or invalidate or render unenforceable such term or provision in any other jurisdiction.

IN WITNESS WHEREOF, ACM Shanghai has caused this Note to be signed in its name as of the Issue Date written above.

ACM RESEARCH (SHANGHAI), INC.

By: /s/ David H. Wang

Title: Chief Executive Officer and President