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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____.

Commission File Number: **001-38608**

Summit Wireless Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

30-1135279

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

6840 Via Del Oro Ste. 280

San Jose, CA 95119

(Address of principal executive offices) (Zip Code)

(408) 627-4716

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the Registrant's common stock outstanding as of November 14, 2018 is 15,366,327.

SUMMIT WIRELESS TECHNOLOGIES, INC.
QUARTERLY REPORT ON FORM 10-Q
For the quarter ended September 30, 2018

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Summit Wireless Technologies, Inc.

Condensed Consolidated Balance Sheets

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	<u>(unaudited)</u>	<u>(1)</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 6,101,561	\$ 249,143
Accounts receivable	51,469	54,789
Inventories	1,171,034	692,884
Prepaid expenses and other current assets	562,452	203,444
Total current assets	<u>7,886,516</u>	<u>1,200,260</u>
Property and equipment, net	104,863	64,662
Intangible assets, net	69,446	94,445
Other assets	97,546	97,546
Total assets	<u>\$ 8,158,371</u>	<u>\$ 1,456,913</u>
Liabilities, Preferred Stock and Stockholders' Equity (Deficit)		
Current Liabilities:		
Accounts payable	\$ 935,575	\$ 1,331,936
Accrued liabilities	548,405	715,220
Accrued interest	-	1,867,103
Convertible notes payable	-	5,241,361
Total current liabilities	<u>1,483,980</u>	<u>9,155,620</u>
Derivative liability	-	20,832,000
Warrant liability	220,909	1,227,786
Total liabilities	<u>1,704,889</u>	<u>31,215,406</u>
Commitments and contingencies (Note 9)		
Preferred stock, par value \$0.0001; 20,000,000 shares authorized; 0 and 2,762,594 shares issued and outstanding as of September 30, 2018 and December 31, 2017 (liquidation preference of \$0 and \$12,432,000 as of September 30, 2018 and December 31, 2017)	-	64,734,841
Stockholders' Equity (Deficit):		
Common stock, par value \$0.0001; 200,000,000 shares authorized; 15,366,327 and 324,821 shares issued and outstanding as of September 30, 2018 and December 31, 2017	1,536	32
Additional paid-in capital	179,397,080	13,831,943
Accumulated other comprehensive loss	(44,161)	(41,886)
Accumulated deficit	(172,900,973)	(108,283,423)
Total stockholders' equity (deficit)	<u>6,453,482</u>	<u>(94,493,334)</u>
Total liabilities, preferred stock and stockholders' equity (deficit)	<u>\$ 8,158,371</u>	<u>\$ 1,456,913</u>

(1) The condensed consolidated balance sheet as of December 31, 2017 was derived from the audited consolidated balance sheet as of that date.

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

Summit Wireless Technologies, Inc.

Condensed Consolidated Statements of Operations

For the three and nine months ended September 30, 2018 and 2017
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue, net	\$ 384,740	\$ 196,487	\$ 1,046,354	\$ 901,454
Cost of revenue	412,453	244,531	1,244,085	1,028,871
Gross profit	<u>(27,713)</u>	<u>(48,044)</u>	<u>(197,731)</u>	<u>(127,417)</u>
Operating Expenses:				
Research and development	1,042,206	908,134	3,640,012	2,783,064
Sales and marketing	679,594	367,801	2,060,961	1,251,887
General and administrative	1,211,518	269,552	2,860,218	856,697
Total operating expenses	<u>2,933,318</u>	<u>1,545,487</u>	<u>8,561,191</u>	<u>4,891,648</u>
Loss from operations	(2,961,031)	(1,593,531)	(8,758,922)	(5,019,065)
Interest expense	(14,171,499)	(3,792,317)	(33,502,092)	(7,654,750)
Change in fair value of warrant liability	(3,878,196)	3,220,152	(8,127,196)	3,203,468
Change in fair value of derivative liability	(10,907,963)	-	(14,293,963)	-
Other income (expense), net	72,668	(1,565)	72,773	(7,630)
Loss before provision for income taxes	<u>(31,846,021)</u>	<u>(2,167,261)</u>	<u>(64,609,400)</u>	<u>(9,477,977)</u>
Provision for income taxes	6,150	-	8,150	2,950
Net loss	<u>\$ (31,852,171)</u>	<u>\$ (2,167,261)</u>	<u>\$ (64,617,550)</u>	<u>\$ (9,480,927)</u>
Net loss per common share - basic and diluted	<u>\$ (2.89)</u>	<u>\$ (6.35)</u>	<u>\$ (16.60)</u>	<u>\$ (27.76)</u>
Weighted average number of common shares used in computing net loss per common share	<u>11,028,602</u>	<u>341,488</u>	<u>3,892,893</u>	<u>341,488</u>

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

Summit Wireless Technologies, Inc.

Condensed Consolidated Statements of Comprehensive Loss
For the three and nine months ended September 30, 2018 and 2017
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	\$ (31,852,171)	\$ (2,167,261)	\$ (64,617,550)	\$ (9,480,927)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(1,215)	(322)	(2,275)	(3,354)
Comprehensive loss	<u>\$ (31,853,386)</u>	<u>\$ (2,167,583)</u>	<u>\$ (64,619,825)</u>	<u>\$ (9,484,281)</u>

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

Summit Wireless Technologies, Inc.

Condensed Consolidated Statements of Cash Flows
For the nine months ended September 30, 2018 and 2017
(unaudited)

	Nine Months Ended September	
	30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (64,617,550)	\$ (9,480,927)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,518	50,486
Stock-based compensation	2,728,551	-
Noncash interest expense	1,590,406	-
Amortization of intangible asset	24,999	-
Amortization of debt discounts	25,593,467	5,976,125
Change in fair value of warrant liability	8,127,196	(3,203,468)
Change in fair value of derivative liability	14,293,963	-
Compensation expense for issuance of consultant warrants	176,000	-
Changes in operating assets and liabilities:		
Accounts receivable	3,320	(46,095)
Inventories	(478,150)	(157,101)
Prepaid expenses and other assets	(359,008)	(75,068)
Accounts payable	(348,318)	(196,321)
Accrued liabilities	(166,789)	(1,131,034)
Accrued interest	6,316,331	1,652,419
Net cash used in operating activities	<u>(7,086,064)</u>	<u>(6,610,984)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(69,719)	(2,095)
Net cash used in investing activities	<u>(69,719)</u>	<u>(2,095)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	10,272,679	-
Proceeds from issuance of promissory notes, net of issuance costs	2,002,000	-
Proceeds from issuance of convertible notes payable, net of issuance costs	1,434,698	7,018,478
Repayment of convertible notes payable	(200,000)	(57,903)
Taxes paid related to net share settlements of equity awards	(498,901)	-
Net cash provided by financing activities	<u>13,010,476</u>	<u>6,960,575</u>
Effect of exchange rate changes on cash and cash equivalents	(2,275)	(3,354)
Net increase in cash and cash equivalents	<u>5,852,418</u>	<u>344,142</u>
Cash and cash equivalents as of beginning of year	<u>249,143</u>	<u>92,262</u>
Cash and cash equivalents as of end of year	<u>6,101,561</u>	<u>436,404</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 8,150</u>	<u>\$ 2,950</u>
Noncash Investing and Financing Activities:		
Issuance of warrants in connection with convertible notes payable	<u>\$ 3,301,250</u>	<u>\$ 3,332,897</u>
Issuance of warrant in connection with settlement agreement with Series E holders	<u>\$ 1,590,406</u>	<u>\$ -</u>
Issuance of warrants in connection in initial public offering	<u>\$ 169,000</u>	<u>\$ -</u>
Beneficial conversion feature of convertible notes payable	<u>\$ 665,000</u>	<u>\$ 3,151,665</u>
Reclassification of warrant from liability to equity	<u>\$ 192,000</u>	<u>\$ -</u>
Issuance of convertible notes payable upon amendment of promissory notes	<u>\$ -</u>	<u>\$ 150,000</u>
Issuance of convertible notes in lieu of employee expense payments	<u>\$ 50,000</u>	<u>\$ -</u>
Reduction of convertible notes payable by shipment of inventories	<u>\$ -</u>	<u>\$ 277,725</u>
Conversion of accrued interest to accounts payable	<u>\$ 1,957</u>	<u>\$ -</u>
Conversion of interest to convertible notes payable as principal	<u>\$ 10,182</u>	<u>\$ 9,234</u>
Reclassification of promissory notes to convertible notes payable	<u>\$ 2,250,000</u>	<u>\$ -</u>
Fair value of derivative liability in connection with issuance of notes payable	<u>\$ 7,886,125</u>	<u>\$ -</u>
Conversion of preferred units to common stock upon initial public offering	<u>\$ 64,734,841</u>	<u>\$ -</u>

Conversion of convertible notes and accrued interest to common stock upon initial public offering	\$ 30,450,139	\$ -
Reclassification of derivative liability to equity upon initial public offering	\$ 43,012,088	\$ -
Reclassification of warrant liability to equity upon initial public offering	\$ 9,118,073	\$ -

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

Notes To Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2018 and 2017
(unaudited)

1. Business and Viability of Operations

Summit Wireless Technologies, Inc. (f/k/a Summit Semiconductor, Inc.) (also referred to herein as “we”, “us”, “our”, or the “Company”) was originally formed as a limited liability company in Delaware on July 23, 2010. The Company develops wireless audio integrated circuits for home entertainment and professional audio markets. On December 31, 2017, the Company converted from a Delaware limited liability company to a Delaware corporation (the “Conversion”). Prior to the Conversion, the Company had been taxed as a partnership for federal and state income tax purposes, such that the Company’s taxable income was reported by its members in their respective tax returns. Following the Conversion, the Company will be taxed as a corporation. In connection with the Conversion, the Company’s Board of Directors approved a 15-for-1 reverse split of the Company’s units into stock. All unit and stock data in this report have been retroactively adjusted to reflect the split. In connection with the Conversion, the Company authorized 20,000,000 shares of preferred stock and 200,000,000 shares of common stock and issued 324,821 shares of common stock to such investors previously holding 4,872,221 common membership interests and 2,762,594 shares of convertible preferred stock to such investors previously holding 41,438,818 preferred membership interests. Such shares of common stock and preferred stock were fully paid, nonassessable shares of stock of the Company.

On July 26, 2018, the Company closed its initial public offering (“IPO”). The Company’s registration statement on Form S-1 (File No. 333-224267) relating to the IPO was declared effective by the Securities and Exchange Commission (“SEC”) on July 25, 2018. The shares of common stock began trading on The NASDAQ Capital Market under the ticker symbol “WISA” on July 27, 2018. Under the offering, the Company issued 2,400,000 shares of common stock at an offering price of \$5.00 per share, raising gross proceeds of \$12,000,000. In aggregate, the shares issued in the offering generated approximately \$10,273,000 in net proceeds, which amount is net of \$900,000 in underwriters’ discounts and commissions, \$220,000 in underwriters’ accountable and non-accountable expenses and legal, accounting and other estimated offering costs of \$607,000. Upon the closing of the IPO, (i) all shares of preferred stock then outstanding were automatically converted into 2,762,594 shares of common stock and (ii) all convertible notes payable along with accrued interest were automatically converted in to 9,527,144 shares of common stock, except for \$200,000 of such notes which were repaid in cash immediately following the offering.

Liquidity and management plans

Since inception, the Company has incurred recurring net operating losses. As of September 30, 2018 and December 31, 2017, the Company had an accumulated deficit of \$172.9 million and \$108.3 million, respectively, and expects to incur losses for the foreseeable future. To date, the Company has financed its operations primarily through sales of its common stock in conjunction with the Company’s IPO in July 2018, sales of common and preferred units prior to its IPO and proceeds from convertible notes.

As of September 30, 2018 and December 31, 2017, the Company had cash and cash equivalents of \$6.1 million and \$0.2 million, respectively. Management believes that the Company’s current cash and investments, including the net proceeds of approximately \$10.3 million from the closing of its IPO in July 2018, as described above, along with the anticipated proceeds from its future operating results, will provide sufficient funds to enable the Company to meet its obligations through at least November 2019, a period of at least twelve months from the date on which the condensed consolidated financial statements are issued. However, if the anticipated operating results are not achieved in future periods, the Company’s planned expenditures may need to be reduced in order to extend the time period over which the then-available resources would be able to fund the Company’s operations. The cost and timing of developing the Company’s products are highly uncertain and are subject to substantial risks and many changes. As such, the Company may alter its expenditures as a result of lower than expected revenues or unexpected operating costs. In such case, the Company will need to raise additional funds in the future, including through financings. There can be no assurance, however, that such efforts will be successful or that, in the event they are successful, the terms and conditions of such financings will be favorable to the Company.

Notes To Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2018 and 2017
(unaudited)

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and pursuant to Article 10 of Regulation S-X of the Securities Act of 1933, as amended (“Securities Act”). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements include all normal and recurring adjustments that the Company believes are necessary to fairly state the Company’s financial position and the results of operations and cash flows. Interim period results are not necessarily indicative of results of operations or cash flows for a full year or any subsequent interim period. The condensed consolidated balance sheet as of December 31, 2017 has been derived from audited consolidated financial statements at that date, but does not include all disclosures required by U.S. GAAP for complete financial statements.

Deferred Offering Costs

Deferred offering costs, consisting of legal, accounting, filing and other fees related to the IPO were capitalized during our IPO process. During the three months ended September 30, 2018, \$607,000 in deferred offering costs were reclassified to additional paid-in capital upon the effectiveness of the IPO. As of December 31, 2017, \$54,000 of deferred offering costs were capitalized and included in other assets on the condensed consolidated balance sheet.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited in demand and money market accounts at one financial institution. At times, such deposits may be in excess of insured limits. The Company has not experienced any losses on its deposits of cash and cash equivalents.

The Company’s accounts receivable are derived from revenue earned from customers located throughout the world. The Company performs credit evaluations of its customers’ financial condition and sometimes requires partial payment in advance of shipping. As of September 30, 2018, the Company had two customers accounting for 89% and 11% of accounts receivable. As of December 31, 2017, the Company had two customers accounting for 74% and 12% of accounts receivable. The Company had two customers accounting for 51% and 45% of its net revenue for the three months ended September 30, 2018. The Company had one customers accounting for 92% of its net revenue for the three months ended September 30, 2017. The Company had two customers accounting for 59%, and 32% of its net revenue for the nine months ended September 30, 2018. The Company had three customers accounting for 50%, 31% and 8% of its net revenue for the nine months ended September 30, 2017.

Notes To Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2018 and 2017
(unaudited)

2. Summary of Significant Accounting Policies, continued

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, rapid technological change, continued acceptance of the Company's products, competition from substitute products and larger companies, protection of proprietary technology, strategic relationships and dependence on key individuals.

The Company relies on sole-source suppliers to manufacture some of the components used in its product. The Company's manufacturers and suppliers may encounter problems during manufacturing due to a variety of reasons, any of which could delay or impede their ability to meet demand. The Company is heavily dependent on a single contractor in China for assembly and testing of its products.

Convertible Financial Instruments

The Company bifurcates conversion options and warrants from their host instruments and accounts for them as freestanding derivative financial instruments if certain criteria are met. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule is when the host instrument is deemed to be conventional, as that term is described under applicable U.S. GAAP.

When the Company has determined that the embedded conversion options and warrants should be bifurcated from their host instruments, discounts are recorded for the intrinsic value of conversion options embedded in the instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the transaction and the effective conversion price embedded in the instrument.

Debt discounts under these arrangements are amortized to interest expense using the interest method over the earlier of the term of the related debt or their earliest date of redemption.

The Company has pledged all its assets, including its personal property, fixtures, intellectual property and products as collateral for certain of its promissory and convertible notes payable.

Warrants for Common Shares and Derivative Financial Instruments

Warrants for common shares and other derivative financial instruments are classified as equity if the contracts (1) require physical settlement or net-share settlement or (2) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). Contracts which (1) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company), (2) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement), or (3) that contain reset provisions that do not qualify for the scope exception are classified as equity or liabilities. The Company assesses classification of its warrants for common shares and other derivatives at each reporting date to determine whether a change in classification between equity and liabilities is required.

The issuance of the convertible notes payable generated a beneficial conversion feature ("BCF"), which arises when a debt or equity security is issued with an embedded conversion option that is beneficial to the investor or in the money at inception because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. The Company recognized the BCF by allocating the intrinsic value of the conversion option, which is the number of shares of common stock available upon conversion multiplied by the difference between the effective conversion price per share and the fair value of common stock per share on the commitment date, to common shares, resulting in a discount on the convertible debt.

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Sales of products with alternative use account for the majority of our revenue and are recognized at a point in time.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by us from a customer and deposited with the relevant government authority, are excluded from revenue. Our revenue arrangements do not contain significant financing components.

Notes To Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2018 and 2017
(unaudited)

2. Summary of Significant Accounting Policies, continued

Sales to certain distributors are made under arrangements which provide the distributors with price adjustments, price protection, stock rotation and other allowances under certain circumstances. The Company does not provide its customers with a contractual right of return. However, the Company accepts limited returns on a case-by-case basis. These returns, adjustments and other allowances are accounted for as variable consideration. We estimate these amounts based on the expected amount to be provided to customers and reduce revenue recognized. We believe that there will not be significant changes to our estimates of variable consideration.

If a customer pays consideration, or the Company has a right to an amount of consideration that is unconditional before we transfer a good or service to the customer, those amounts are classified as deferred income/ advances received from customers which are included in other current liabilities when the payment is made or it is due, whichever is earlier.

Comprehensive Loss

Comprehensive loss includes all changes within stockholders' equity (deficit) that are not the result of transactions with stockholders. Accumulated other comprehensive loss includes the foreign currency translation adjustments arising from the consolidation of the Company's foreign subsidiary.

Foreign Currency

The financial position and results of operations of the Company's foreign operations are measured using currencies other than the U.S. dollar as their functional currencies. Accordingly, for these operations all assets and liabilities are translated into U.S. dollars at the current exchange rates as of the respective balance sheet date. Expense items are translated using the weighted average exchange rates prevailing during the period. Cumulative gains and losses from the translation of these operations' financial statements are reported as a separate component of stockholders' equity (deficit), while foreign currency transaction gains or losses, resulting from remeasuring local currency to the U.S. dollar are recorded in the condensed consolidated statement of operations in other income (expense), net and were not material for the three and nine months ended September 30, 2018 and 2017.

Advertising Costs

Advertising costs are charged to sales and marketing expenses as incurred. Advertising costs for the three and nine months ended September 30, 2018 and 2017 were not material.

Net Loss per Common Share

Basic net loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period, without consideration for potentially dilutive securities. Diluted net loss per common share is computed by dividing the net loss by the weighted average number of common shares and potentially dilutive common share equivalents outstanding for the period determined using the treasury-stock and if-converted methods. For purposes of the diluted net loss per common share calculation, preferred stock, warrants for common stock, restricted stock units and shares issuable upon the conversion of convertible notes payable are considered to be potentially dilutive securities.

For the three and nine months ended September 30, 2018, warrants to purchase 8,601,813 shares of common stock, and 943,352 shares of restricted stock have been excluded from the calculation of net loss per common share because the inclusion would be antidilutive. For the three and nine months ended September 30, 2017, warrants to purchase 2,176,469 shares of common stock and 2,762,594 shares of preferred stock have been excluded from the calculation of net loss per common share because the inclusion would be antidilutive. In addition, shares issuable upon the conversion of convertible notes payable have been excluded from the calculation of net loss per common share for all periods presented because the inclusion would be antidilutive.

Notes To Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2018 and 2017
(unaudited)

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) on revenue from contracts with customers, ASU No. 2014-09, Revenue from Contracts with Customers (“Topic 606”). This standard update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The guidance is effective for annual reporting periods including interim reporting reports beginning after December 15, 2017. Collectively, we refer to Topic 606, its related amendments and Subtopic 340-40 as the “new standard”.

On January 1, 2018, we adopted the new standard using the modified retrospective method applied to all contracts that are not completed contracts at the date of initial application (i.e., January 1, 2018). Results for reporting periods after January 1, 2018 are presented under the new standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting. There was no impact on the opening accumulated deficit as of January 1, 2018 due to the adoption of the new standard.

We have reviewed other recent accounting pronouncements and concluded they are either not applicable to the business, or no material effect is expected on the condensed consolidated financial statements as a result of future adoption.

3. Balance Sheet Components

Inventories:

	September 30, 2018	December 31, 2017
Raw materials	\$ 3,730	\$ 3,729
Work in progress	91,735	141,302
Finished goods	1,075,569	547,853
Total inventories	\$ 1,171,034	\$ 692,884

Property and equipment, net:

	September 30, 2018	December 31, 2017
Machinery and equipment	\$ 833,587	\$ 768,168
Tooling	27,200	22,900
Computer software	91,631	91,631
Furniture and fixtures	15,000	15,000
Leasehold improvements	11,238	11,238
	978,656	908,937
Less: Accumulated depreciation and amortization	(873,793)	(844,275)
Property and equipment, net	\$ 104,863	\$ 64,662

Depreciation and amortization expense for the three months ended September 30, 2018 and 2017 was \$10,292 and \$8,155, respectively. Depreciation and amortization expense for the nine months ended September 30, 2017 and 2018 was \$29,518 and \$50,486, respectively.

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3. Balance Sheet Components, continued

Accrued liabilities:

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Accrued vacation	\$ 221,098	\$ 197,976
Accrued compensation	76,623	27,058
Accrued bonus	34,730	227,194
Accrued other	<u>215,954</u>	<u>262,992</u>
Total accrued liabilities	<u>\$ 548,405</u>	<u>\$ 715,220</u>

4. Promissory Notes

In connection with the acquisition of the Focus Enhancements, Inc. assets in July 2010, the Company assumed an asset purchase agreement with Hallo Development Co, LLC (“Hallo”). In October 2010, the Hallo agreement was amended to require the Company to pay royalties to Hallo at specified rates based on annual net sales derived from the Company’s purchased technology over a period of three years with a minimum royalty of \$900,000. Initial shipments commenced in 2011 and after three years, cumulative royalties due Hallo were \$900,000. In April 2014, the Hallo agreement was amended, converting the outstanding balance of \$357,500, to an unsecured promissory note (“Hallo Note”), bearing interest at 18.0% per year with an initial maturity date of December 31, 2015, that was later extended. In December 2016, following a principal reduction payment of \$37,500, the Hallo Note was amended as follows: (i) the maturity date was changed to “five days following an IPO”, (ii) following a debt or equity financing in excess of \$4,000,000, the Company would make a principal reduction payment of \$12,500, (iii) on the maturity date, the Company would make a principal reduction payment of \$95,000, and (iv) the remaining unpaid principal and accrued interest, after the payments described in (ii) and (iii) above, shall automatically convert to shares in connection with an initial public offering, at a conversion price equal to the average of the highest and the lowest price of the related stock that the Company sold on the maturity date. As a result of such amendment, the Hallo Note was reclassified to convertible notes payable as of December 31, 2016. As of February 28, 2018, the Hallo note holders agreed to amend the conversion price language in their respective convertible notes to be the lower of (i) \$4.50 or (ii) the initial price of the Company’s common stock sold pursuant to an IPO and to extend the maturity date to June 30, 2018. The Company has recognized interest expense of \$3,530 and \$9,811 for the three months ended September 30, 2018 and 2017, respectively. The Company has recognized interest expense of \$23,666 and \$30,100 for the nine months ended September 30, 2018 and 2017, respectively. The Company made principal reduction payments under the Hallo Note of \$100,000 and \$13,750 for the nine months ended September 30, 2018 and 2017, respectively. As of December 31, 2017, \$218,750 of principal was due under the Hallo Note and such amount is classified under convertible notes payable. On July 25, 2018, the outstanding convertible note automatically converted into 56,723 shares of common stock in connection with the Company’s IPO.

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4. Promissory Notes, continued

On January 5, 2015, we entered into a Loan and Securities Agreement and a separate Secured Promissory Note with the principal face value of \$500,000 (the "January 2015 Note"). The personal property, fixtures and intellectual property and products of the Company serve as the collateral for the borrowing. The initial interest rate was 15.0% per year with an initial maturity date of July 5, 2015, that was later extended. In February 2016, following a principal reduction payment of \$225,000, the maturity date was extended to September 1, 2017, and the interest rate was adjusted to 10.0% per year. In December 2016, following a principal reduction payment of \$23,414, the January 2015 Note was amended as follows: (i) the maturity date was changed to "five days following an IPO", (ii) following a debt or equity financing in excess of \$4,000,000 prior to an IPO, the Company would make a principal reduction payment of \$12,500, (iii) on the maturity date, the Company would make a principal reduction payment of \$95,000, and (iv) the remaining unpaid principal and accrued interest, after the payments described in (ii) and (iii) above, shall automatically convert to shares in connection with the IPO, at a conversion price equal to the average of the highest and the lowest price of the related stock that the Company sold on the maturity date. As a result of such amendment, the January 2015 Note was reclassified to convertible notes payable as of December 31, 2016. As of February 28, 2018, the January 2015 Note holders agreed to amend the conversion price language in their respective convertible notes to be the lower of (i) \$4.50 or (ii) the initial price of the Company's common stock sold pursuant to an IPO and to extend the maturity date to June 30, 2018. The Company has recognized interest expense of \$1,472 and \$6,313 for the three months ended September 30, 2018 and 2017, respectively. The Company has recognized interest expense of \$10,518 and \$18,831 for the nine months ended September 30, 2018 and 2017, respectively. The Company made principal reduction payments under the January 2015 Note of \$100,000 and \$13,750 for the nine months ended September 30, 2018 and 2017, respectively. As of December 31, 2017, \$265,331 was due under the January 2015 Note and such amount is classified under convertible notes payable. On July 25, 2018, the outstanding convertible note automatically converted into 39,653 shares of common stock in connection with the Company's IPO.

On April 4, 2015, we entered into a Loan and Securities Agreement and a separate Secured Promissory Note with the principal face value of \$450,000 (the "April 2015 Note"). The proceeds from April 2015 Note were used to repay the \$450,000 loan outstanding with a bank. The personal property, fixtures and intellectual property and products of the Company serve as the collateral for the borrowing. Interest accrues at a rate 5.0% per year during the first twelve months and increases to 10.0% per year through maturity. All principal and related accrued interest outstanding are due and payable at the maturity date, which was originally January 31, 2017. In November 2016, the April 2015 Note was amended to (i) change the maturity date to September 1, 2017 and (ii) provide that if the Company completes an underwritten public offering of its common shares or consummates a change of control, then the aggregate outstanding principal and related accrued interest will automatically convert into the number of common shares equal to the quotient obtained by dividing the aggregate principal and accrued interest by the conversion price. The conversion price is the lesser of \$4.50 or the highest price per common share sold in the IPO or paid by a buyer upon a change in control multiplied by 75%. As a result of such amendment, the April 2015 Note was reclassified to convertible notes payable. As of February 28, 2018, the April 2015 Note holder agreed to extend the maturity date to June 30, 2018. The Company has recognized interest expense of \$3,082 and \$11,343 for the three months ended September 30, 2018 and 2017, respectively. The Company has recognized interest expense of \$25,397 and \$33,658 for the nine months ended September 30, 2018 and 2017, respectively. As of December 31, 2017, \$450,000 was due under the April 2015 Note and such amount is classified under convertible notes payable. On July 25, 2018, the outstanding convertible note automatically converted into 155,373 shares of common stock in connection with the Company's IPO.

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4. Promissory Notes, continued

On September 18, 2015, we entered into a Loan and Securities Agreement and a separate Secured Promissory Note with the principal face value of \$200,000 (the "September 2015 Note"). The personal property, fixtures and intellectual property and products of the Company serve as the collateral for the borrowing. Interest accrues at a rate 10.0% per year through maturity. All principal and related accrued interest outstanding are due and payable at the maturity date, which was originally January 31, 2017. In November 2016, the September 2015 Note was amended to (i) change the maturity date to September 1, 2017 and (ii) provide that if the Company completes an underwritten public offering of its common shares or consummates a change of control, then the aggregate outstanding principal and related accrued interest will automatically convert in to the number of common shares equal to the quotient obtained by dividing the aggregate principal and accrued interest by the conversion price. The conversion price is the lesser of \$4.50 or the highest price per common share sold in the IPO or paid by a buyer upon a change in control multiplied by 75%. As a result of such amendment, the September 2015 Note was reclassified to convertible notes payable. As of February 28, 2018, the September 2015 Note holder agreed to extend the maturity date to June 30, 2018. The Company has recognized interest expense of \$1,219 and \$6,274 for the three months ended September 30, 2018 and 2017, respectively. The Company has recognized interest expense of \$11,137 and \$14,959 for the nine months ended September 30, 2018 and 2017, respectively. As of December 31, 2017, \$200,000 was due under the September 2015 Note and such amount is classified under convertible notes payable. On July 25, 2018, the outstanding convertible note automatically converted into 68,544 shares of common stock in connection with the Company's IPO.

In connection with the sale of product on December 22, 2015, we entered into a Loan and Securities Agreement and a separate Secured Promissory Note with the principal face value of \$353,475 (the "December 2015 Note"). The principal amount represented as advance on the product sale. The personal property, fixtures and intellectual property and products of the Company served as the collateral for the borrowing (see Note 5 – Series E Convertible Note Payable for subsequent release of collateral). Interest accrues at a rate 12.0% per year through maturity. All principal and related accrued interest outstanding are due and payable at the maturity date, which was originally September 22, 2016, that was later extended. In December 2016, the December 2015 Note was amended to (i) change the maturity date to September 1, 2017 and (ii) provide that if the Company completes an underwritten public offering of its common shares or consummates a change of control, then the aggregate outstanding principal and related accrued interest will automatically convert in to the number of common shares equal to the quotient obtained by dividing the aggregate principal and accrued interest by the conversion price. The conversion price is the lesser of \$4.50 or the highest price per common share sold in an initial public offering or paid by a buyer upon a change in control multiplied by 75%. As a result of such amendment, the December 2015 Note was reclassified to convertible notes payable. The Company has recognized interest expense of \$5,511 for both the three and nine months ended September 30, 2017, respectively. In 2016 and 2017, the Company shipped finished inventory valued at \$75,750 and \$277,725, respectively, to the lender which agreed that such shipment shall be considered a principal reduction payment. As of December 31, 2017, the December 2015 Note had a zero principal balance as the Company had fulfilled its obligation to ship product to the lender. On July 25, 2018, the outstanding accrued interest on the December 2015 Note automatically converted into 11,295 shares of common stock in connection with the Company's IPO.

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4. Promissory Notes, continued

During February 2016, we entered into five different Loan and Securities Agreements and separate Secured Promissory Notes with a total principal face value of \$250,000 (the “Five February 2016 Notes”). The personal property, fixtures and intellectual property and products of the Company serve as the collateral for the borrowings. Interest accrues at a rate 10.0% per year through maturity. All principal and related accrued interest outstanding are due and payable at the maturity date, which was originally February 1, 2017, that was later extended. In December 2016, two of the Five February 2016 Notes were terminated and extinguished and the lenders agreed that the \$100,000 aggregate principal balance of the loans and the \$8,863 aggregate accrued interest would be used to fund their participation in the Series D convertible notes. In May 2017, the three remaining holders of the Five February 2016 Notes agreed to amend their notes to include a provision that if the Company completes an underwritten public offering of its common shares or consummates a change of control, then the aggregate outstanding principal and related accrued interest will automatically convert in to the number of common shares equal to the quotient obtained by dividing the aggregate principal and accrued interest by the conversion price. The conversion price is the lesser of \$4.50 or the highest price per common share sold in the IPO or paid by a buyer upon a change in control multiplied by 75%. As a result of such amendment, the three remaining Five February 2016 Notes were reclassified to convertible notes payable. Effective February 28, 2018, the February 2016 Note holders agreed to extend the maturity date to June 30, 2018. The Company has recognized interest expense of \$986 and \$3,781 for the three months ended September 30, 2018 and 2017, respectively. The Company has recognized interest expense of \$8,425 and \$11,219 for the nine months ended September 30, 2018 and 2017, respectively. As of December 31, 2017, \$150,000 was due to the remaining holders of the Five February 2016 Notes and such amount is classified under convertible notes payable. On July 25, 2018, the outstanding convertible notes automatically converted into 49,815 shares of common stock in connection with the Company’s IPO.

In connection with the Five February 2016 Notes, the Company issued warrants to purchase common shares of 111,112 (see Note 6 – Fair Value Measurements for fair value computation). The sum of the fair value of the warrants was recorded as a debt discount to be amortized over the respective terms of the various notes. The debt discounts are amortized to interest expense using the effective interest method. During the three months ended September 30, 2018 and 2017, the Company recognized \$0 from the amortization of the debt discount for both periods. During the nine months ended September 30, 2018 and 2017, the Company recognized \$0 and \$29,000, respectively, from the amortization of the debt discount.

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5. Convertible Notes Payable

As of July 25, 2018, the convertible notes payable and related accrued interest were converted in to 9,527,144 shares of common stock in connection with the Company's initial public offering. No convertible notes payable were outstanding as of September 30, 2018. The balance of the convertible notes payable as of December 31, 2017 is as follows:

	Company Proceeds	Carrying Value as of December 31, 2017	Accrued Interest as of December 31, 2017	Principal Value as of Maturity
Series C Convertible notes payable	\$ 2,880,000	\$ 25,000	\$ 4,412	\$ 29,412
Series D Convertible notes payable	4,716,992	8,039,580	1,357,412	\$ 9,458,330
Series F Convertible notes payable	9,000,000	9,000,000	112,192	\$ 9,000,000
Various individual convertible notes payable	1,584,082	1,584,082	393,087	\$ 1,584,082
Total	<u>\$ 18,181,074</u>	<u>18,648,662</u>	<u>1,867,103</u>	<u>\$ 20,071,824</u>
Less: Debt discount		(1,971,997)	-	
Less: Embedded conversion features		(10,831,000)	-	
Less: Beneficial conversion features		(604,304)	-	
Balance as of December 31, 2017		<u>\$ 5,241,361</u>	<u>\$ 1,867,103</u>	

On February 12, 2016, we entered into a Loan and Securities Agreement and a separate Secured Promissory Note with the principal face value of \$300,000 (the "February 2016 Note"). The personal property, fixtures and intellectual property and products of the Company serve as the collateral for the borrowing (see Note 5 – Series E Convertible Note Payable for subsequent release of collateral). Interest accrues at a rate 10.0% per year through maturity. All principal and related accrued interest outstanding are due and payable at the maturity date, which was originally January 31, 2017. In November 2016, the February 2016 Note was amended to (i) change the maturity date to September 1, 2017 and (ii) provide that if the Company completes an underwritten public offering of its common shares or consummates a change of control, then the aggregate outstanding principal and related accrued interest will automatically convert in to the number of common shares equal to the quotient obtained by dividing the aggregate principal and accrued interest by the conversion price. The conversion price is the lesser of \$4.50 or the highest price per common share sold in the IPO or paid by a buyer upon a change in control multiplied by 75%. As a result of such amendment, the February 2016 Note was reclassified to convertible notes payable. As of February 28, 2018, the February 2016 Note holders agreed to extend the maturity date to June 30, 2018. The Company has recognized interest expense of \$1,973 and \$7,561 for the three months ended September 30, 2018 and 2017, respectively. The Company has recognized interest expense of \$16,849 and \$22,438 for the nine months ended September 30, 2018 and 2017, respectively. As of December 31, 2017, \$300,000 of principal was due under the February 2016 Note and such amount is classified under convertible notes payable. On July 25, 2018, the outstanding convertible note automatically converted into 99,594 shares of common stock in connection with the Company's IPO.

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5. Convertible Notes Payable, continued

In connection with the February 2016 Note, the Company issued warrants to purchase 33,334 common shares (see Note 6 – Fair Value Measurements for fair value computation). The sum of the fair value of the warrants for the February 2016 Note was recorded as a debt discount and is being amortized to interest expense over the term of the note using the effective interest method. During both of the three months ended September 30, 2018 and 2017, the Company recognized interest expense of \$0 from the amortization of the debt discount. During the nine months ended September 30, 2018 and 2017, the Company recognized interest expense of \$0 and \$13,250, respectively, from the amortization of the debt discount.

On May 11, 2016, a significant shareholder provided a \$300,000 unsecured advance to the Company (the “May 2016 Advance”) in contemplation of participating in the Preferred Unit Purchase Agreement dated April 12, 2016, which required the significant shareholder to invest a minimum of \$500,000. In July 2016, the significant shareholder invested an additional \$200,800 and requested the May 2016 Advance be cancelled and its principal be aggregated with the \$200,800 to purchase a total of 111,307 preferred shares at \$4.50 per share.

Series C Convertible Notes Payable

During February 2016 through October 2016, the Company received total proceeds of \$2,880,000 from the issuance of original issue discount convertible notes (“Series C Convertible Notes”) to investors. The principal balance, plus all accrued and unpaid interest, was due February 28, 2018, as amended, or upon a change of control or an initial public offering by the Company. On February 28, 2018, in connection with the extension of the maturity date to August 28, 2018, the Company issued 327 shares of common stock to the holder of the convertible notes. The conversion price in effect upon an initial public offering is the lesser of \$9.00 or the price per common share in the pre-money valuation immediately prior to the initial public offering multiplied by 80%. The conversion price at any other conversion event is \$9.00. Issuance costs to obtain the convertible notes were recorded as a debt discount in the amount of \$208,800. The Company has recognized no interest expense for the three months ended September 30, 2018 and 2017, respectively. The Company has recognized interest expense of \$0 and \$1,258 for the nine months ended September 30, 2018 and 2017, respectively. On July 25, 2018, the outstanding convertible note automatically converted into 7,353 shares of common stock in connection with the Company’s IPO.

In connection with the Series C Convertible Notes, the Company issued warrants to investors and investment bankers to purchase common shares of 188,236 and 26,354, respectively (see Note 6 – Fair Value Measurements for fair value computation). The sum of the fair value of the warrants, the BCF and issuance costs for the Series C Convertible Notes were recorded as debt discounts to be amortized to interest expense over the respective term using the effective interest method. During the three and nine months ended September 30, 2018 and 2017, the Company recognized no interest expense from the amortization of the debt discounts. Between November and December 2016, all of the Series C Convertible Notes, except for \$25,000, were extinguished and converted to Series D Convertible Notes.

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5. Convertible Notes Payable, continued

Series D Convertible Notes Payable

On various dates in 2016 and 2017, the Company received total proceeds of \$4,716,992 from the issuance of original issue discount convertible notes ("Series D Convertible Notes") to investors. In addition, the Company: (i) extinguished Series C Convertible Notes in the amount of \$2,855,000 along with accrued interest of \$172,059 and converted those to Series D Convertible Notes; (ii) extinguished other promissory notes in the amount of \$235,704 along with accrued interest of \$18,536 and converted those to Series D Convertible Notes; (iii) allowed Mr. Moyer to convert \$69,290 of reimbursable expense reports into Series D Convertible Notes; and (iv) allowed Mr. Jonathan Gadzak, a member of the Company's Board of Directors, to convert \$12,000 of certain expenses into Series D Convertible Notes. At the date of issuance, the Series D Convertible Notes had a senior priority security interest in all the personal property, fixtures and intellectual property and products of the Company except for the January 2015 Note and the Hallo Note which had a pari passu security interest with the Series D Convertible Notes (see Note 5 – Series E Convertible Note Payable for subsequent release of security interest). The principal balance, plus all accrued and unpaid interest is due on September 30, 2018, as amended. The Series D Convertible Notes are eligible for conversion at any point prior to the maturity date or upon a change of control or an initial public offering by the Company. The conversion price in effect upon an initial public offering is the lesser of \$4.50 or the highest price per common share sold in the initial public offering multiplied by 75%. The conversion price at any other conversion event is \$4.50. Issuance costs to obtain the convertible notes were recorded as a debt discount in the amount of \$386,415. In connection with the February 28, 2018 extension of the maturity date, the Company confirmed to the holders of the Series D Convertible Notes that Series D Convertible Notes would accrue an additional 10% interest on the first day of every month, beginning March 1, 2018, so long as such Series D Convertible Notes remained outstanding. The Company has recognized interest expense of \$945,833 and \$68,542 for the three months ended September 30, 2018 and 2017, respectively. The Company has recognized interest expense of \$4,790,777 and \$1,168,254 for the nine months ended September 30, 2018 and 2017, respectively. On July 25, 2018, the outstanding convertible notes automatically converted into 3,783,334 shares of common stock in connection with the Company's IPO.

In connection with the Series D Convertible Notes, the Company issued warrants to investors and investment bankers to purchase common shares of 1,017,692 and 380,449, respectively (see Note 6 – Fair Value Measurements for fair value computation). The sum of the fair value of the warrants, the BCF, the embedded conversion feature and issuance costs for the Series D Convertible Notes described above were recorded as debt discounts to be amortized to interest expense over the respective term using the effective interest method. In connection with the extension of the maturity date to June 30, 2018, the Company confirmed to the holders of the Series D Convertible Notes that the warrants issued in connection with the Series D Convertible Notes would double effective February 28, 2018. The number of warrants outstanding as of September 30, 2018 was therefore 2,035,434. During the three months ended September 30, 2018 and 2017, the Company recognized interest expense of \$393,000 and \$465,128, respectively from the amortization of the debt discounts. During the nine months ended September 30, 2018 and 2017, the Company recognized interest expense of \$3,268,233 and \$2,323,452, respectively, from the amortization of the debt discounts.

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5. Convertible Notes Payable, continued

Series E Convertible Notes Payable

On various dates from May to September 2017, the Company received total proceeds of \$5,000,000 from the issuance of original issue discount convertible promissory notes ("Series E Convertible Note"). The Series E Convertible Notes have a senior priority security interest in all the personal property, fixtures and intellectual property and products of the Company. The principal balance of the Series E Convertible Notes, was due on October 31, 2017. The Series E Convertible Notes were eligible for conversion at any point prior to the maturity date or upon a change of control or an initial public offering by the Company. The conversion price in effect upon an initial public offering is the lesser of \$4.50 or the highest price per common share sold in the initial public offering multiplied by 75%. The conversion price at any other conversion event is the lesser of \$4.50 or the price per share issued by the Company in connection with any sale involving substantially all the assets of the Company. Additionally, in connection with the Series E Convertible Note financing, all of the Company's outstanding promissory and convertible note holders agreed to: (i) subordinate their notes to the Series E Convertible Notes, (ii) release all security interests in the Company's assets in favor of the Series E Convertible Notes (iii) extend their maturity dates to February 28, 2018 and (iv) amend the Company's Operating Agreement to allow the Series E Convertible Note lender one seat on the Company's Board of Directors so long as the investor owns any debt or securities of the Company. Issuance costs to obtain the convertible notes were recorded as a debt discount in the amount of \$275,000. The Company has recognized interest expense of \$195,257 and \$266,097, respectively, for the three and nine months ended September 30, 2017, respectively.

On October 31, 2017, the Company filed a confidential S-1 registration statement with the SEC ("S-1") with the belief that the S-1 filing would extend the maturity date of the Series E Convertible Notes to November 30, 2017. The Series E Convertible Note holders claimed that the S-1 filing did not meet the definition outlined in the Series E Convertible Note and issued a notice of default to the Company on November 2, 2017 ("Default Notice").

On November 30, 2017, as a result of the Default Notice and an inability of the two parties to renegotiate the Series E Convertible Notes under acceptable terms, the Company requested and received a Series E Convertible Note payoff letter ("Series E Payoff Letter") from the Series E Convertible Note holders. The Series E Payoff Letter stated that in addition to the repayment of the Series E Convertible Notes of \$5,882,353, that the Series E Convertible Note holders were due, \$1,097,695 of default interest and penalties, reimbursement of \$178,645 of legal fees, and consulting, travel and lodging fees of \$102,063. Despite the Company's disagreement that it was in default and subject to default penalties, interest and legal fees, the Company paid the full monetary demand of \$7,260,756 as requested by the Series E Convertible Note holders on November 30, 2017. As a result, the Company recognized interest expense including default interest and penalties of \$1,980,049 and additional general and administrative expenses of \$280,708 which was comprised of Series E Note holder's legal fees and consulting expenses of \$178,645 and \$102,063, respectively, for the year ended December 31, 2017.

In addition, the note holder claimed that the Company was obligated to issue an additional 487,865 warrants in connection with the Default Notice. Pursuant to a settlement agreement that the Company entered into with note holder on July 25, 2018 a warrant to purchase an aggregate of 487,864 shares of common stock was issued (see Note 6 – Fair Value Measurements for fair value computation).

In connection with the Series E Convertible Notes, the Company issued warrants to investors and investment bankers to purchase common shares of 1,307,190 and 114,380, respectively (see Note 6 – Fair Value Measurements for fair value computation). On November 30, 2017, in connection with a provision in the Series E Convertible Note warrants issued to investors (Series E Investor Warrants), the outstanding Series E Investor Warrants doubled, as the Company had not completed an initial public offering by November 30, 2017. Therefore, total warrants outstanding to investors under the Series E Convertible Notes are 3,102,245. The sum of the fair value of the warrants, the BCF, the embedded conversion feature and issuance costs for the Series E Convertible Notes described above were recorded as debt discounts to be amortized to interest expense over the respective term using the effective interest method. During the three and nine months ended September 30, 2017 the Company recognized interest expense of \$2,208,779 and \$2,898,810, respectively, from the amortization of the debt discounts. During the three and nine months ended September 30, 2018, the Company recognized interest expense of \$0 and \$69,736, respectively, from the amortization of the debt discounts.

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5. Convertible Notes Payable, continued

Series F Convertible Notes Payable

On various dates between November 2017 and March 2018, the Company received total proceeds of \$10,345,000 from the issuance of senior secured convertible promissory notes (“Series F Convertible Notes”) to investors. The Series F Convertible Notes accrue interest at 15% per year and have a senior priority security interest in all the personal property, fixtures and intellectual property and products of the Company. The principal balance of the Series F Convertible Notes, plus all accrued interest is due on June 30, 2018. The Series F Convertible Notes are eligible for conversion at any point prior to the maturity date at the option of the holder. The conversion price in effect upon an initial public offering shall be the lesser of \$4.50 or the highest price per common share sold in the initial public offering multiplied by 60%. The conversion price at any other conversion event shall be \$4.50. Between April 1, 2018 and May 25, 2018, the Company issued \$225,000 of additional Series F Convertible Notes. In connection with the additional Series F Convertible Notes the Company issued 25,000 and 5,000 warrants to purchase common stock, to its lenders and investment bankers, respectively. The warrants have a five-year life and are exercisable into common stock at \$5.40 per share. Issuance costs to obtain the convertible notes were recorded as a debt discount in the amount of \$135,300. The Company has recognized interest expense of \$108,596 and \$865,441, respectively, for the three and nine months ended September 30, 2018. On July 25, 2018, the outstanding convertible notes automatically converted into 3,849,210 shares of common stock in connection with the Company’s IPO.

In connection with the issuance of the Series F Convertible Notes, the Company issued warrants to the lender and investment bankers to purchase common shares of 1,174,447 and 233,111, respectively (see Note 6 – Fair Value Measurements for fair value computation). The sum of the fair value of the warrants, the BCF, the embedded conversion feature and issuance costs for the Series F Convertible Notes described above were recorded as debt discounts to be amortized to interest expense over the respective term using the effective interest method. During the three and nine months ended September 30, 2018, the Company recognized interest expense of \$1,327,000 and \$11,996,000, respectively, from the amortization of the debt discounts.

Extension of Maturity Date

The Company’s Series D and Series F convertible promissory notes as well as its other convertible promissory notes, excluding its Series C Convertible Notes and its Series G Notes, had maturity dates of June 30, 2018 (the “June 30th Notes”). On June 30, 2018, the June 30th Notes with a principal balance of \$26.4 million went into default. The Company obtained consents from the holders of such notes to initially extend the maturity date of the June 30th Notes to July 15, 2018 and then requested and received consents to extend the maturity date to July 25, 2018.

Series G Notes Payable

Between April 20, 2018 and June 29, 2018, the Company issued \$2,812,500 of 15% OID Senior Secured Promissory Notes due June 15, 2018 (“Series G Notes”) raising an aggregate principal amount of \$2,200,000 and cancelling \$50,000 of expense reimbursement payable by the Company to Mr. Brett Moyer, the Company’s President, Chief Executive Officer and a board member. Medalist Partners Harvest Master Fund, Ltd. and Medalist Partners Opportunity Master Fund A, LP, each of which Mr. Brian Herr, a member of the Company’s board of directors, is co-portfolio manager, have each participated in the Series G Notes financing. The Series G Notes have a senior priority security interest in all the personal property, fixtures and intellectual property and products of the Company. Additionally, in connection with the Series G Note financing, all of the Company’s Series F Convertible Note holders were required by the terms of the Series G Notes to subordinate their notes to the Series G Notes. As of June 15, 2018, the Company was in default on \$1,725,000 of the Series G Notes. On June 28, 2018, the Company and the holders of the Series G Notes agreed to extend the maturity date of such notes from June 30, 2018 to July 15, 2018 in consideration for increasing the original issue discount of such notes from 15% to 20% and the issuance of warrants to purchase 208,350 shares of common stock.

As of July 15, 2018, the Company was in default on \$2,812,500 of the Series G Notes. On July 20, 2018, the Company and the holders of the Series G Notes agreed to (i) extend the maturity date of such notes from July 15, 2018 to July 25, 2018 and (ii) agreed to make the Series G Notes automatically convertible in connection with an initial public offering at a conversion price of the lesser of \$4.50 or 40% of the highest price of the common stock sold in an initial public offering. In consideration for the extension of the maturity date and the agreement to make the Series G Notes automatically convertible, the Company agreed to issue warrants to purchase an additional 625,000 shares of common stock to the Series G Note holders. As a result of the agreement, the Series G Notes were reclassified from promissory notes to convertible notes payable as of the date of the agreement.

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5. Convertible Notes Payable, continued

The Company has accrued and recognized interest expense of \$112,500 and \$562,500 for the three and nine months ended September 30, 2018, respectively. On July 25, 2018, the outstanding convertible notes automatically converted into 1,406,250 shares of common stock in connection with the Company's IPO.

In connection with the issuance of the Series G Notes, the Company issued warrants to the lender and investment bankers to purchase common shares of 833,350 and 58,334, respectively (see Note 6 – Fair Value Measurements for fair value computation). The sum of the fair value of the warrants, the BCF, the embedded conversion feature and issuance costs for the Series G Convertible Notes described above were recorded as debt discounts to be amortized to interest expense over the respective term using the effective interest method. During the three months and the nine months ended September 30, 2018, the Company recognized interest expense of \$9,622,000 and \$9,819,250, respectively, from the amortization of the debt discounts.

Derivative Liability

The February 2016 Note, the Series C Convertible Notes, the Series D Convertible Notes, the Series E Convertible Notes, the Series F Convertible Notes, and the Series G Convertible Notes contain an embedded conversion feature that the Company has determined is a derivative requiring bifurcation. The fair value of the derivative liability as of September 30, 2018 and December 31, 2017 was \$0 and \$20,832,000, respectively, which was recorded as a derivative liability with the offset recorded as a discount to the convertible notes payable (See Note 6 – Fair Value Measurements for fair value computation). In July 2018, the derivative liability was reclassified to additional paid-in capital as of the date of the Company's IPO.

6. Fair Value Measurements

The Company measures the fair value of financial instruments using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Each level of input has different levels of subjectivity and difficulty involved in determining fair value.

- Level 1 – Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date. Therefore, determining fair value for Level 1 investments generally does not require significant judgment, and the estimation is not difficult.
- Level 2 – Pricing is provided by third-party sources of market information obtained through investment advisors. The Company does not adjust for or apply any additional assumptions or estimates to the pricing information received from its advisors.
- Level 3 – Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions. The determination of fair value for Level 3 instruments involves the most management judgment and subjectivity.

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6. Fair Value Measurements, continued

The Company's financial assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 by level within the fair value hierarchy, are as follows:

	September 30, 2018		
	Quoted prices in active markets	Significant other observable inputs	Significant unobservable inputs
	(Level 1)	(Level 2)	(Level 3)
Liabilities:			
Warrant liability	\$ -	\$ -	\$ 220,909
Derivative liability	\$ -	\$ -	\$ -
	December 31, 2017		
	Quoted prices in active markets	Significant other observable inputs	Significant unobservable inputs
	(Level 1)	(Level 2)	(Level 3)
Liabilities:			
Warrant liability	\$ -	\$ -	\$ 1,227,786
Derivative liability	\$ -	\$ -	\$ 20,832,000

There were no transfers between Level 1, 2 or 3 during the three and nine months ended September 30, 2018.

Warrant Liability

The following table includes a summary of changes in fair value of the Company's warrant liability measured at fair value using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2018 and 2017:

	For The Three Months Ended		For The Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Beginning balance	\$ 5,349,786	1,619,287	\$ 1,227,786	1,619,287
Additions	111,000	3,332,907	176,000	3,332,897
Change in fair value	3,878,196	(3,203,478)	8,127,196	(3,203,468)
Reclass to additional paid-in capital	(9,118,073)	-	(9,310,073)	-
Ending balance	<u>\$ 220,909</u>	<u>\$ 1,748,716</u>	<u>\$ 220,909</u>	<u>\$ 1,748,716</u>

The changes in fair value of the warrant liability are recorded in change in fair value of warrant liability in the condensed consolidated statements of operations.

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6. Fair Value Measurements, continued

A summary of the weighted average significant unobservable inputs (Level 3 inputs) used in measuring the Company's warrant liability that is categorized within Level 3 of the fair value hierarchy as of September 30, 2018 is as follows:

	As of September 30, 2018
Common Stock Price	\$ 4.30
Term (Years)	4.81
Volatility	59%
Risk-free rate of interest	2.94%
Dividend Yield	0.0%

Derivative Liability

The following table includes a summary of changes in fair value of the Company's derivative liability measured at fair value using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2018 and 2017:

	For The Three Months Ended		For The Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Beginning balance	\$ 25,776,000	\$ -	\$ 20,832,000	\$ -
Additions	6,328,125	4,183,000	7,886,125	4,183,000
Change in fair value	10,907,963	-	14,293,963	-
Reclassification to equity at initial public offering	(43,012,088)	-	(43,012,088)	-
Ending balance	<u>\$ -</u>	<u>\$ 4,183,000</u>	<u>\$ -</u>	<u>\$ 4,183,000</u>

On July 25, 2018, the derivative liability was reclassified to equity upon the Company's initial public offering. As of September 30, 2017, the Company measured the fair value of the derivative by estimating the fair value of the convertible notes payable at certain conversion points. As of July 25, 2018, the date of the Company's successful initial public offering, the Company measured the fair value of the derivative by estimating the fair value using the offering price of \$5.00. To calculate the fair value of the convertible notes payable with the conversion feature at September 30, 2017, the Company calculated the present value of the convertible notes payable upon conversion at a qualifying initial public offering in the first quarter of 2018, and the present value of the convertible notes payable at non-qualifying initial public offering in the last quarter of 2018. The Company estimated a probability of 50% for the occurrence of a qualifying initial public offering in the first quarter of 2018 and a probability of 50% in the last quarter of 2018.

The Company's derivative liabilities are measured at fair value using the Probability Weighted Expected Return valuation methodology. A summary of the weighted average significant unobservable inputs (Level 3 inputs) used in measuring the Company's embedded conversion options that is categorized within Level 3 of the fair value hierarchy as of July 25, 2018 and September 30, 2017 are as follows:

	July 25, 2018	September 30, 2017
Common Stock Price	\$ 5.00	\$ 3.60
Term (Years)	0.50	1.00
Volatility	65%	52%
Risk-free rate of interest	2.20%	1.31%
Dividend Yield	0.0%	0.0%

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7. Stockholders' Equity (Deficit)

Common Stock

On January 30, 2018 the Company's Board of Directors approved the establishment of the Company's 2018 Long-Term Stock Incentive Plan (the "LTIP") and termination of its Carve-Out Plan (the "Plan"). Under the LTIP, the aggregate maximum number of shares of common stock (including shares underlying options) that may be issued under the LTIP pursuant to awards of restricted shares or options will be limited to 15% of the outstanding shares of common stock, which calculation shall be made on the first (1st) business day of each new fiscal year; provided that for fiscal year 2018, upon approval of the LTIP by the Company's shareholders, up to 300,000 shares of common stock will initially be available for participants under the LTIP. Thereafter, the 15% evergreen provision shall govern the LTIP.

In connection with the termination of the Plan, on January 31, 2018, the Company issued to its employees and directors 1,284,470 and 153,126, shares of restricted common stock ("January 2018 Restricted Stock Grant"), respectively. Such shares of restricted common stock were granted outside the LTIP's first year share availability pool, are fully vested, and will be released to the employees and directors in three tranches at the rate of 33.4%, 33.3% and 33.3% on September 1, 2018, March 1, 2019 and September 1, 2019, respectively. In the event an employee voluntarily resigns, the release dates of the shares will be extended such that only 16.5% of the shares are released every nine months, until 100% are released. In the event that a director voluntarily resigns, each of the release dates will be extended nine months.

The LTIP and January 2018 Restricted Stock Grant were approved by a majority of the Company's stockholders on January 31, 2018. In connection with the January 2018 Restricted Stock Grant, the Company recorded stock-based compensation expense of \$0 and \$2,156,394, respectively for the three and nine months ended September 30, 2018.

On September 1, 2018, the Company released its first tranche of restricted shares under the January 2018 Restricted Stock Grant. The majority of the restricted stock that were released were net-share settled such that the Company withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were based on the value of the restricted stock on their release date as determined by our closing stock price. These net-share settlements had the effect of share repurchases as they reduced and retired the number of shares that would have otherwise been issued as a result of the release and did not represent an expense to us. For the three and nine months ended September 30, 2018, 473,091 shares of restricted stock were released with an intrinsic value of approximately \$2.3 million. Of the restricted stock released, 123,255 shares were forfeited and we withheld 92,555 shares to satisfy approximately \$499,000 of employees' minimum tax obligation on the released restricted stock.

On February 28, 2018 in connection with the extension of the maturity date of the Series C Convertible Note to August 28, 2018, the Company issued 327 shares of its common stock to the note holder. The Company recorded interest expense of \$0 and \$490, respectively for the three and nine months ended September 30, 2018.

During July, August and September 2018, the Company issued 94,160 shares of restricted common stock to vendors in return for website and investor relations services. The Company recorded an operating expense of \$393,550 for the services.

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7. Stockholders' Equity (Deficit), continued

Warrants for Common Shares

The Company has issued warrants to purchase common shares to employees and consultants as compensation for services rendered, as well as, in conjunction with the purchase of common shares in equity and debt transactions. A summary of the warrant activity and related information that occurred for the three months ended September 30, 2018 is provided in the following paragraphs.

In connection with a settlement agreement entered into in July 2018 with the original holder of the Series E Convertible Note, the Company issued a warrant to purchase 487,864 common shares at an exercise price of \$3.00 per share with a five-year term. The grant date fair value of the warrant was \$1,590,095 which was recorded as interest expense with the offset recorded to additional paid-in capital on the consolidated balance sheet. The fair value of the warrant was determined using the Black-Scholes Model based on the following weighted average assumptions: common share price on date of grant \$5.00, expected dividend yield 0%, expected volatility 59%, risk-free interest rate 2.82% and expected life of 5 years.

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7. Stockholders' Equity (Deficit), continued

In connection with the Series G Notes amendment, entered into during the three months ended September 30, 2018, the Company issued warrants to purchase 625,000 common shares at an exercise price of \$4.50 per share with a five-year term. The grant date fair value of the warrants was \$2,506,250 which was recorded as debt discount with the offset recorded to additional paid-in capital on the consolidated balance sheet. The fair value of the warrants was determined using the Black-Scholes Model based on the following weighted average assumptions: common share price on date of grant \$4.03, expected dividend yield 0%, expected volatility 59%, risk-free interest rate 2.77% and expected life of 5 years.

In August 2018, as payment for investor relations services, the Company issued a warrant to purchase 50,000 common shares at an exercise price of \$4.00 per share with a three-year term to a vendor. The grant date fair value of the warrant was \$117,300 which was recorded as consulting expense with the offset recorded to additional paid-in capital on the condensed consolidated balance sheet. The fair value of the warrant was determined using the Black-Scholes Model based on the following weighted average assumptions: common share price on date of grant \$4.30, expected dividend yield 0%, expected volatility 60%, risk-free interest rate 2.88% and expected life of 3 years.

On July 25, 2018, as part of the agreement with the investment bankers in connection with the initial public offering, the Company issued warrants to purchase 72,000 common shares at an exercise price of \$6.25 per share with a five-year term. The grant date fair value of the warrants was \$169,000 which was recorded as issuance costs in additional paid-in capital with the offset also recorded to additional paid-in capital on the condensed consolidated balance sheet. The fair value of the warrants was determined using the Black-Scholes Model based on the following weighted average assumptions: common share price on date of grant \$5.00, expected dividend yield 0%, expected volatility 59%, risk-free interest rate 2.86% and expected life of 5 years.

In April 2018, the Company granted warrants to purchase up to 275,000 shares of common stock to Mr. Michael Howse, a member of the Company's Board of Directors in connection with a consulting agreement. The warrants have an exercise price of \$5.40 per share and warrants to purchase up to 110,000 shares of common stock vest over nine months. The remaining warrants vest upon certain performance milestones. As of September 30, 2018, warrants to purchase 61,111 shares of common stock were vested. All of the warrants immediately vest upon a change of control, and the exercise price is subject to certain price protection provisions. The fair value of the vested warrants was \$220,909 which was recorded as consulting expense with the offset recorded to warrant liability. The fair value of the warrants was estimated using the Black-Scholes Model based on the following weighted average assumptions: common share price on date of grant \$4.03, expected dividend yield 0%, expected volatility 59%, risk-free interest rate 2.94% and expected life of 4.81 years.

Information regarding warrants for common stock outstanding and exercisable as of September 30, 2018 is as follows:

Exercise Price	Warrants Outstanding as of September 30, 2018	Remaining Life (years)	Warrants Exercisable as of September 30, 2018
\$2.00 - \$3.00	4,210,595	4.58	3,996,706
\$3.30 - \$4.00	1,587,125	4.35	1,587,125
\$4.50 - \$4.95	258,882	2.74	258,882
\$5.40 - \$6.25	2,543,577	3.83	2,543,577
\$10.35	1,634	2.54	1,634
\$3.86	8,601,813	4.26	8,387,924

Warrants exercisable as of September 30, 2018, excludes warrants to purchase 213,889 common shares issued to Mr. Howse which have not yet vested.

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8. Income Taxes

The Company recorded a provision for income taxes of \$8,150 for the nine months ended September 30, 2018 and \$2,950 for the nine months ended September 30, 2017. The provision for income taxes recorded for the nine months ended September 30, 2018 was primarily due to state income tax expense.

The Company's effective tax rate was (0.01)% for the nine months ended September 30, 2018 and (0.03)% for the nine months ended September 30, 2017. The difference between the effective tax rate and the federal statutory tax rate for the nine months ended September 30, 2018 and 2017 primarily relates to the valuation allowance on the Company's deferred tax assets.

For interim periods, the Company estimates its annual effective income tax rate and applies the estimated rate to the year-to-date income or loss before income taxes. The Company also computes the tax provision or benefit related to items reported separately and recognizes the items net of their related tax effect in the interim periods in which they occur. The Company also recognizes the effect of changes in enacted tax laws or rates in the interim periods in which the changes occur.

As of September 30, 2018, the Company retains a full valuation allowance on its deferred tax assets. The realization of the Company's deferred tax assets depends primarily on its ability to generate taxable income in future periods. The amount of deferred tax assets considered realizable in future periods may change as management continues to reassess the underlying factors it uses in estimating future taxable income.

The provision for income taxes for the nine months ended September 30, 2018 and 2017, was calculated on a jurisdiction basis.

On December 22, 2017, the United States enacted a law commonly known as the Tax Cuts and Jobs Act ("TCJA") which makes widespread changes to the Internal Revenue Code, including a reduction in the federal corporate tax rate to 21%, and repatriation of accumulated foreign earnings and profits, effective January 1, 2018. Additionally, on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act of 2017. The accounting for all items is expected to be complete when the 2017 U.S. corporate income tax return is filed in 2018. Any differences between what was previously recorded and the final tax return amounts or estimates done for subsequent quarters are not expected to be material.

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9. Commitments and Contingencies

Operating Leases

The Company rents its office under an operating lease, which expires in October 2018. Under the terms of the lease, the Company is responsible for taxes, insurance and maintenance expense. The Company recognizes rent expense on a straight-line basis over the lease period. Rent expense for the three months ended September 30, 2018 and 2017 was \$78,002 and \$80,028, respectively. Rent expense for the nine months ended September 30, 2018 and 2017 was \$256,690 and \$251,000, respectively.

Other Commitments

From 2011 to January 30, 2018, employees, consultants, and directors of the Company were entitled to participate in the Plan at the discretion of the Company's Board of Directors. Each Plan participant was awarded points which entitled the participant to a portion of the proceeds payable to the Company and/or its members upon a sale of the Company. The proceeds payable to a Plan participant were to equal an amount determined in accordance with the following formula: number of points held by participant, divided by total points outstanding, multiplied by 18% of Net Sale Price. For this purpose, "Net Sale Price" equaled the aggregate amount payable to the Company and/or its members in connection with a sale of the Company, less all amounts payable to creditors of the Company. Awards payable to Plan participants were senior to any amounts payable to members of the Company. As of December 31, 2017, the Company had not recorded a liability relating to the Plan, as any amounts payable under the Plan would be recognized as compensation expense in the consolidated statement of operations during the period that the Company would have become obligated to make such payments.

On January 30, 2018, the Company's Board of Directors terminated the Plan and adopted the LTIP. (See Note 7 – Stockholders' Equity (Deficit)).

Contingencies

In the normal course of business, the Company may become involved in legal proceedings. The Company will accrue a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of a possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. The accrual for a litigation loss contingency might include, for example, estimates of potential damages, outside legal fees and other directly related costs expected to be incurred.

The Company's management does not believe that any such matters, individually or in the aggregate, will have a materially adverse effect on the Company's condensed consolidated financial statements.

10. Related Parties

Brett Moyer

Mr. Moyer has served as the Company's President, Chief Executive Officer and a board member since the Company's founding in August 2010. Effective February 28, 2018, Mr. Moyer agreed to extend the maturity date of his Series D Convertible Note to June 30, 2018, which was later amended to extend the maturity date to July 25, 2018. In connection with the maturity date extension, Mr. Moyer received a warrant to purchase 9,058 shares of common stock at an exercise price of \$5.40 and which accrued an additional 10% interest on the first day of every month, beginning March 1, 2018, so long as such Series D Convertible Note remains outstanding. In April 2018, the Company issued Mr. Moyer a \$62,500 Series G Note, initially due June 15, 2018, in consideration for \$50,000 of expenses incurred by Mr. Moyer. In June 2018, in consideration for extending the maturity date of the Series G Note to July 15, 2018, Mr. Moyer was granted a warrant to purchase 4,630 shares of common stock at an exercise price equal to the lesser of (i) \$4.50 or (ii) the price per share of common stock sold in the Company's IPO, multiplied by 60%. In July 2018, in consideration for the extension of the Series G Note maturity date to July 25, 2018 and the agreement to make the Series G Note automatically convertible, Mr. Moyer was granted a warrant to purchase 13,889 shares of common stock at an exercise price equal to the lesser of (i) \$4.50 or (ii) the price per share of common stock sold in the Company's IPO, multiplied by 60%. On July 25, 2018, in connection with the Company's IPO, \$537,336 of principal under convertible promissory notes, and all accrued interest, was automatically converted into a total of 157,881 shares of common stock and the warrants issued in connection with the Series G Notes now have an exercise price of \$3.60. As of September 30, 2018, Mr. Moyer was owed \$0 of principal under convertible promissory notes and owned 1.5% of the outstanding shares of the Company's common stock.

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10. Related Parties, continued

Jonathan Gazdak

Mr. Gazdak is Managing Director – Head of Investment Banking for Alexander Capital, L.P., an investment banking firm based in New York. Mr. Gazdak has been a member of the Company’s board of directors since September 2015. Alexander Capital, L.P. has acted as the lead investment bank in a number of the Company’s private financings. Effective February 28, 2018, Mr. Gazdak agreed to extend the maturity date of his Series D Convertible Note to June 30, 2018, which was later amended to extend the maturity date to July 25, 2018. In connection with the maturity date extension, Mr. Gazdak received a warrant to purchase 1,569 shares of common stock at an exercise price of \$5.40 and which will accrue an additional 10% interest on the first day of every month, beginning March 1, 2018, so long as such Series D Convertible Note remains outstanding. On July 25, 2018, in connection with the Company’s IPO, \$21,176 of principal under convertible promissory notes, and all accrued interest, were automatically converted into a total of 5,647 shares of common stock. As of September 30, 2018, Mr. Gazdak was owed \$0 of principal under convertible promissory notes and owned 0.2% of the outstanding shares of the Company.

The Company signed an engagement letter with Alexander Capital, L.P. in August of 2014, under which Alexander Capital, L.P. earns a fee on total investments by their clients. Alexander Capital, L.P. earned fees of \$200,250 and \$321,300 for the three and nine months ended September 30, 2018, respectively. As of September 30, 2018, Alexander Capital, L.P. has been issued warrants to purchase a total of 588,391 shares of common stock, exercisable at prices between \$3.30 and \$5.40 per share and for five years from the date of issuance. Pursuant to the underwriting agreement entered into between the Company and Alexander Capital, L.P. in connection with the IPO (the “Underwriting Agreement”), Alexander Capital, L.P. was paid a cash fee of \$900,000, as well as a non-accountable expense allowance of \$120,000 and reimbursements of \$100,000. Pursuant to the Underwriting Agreement, we issued Alexander Capital, L.P. warrants to purchase 72,000 shares of common stock. Such warrants are exercisable at a per share price of \$6.25 and are exercisable at any time during the five-year period commencing 180 days from the effective date of the IPO, which period shall not exceed five years from such effective date.

Brian Herr

Mr. Herr has been a member of the Company’s board of directors since February 2018. Mr. Herr is Chief Investment Officer and Co-Head of Structured Credit and Asset Finance for the Medalist Partners platform (f/k/a Candlewood Structured Strategy Funds) and serves as a co-portfolio manager for the Medalist Partners Harvest Master Fund, Ltd. and Medalist Partners Opportunity Master Fund A, LP (collectively, the “Medalist Funds”). Mr. Herr was granted a seat on the Company’s board of directors pursuant to a securities purchase agreement, dated as of November 30, 2017, between the Company and the Medalist Funds, pursuant to which the Company also issued to the Medalist Funds an aggregate of \$2,000,000 Series F Convertible Notes, due June 30, 2018, which was later amended to extend the maturity date to July 25, 2018, and warrants to purchase an aggregate of 222,222 shares of our common stock. In addition, between April 20, 2018 and June 29, 2018, the Company issued an aggregate of \$2,437,500 of Series G Notes due July 15, 2018, as amended to the Medalist Funds and warrants to purchase an aggregate of 180,570 shares of our common stock. In July 2018, in consideration for the extension of the Series G Note maturity date to July 25, 2018 and the agreement to make the Series G Note automatically convertible, the Medalist Funds were granted a warrant to purchase 541,666 shares of common stock at an exercise price equal to the lesser of (i) \$4.50 or (ii) the price per share of common stock sold in the Company’s IPO, multiplied by 60%. On July 25, 2018, in connection with the Company’s IPO, \$3,950,000 of principal under convertible promissory notes, and all accrued interest, were automatically converted into a total of 1,950,348 shares of common stock and the warrants issued in connection with the Series G Notes now have an exercise price of \$3.60. As of September 30, 2018, the Medalist Funds were owed \$0 of principal under convertible promissory notes and owned 12.8% of the outstanding shares of the Company.

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10. Related Parties, continued

Michael Howse

We are party to a consulting agreement with Michael Howse, dated April 6, 2018 (the “Howse Agreement”), pursuant to which Mr. Howse has agreed to serve an interim role as the Company’s chief strategy officer on an “at-will” basis in consideration for a monthly cash salary of \$20,000 per month, as well as two warrants to purchase an aggregate of 275,000 shares of the Company’s common stock. One of the warrants issued pursuant to the Howse Agreement is exercisable for 110,000 shares of the Company’s common stock at a per share price equal to the lesser of (i) \$5.40 or (ii) the price per share of any shares issued pursuant to a subsequent financing. The exercise price of such warrant is now \$2.00 and all of the shares for which such warrant is exercisable shall vest on the earlier of: (x) nine months from the issuance date of such warrants, (y) if Mr. Howse is terminated as the Company’s interim chief strategy officer and (z) immediately prior to an Acquisition of the Company (as defined in the Howse Agreement). The other warrant issued pursuant to the Howse Agreement is exercisable for 165,000 shares of the Company’s common stock at a per share price equal to the lesser of (i) \$5.40 or (ii) the price per share of any subsequent financing. The exercise price of such warrant is now \$2.00 and all of the shares for which such warrant is exercisable shall vest upon the achievement of significant milestones (such warrant, the “Performance Warrant”).

The Performance Warrant is subject to certain corporate performance-related goals, as established by the Board’s Compensation Committee. For the Performance Warrant, the Company will recognize any related share-based compensation expense ratably over the service period based on the most probable outcome of the performance condition. The fair value of the Performance Warrant used in the Company’s expense recognition method is measured based on the number of non-vested warrants granted, the closing market price of the Company’s common stock on the date of grant and an estimate of the probability of the achievement of the performance goals. The amount of share-based compensation expense recognized in any one period can vary based on the attainment or expected attainment of the performance goals. If such performance goals are not ultimately met, no compensation expense is recognized and any previously recognized compensation expense is reversed. If it becomes probable that the performance targets will be achieved, a cumulative adjustment will be recorded as if ratable share-based compensation expense had been recorded since the grant date.

In addition, pursuant to the Howse Agreement, if the Company raises capital in one or more financings from, or is acquired by, certain pre-approved investors or acquirors during Mr. Howse’s period of employment or within six months following termination of his employment, he is also entitled to 5% of the gross proceeds of such financings or acquisition (less any fees paid by the Company to any investment bank in connection with such transactions, up to 2.5% of such amount), 50% of which may be paid as a convertible note or preferred equity with the same terms as the participants in such transaction. As of September 30, 2018, Mr. Howse has vested warrants to purchase 61,111 shares of common stock and owns 0% of the outstanding shares of the Company.

Helge Kristensen

Mr. Kristensen has served as a member of the Company’s board of directors since 2010. Mr. Kristensen serves as vice president of Hansong Technology, an original device manufacturer of audio products based in China, president of Platin Gate Technology (Nanjing) Co. Ltd, a company with focus on service-branding in lifestyle products as well as pro line products based in China and co-founder and director of Inizio Capital, an investment company based in the Cayman Islands. Effective February 28, 2018, Inizio Capital and Hansong Technology agreed to extend the maturity dates of the Five February 2016 Note and the December 2015 Note, respectively to June 30, 2018, which was later amended to extend the maturity date to July 25, 2018. In connection with the maturity date extensions, Inizio Capital and Hansong Technology received warrants to purchase 1,341 and 942 shares of common stock, respectively, at an exercise price of \$5.40. On July 25, 2018, in connection with the Company’s IPO, \$50,000 of principal under convertible promissory notes, and all accrued interest, were automatically converted into a total of 27,923 shares of common stock. As of September 30, 2018, affiliates of Mr. Kristensen were owed \$0 of principal under convertible promissory notes and owned 0.9% of the outstanding shares of the Company.

Significant Shareholders

Effective February 28, 2018, Carl E. Berg agreed to extend the maturity date of his Series D Convertible Note to June 30, 2018, which was later amended to extend the maturity date to July 25, 2018. In connection with the maturity date extension, Mr. Berg received a warrant to purchase 39,216 shares of common stock at an exercise price of \$5.40 and will accrue an additional 10% interest on the first day of every month, beginning March 1, 2018, so long as such Series D Convertible Note remains outstanding. In addition, Mr. Berg agreed to extend the maturity date of his various other convertibles notes to June 30, 2018, which was later amended to extend the maturity date to July 25, 2018. In connection with the maturity date extensions, Mr. Berg received warrants to purchase a total of 25,965 shares of common stock at an exercise price of \$5.40. On July 25, 2018, in connection with the Company’s IPO, \$1,479,412 of principal under convertible promissory notes, and all accrued interest, were automatically converted into a total of 464,687 shares of common stock. As of September 30, 2018, Mr. Berg was owed \$0 of principal under convertible promissory notes and owned 10.5% of the outstanding shares of the Company.

Notes To Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2018 and 2017
(unaudited)

10. Related Parties, continued

Effective February 28, 2018, Lisa Walsh agreed to extend the maturity date of her Series D Convertible Note to June 30, 2018, which was later amended to extend the maturity date to July 25, 2018. In connection with the maturity date extension, Ms. Walsh received a warrant to purchase 112,419 shares of common stock at an exercise price of \$5.40 and which will accrue an additional 10% interest on the first day of every month, beginning March 1, 2018, so long as such Series D Convertible Note remains outstanding. In May 2018, the Company issued Ms. Walsh a \$287,500 Series G Note, initially due June 15, 2018. In June 2018, in consideration for extending the maturity date of the Series G Note to July 15, 2018, Ms. Walsh was granted a warrant to purchase 23,150 shares of common stock at an exercise price equal to the lesser of (i) \$4.50 or (ii) the price per share of common stock sold in the Company's IPO, multiplied by 60%. In July 2018, in consideration for the extension of the Series G Note maturity date to July 25, 2018 and the agreement to make the Series G Note automatically convertible, Ms. Walsh was granted a warrant to purchase 69,444 shares of common stock at an exercise price equal to the lesser of (i) \$4.50 or (ii) the price per share of common stock sold in the Company's IPO, multiplied by 60%. On July 25, 2018, in connection with the Company's IPO, \$8,330,147 of principal under convertible promissory notes, and all accrued interest, were automatically converted into a total of 2,938,650 shares of common stock and the warrants issued in connection with the Series G Notes now have an exercise price of \$3.60. As of September 30, 2018, Ms. Walsh was owed \$0 of principal under convertible promissory notes and owned 24.2% of the outstanding shares of the Company.

11. Subsequent Events

On October 30, 2018, the Company issued a warrant to purchase 40,000 shares of restricted common stock to a consultant pursuant to a consulting agreement in consideration for providing certain media agent services to the Company for a period of twelve months.

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

Cautionary Notice Regarding Forward Looking Statements

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

This filing contains a number of forward-looking statements which reflect management’s current views and expectations with respect to our business, strategies, products, future results and events, and financial performance. All statements made in this filing other than statements of historical fact, including statements addressing operating performance, events, or developments which management expects or anticipates will or may occur in the future, and also including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results, and non-historical information, are forward looking statements. In particular, the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “may,” variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements, and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated, or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management’s current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements.

Overview

We were formed as Summit Semiconductor, LLC, a Delaware limited liability company, on July 23, 2010. We converted to a Delaware corporation, effective December 31, 2017, at which time we changed our name to Summit Semiconductor, Inc. Effective as of September 11, 2018, we changed our name to Summit Wireless Technologies, Inc. We run our operations through Summit Wireless Technologies, Inc., as well as through our wholly-owned subsidiaries, Summit Semiconductor K.K., a Japanese corporation and WiSA, LLC, a Delaware limited liability company. The address of our corporate headquarters is 6840 Via Del Oro, Ste. 280, San Jose, CA 95119. Our website address is www.summitwireless.com. The information contained in or accessible through our website is not part of this prospectus or the registration statement of which this prospectus forms a part, and is intended for informational purposes only.

We are an early stage technology company and our primary business focus is to enable mainstream consumers and audio enthusiasts to experience high quality audio. We intend to continue selling our semiconductors and wireless modules to consumer electronics companies while also increasing our focus on implementing a software licensing business segment.

Our plan also anticipates that our technology will address some of the main issues that we perceive are hindering the growth of the home theater: complexity and cost. We believe consumers want to experience theater quality surround sound from the comfort of their homes. However, wired home theater systems often require expensive audio-visual (AV) receivers to decode the audio stream, leaving the consumer with the burden of concealing the wires. Hiring a professional to hide the wires into the walls or floor is invasive, complicated, costly and time consuming. Further, people that rent as opposed to own may not be able to install these systems as the installation construction needed may not be permitted under a lease agreement. Our first-generation wireless technology addresses these problems by transmitting wireless audio to each speaker at Blu-ray quality (uncompressed 24bit audio up to 96k sample rates) and emphasizing ease of setup. To our knowledge, our custom chip and module technology is one of the only technologies available today that can stream up to eight separate wireless audio channels with low latency, removing lip-sync issues between the audio and video sources. In addition, every speaker within a system that utilizes our technology can be synchronized to less than one micro second, thus eliminating phase distortion between speakers. Our first-generation technology shows that wireless home theater systems are viable home audio solutions for the average consumer and audio enthusiast alike.

We are currently developing certain proprietary software that we believe will provide similar functionality and quality and allow us to enable smart devices, that have Wi-Fi and video media, to deliver surround sound audio. We believe our software based-solution which other brands can integrate into their devices and will (i) reduce integration costs for mass market use, (ii) utilize Wi-Fi for wireless connectivity, making the need for complex physical wire installations unnecessary, (iii) provide a low power consumption option to allow for use in battery powered devices, and (iv) provide compatibility with Linux, iOS or Android operating systems.

To date, our operations have been funded through sales of our common and preferred equity, debt instruments, and revenue from the sale of our products. Our consolidated financial statements contemplate the continuation of our business as a going concern. However, we are subject to the risks and uncertainties associated with an emerging business, as noted above we have no established source of capital, and we have incurred recurring losses from operations since inception.

On July 26, 2018, the Company closed its initial public offering (“IPO”). The Company’s registration statement on Form S-1 relating to the initial public offering was declared effective by the Securities and Exchange Commission (“SEC”) on July 25, 2018. The shares began trading on The NASDAQ Capital Market under the ticker symbol “WISA” on July 27, 2018. Under the offering, the Company issued 2,400,000 shares of common stock at an offering price of \$5.00 per share, raising gross proceeds of \$12,000,000. In aggregate, the shares issued in the offering generated approximately \$10,273,000 in net proceeds.

Comparison of the Three and Nine months Ended September 30, 2018 and 2017

Revenue

Revenue for the three months ended September 30, 2018 was \$385,000, an increase of \$188,000 or 96%, compared to the same period of 2017. The increase in revenue was attributable to higher module sales.

Revenue for the nine months ended September 30, 2018 was \$1,046,000, an increase of \$145,000 or 16%, compared to the same period of 2017. The increase in revenue was attributable to higher module sales combined with higher WiSA membership revenues.

Cost of Revenue and Operating Expenses

Cost of Revenue

Cost of revenue for the three months ended September 30, 2018 was \$412,000, an increase of \$168,000 compared to the same period of 2017. Cost of revenue increased \$139,000 as a direct result of the increased revenue between comparable time periods and \$16,000 of increased facility allocation charges.

Cost of revenue for the nine months ended September 30, 2018 was \$1,244,000, an increase of \$215,000 compared to the same period of 2017. Cost of revenue increased \$218,000 as a result of higher margin extended distance modules being sold during the first nine months of 2017 that did not occur in the comparable time period of 2018, increased stock-based compensation charges of approximately \$24,000, increased facility allocation charges of \$52,000, partially offset by reduced inventory obsolescence charges of approximately \$69,000.

Research and Development

Research and development expenses for the three months ended September 30, 2018 were \$1,042,000, an increase of \$134,000 compared to the same period of 2017. The increase in research and development expenses is primarily related to increased salary, incentive compensation and benefit expense of approximately \$128,000 as we hired a total of 9 temporary and part-time interns but decreased full time employees by three, between comparison periods.

Research and development expenses for the nine months ended September 30, 2018 were \$3,640,000, an increase of \$857,000 compared to the same period of 2017. The increase in research and development expenses is primarily related to increased stock-based compensation charges of approximately \$662,000 and increased salary, incentive compensation and benefit expense of \$192,000 as we hired an average of an additional 12 temporary and part-time interns which was offset by a decrease of three full time employees between comparison periods.

Sales and Marketing

Sales and marketing expenses for the three months ended September 30, 2018 were \$680,000, an increase of \$312,000 compared to the same period of 2017. The increase in sales and marketing expenses is primarily related to increased consulting fees of approximately \$309,000, which includes \$156,000 of warrant compensation, as we engaged a senior strategy consultant and a branding firm, increased public relations fees of approximately \$25,000, increased travel and tradeshow expenses of \$10,000 and \$11,000, respectively as we showcased our newest product offerings, partially offset by reduced salary, incentive compensation and benefit expense of \$53,000, as we reduced our average headcount by two employees.

Sales and marketing expenses for the nine months ended September 30, 2018 were \$2,061,000, an increase of \$809,000 compared to the same period of 2017. The increase in sales and marketing expenses is primarily related to increased stock-based compensation charges of approximately \$555,000, increased consulting fees of approximately \$447,000 which includes \$221,000 of warrant compensation, as we engaged a senior strategy consultant and a branding firm, and increased public relations fees of approximately \$46,000 partially offset by reduced salary, incentive compensation and benefit expense of \$260,000, as we reduced our average headcount by three employees.

General and Administrative

General and administrative expenses for the three months ended September 30, 2018 were \$1,212,000, an increase of \$942,000 compared to the same period of 2017. The increase in general and administrative expenses is primarily related to increased accounting and legal expenses of \$46,000 and \$125,000, respectively, as we prepared for an initial public offering and those costs associated with being a publicly traded company and increased investor relations expenses of \$753,000, which includes \$529,000 of stock-based compensation.

General and administrative expenses for the nine months ended September 30, 2018 were \$2,860,000, an increase of \$2,004,000 compared to the same period of 2017. The increase in general and administrative expenses is primarily related to increased stock-based compensation charges of approximately \$902,000, increased accounting and legal expenses of \$99,000 and \$139,000, respectively, as we prepared for an initial public offering and those costs associated with being a publicly traded company, increased investor relations expenses of \$813,000, which includes \$529,000 of stock-based compensation and increased travel, meals and entertainment expenses of \$58,000 in connection with the IPO roadshow and post IPO investor conferences.

Interest Expense

Interest expense for the three months ended September 30, 2018 was \$14,171,000, an increase of \$10,379,000 compared to the same period of 2017. Interest expense increased primarily due to the Series D Convertible Notes accruing 10% interest on the first of every month beginning March 1, 2018, so long as the Series D Convertible Notes remain outstanding, increased amortization of debt discount charges of \$9,610,000 as well as an increase in total debt between the comparison periods.

Interest expense for the nine months ended September 30, 2018 was \$33,502,000, an increase of \$25,847,000 compared to the same period of 2017. Interest expense increased primarily due to the Series D Convertible Notes accruing 10% interest on the first of every month beginning March 1, 2018, so long as the Series D Convertible Notes remain outstanding, increased amortization of debt discount charges of \$21,210,000 as well as an increase in total debt between the comparison periods.

Change in Fair Value of Warrant Liability

Change in fair value of warrant liability for the three months ended September 30, 2018 was a loss of \$3,878,000, compared to a gain of \$3,220,000 in the same period of 2017. The change is primarily due to the increase in the stock price as we prepared for an initial public offering, which led to an increase in the fair value of the warrants.

Change in fair value of warrant liability for the nine months ended September 30, 2018 was a loss of \$8,127,000, compared to a gain of \$3,203,000 during the same period of 2017. The change is primarily due to the increase in the stock price as we prepared for an initial public offering, which led to an increase in the fair value of the warrants.

Change in Fair Value of Derivative Liability

Change in fair value of derivative liability for the three months ended September 30, 2018 was a loss of \$10,908,000. The increase in the derivative liability is primarily related to the increase of the fair value of the embedded conversion features of our February 2016 Note, and our Series C, Series D, Series F Convertible Notes and Series G Notes, as the Company worked towards its initial public offering. No derivative liability was booked in the three months ended September 30, 2017 as the embedded conversion feature had de minimus value as the Company was not actively seeking any type of offering or change of control due to its financial condition.

Change in fair value of derivative liability for the nine months ended September 30, 2018 was a loss of \$14,294,000. The increase in the derivative liability is primarily related to increase of the fair value of the embedded conversion features of our February 2016 Note, and our Series C, Series D, Series F Convertible Notes and Series G Notes, as the Company worked towards its initial public offering. No derivative liability was booked in the nine months ended September 30, 2017 as the embedded conversion feature had de minimus value as the Company was not actively seeking any type of offering or change of control due to its financial condition.

Liquidity and Capital Resources

Cash and cash equivalents as of September 30, 2018 were \$6,102,000 compared to \$249,000 as of December 31, 2017. The increase in cash and cash equivalents during the nine months ended September 30, 2018 was directly related the Company's July 2018 IPO where it raised net proceeds of \$10,273,000.

We incurred a net loss of (\$64,618,000) for the nine months ended September 30, 2018 and used net cash in operating activities of (\$7,086,000). For the nine months ended September 30, 2017 we incurred a net loss of (\$9,481,000) and used net cash in operating activities of (\$6,611,000). Excluding non-cash adjustments, the primary reasons for the increased use of net cash from operating activities during the nine months ended September 30, 2018 is related to the decrease in accounts payable and accrued liabilities by (\$348,000) and (\$167,000) respectively, the increase in inventories and prepaid expenses of (\$478,000) and (\$359,000) respectively, partially offset by an increase in accrued interest of \$6,316,000, compared to the use of cash to reduce accounts payable and accrued liabilities by (\$196,000) and (\$1,131,000) respectively, a decrease in accounts receivable, inventories and prepaid expenses of (\$46,000), (\$157,000) and (\$75,000), respectively, partially offset by an increase in accrued interest of \$1,653,000 for the nine months ended September 30, 2017.

We are an early stage company and have generated losses from operations since inception. In order to execute our long-term strategic plan to further develop and fully commercialize our core products, we will need to raise additional funds, through public or private equity offerings, debt financings, or other means. These conditions raise substantial doubt about our ability to continue as a going concern.

During the nine months ended September 30, 2018, the Company borrowed an additional \$3,770,000 from secured lenders receiving net proceeds of \$3,437,000 after issuance costs. In addition, in July 2018, the Company completed its IPO where it received net proceeds of \$10,273,000. Upon completion of the IPO the Company repaid \$200,000 of its convertible notes payable and the remainder of the convertible notes payable along with all related accrued interest converted into a total of 9,527,144 shares of common stock.

During the nine months ended September 30, 2017, the Company borrowed an additional \$7,519,000 from secured lenders receiving net proceeds of \$7,018,000 after issuance costs.

During the next 12 months, we anticipate product development expenses of \$4,000,000, sales and marketing expenses of \$2,400,000, general and administrative expenses of \$2,100,000, working capital requirements of \$1,800,000, which includes funding the anticipated growth in our accounts receivable as well as our inventory and purchase of equipment, and \$4,200,000 of anticipated gross margin from sales. The timing and amount of our actual expenditures will be based on many factors, including cash flows from operations and the anticipated growth of our business. Such amounts are based upon our present plans and business conditions and we cannot predict with certainty all of the particular uses for such amounts. In the event that our revenue projections are lower than forecast or our expenses are higher than anticipated, we may need to raise additional funds on terms that may not be attractive, if we are able to raise any additional funding at all.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures. Based on the foregoing evaluation, our management concluded that, as of September 30, 2018, our disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

In connection with the audits of our consolidated financial statements as of and for the years ended December 31, 2016 and 2017, we identified material weaknesses in our internal control over financial reporting, as defined in the standards established by the Public Company Accounting Oversight Board (United States). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our consolidated financial statements will not be prevented or detected on a timely basis. The identified material weaknesses related to (i) inadequate segregation of duties; and (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both generally accepted accounting principles in the United States of America, or GAAP and SEC guidelines.

The Company is continuing to remediate the material weakness identified above as its resources permit.

Changes in Internal Controls

During the nine months ended September 30, 2018, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting except as disclosed above.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are a party to litigation and subject to claims incident to the ordinary course of business. Future litigation may be necessary to defend ourselves and our customers by determining the scope, enforceability and validity of third-party proprietary rights or to establish our proprietary rights.

As of September 30, 2018, we do not have any material litigation matters pending.

Item 1A. Risk Factors.

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

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

On July 20, 2018, in consideration for extending the maturity date of the Series G 20% Original Issue Discount Senior Secured Promissory Notes, as amended (the "Series G Notes") from July 15, 2018 to July 25, 2018 and for amending the terms of conversion to make such Series G Notes automatically convertible upon an initial public offering of the Company's common stock, the Company issued to the holders of the Series G Notes warrants to purchase an aggregate of 625,000 shares of the Company's common stock, which are exercisable at a per share price of \$3.60.

On July 25, 2018, in connection with a settlement agreement between the Company and the holder of a senior secured original issue discount convertible note (the "Series E Convertible Note"), the Company issued to such holder a five-year warrant to purchase 487,864 shares of the Company's common stock at a price per share of \$3.00 in partial consideration for the settlement of certain disputes with respect to the terms of transaction documents entered into between such parties in connection with the issuance of the Series E Convertible Note.

On July 25, 2018, in connection with the Company's initial public offering, an aggregate of \$28,997,000 of principal under all of the Company's outstanding convertible notes, and all accrued interest, were automatically converted into a total of 9,527,144 shares of common stock, at a conversion price of \$4.00 for the Series C Convertible Notes, \$3.75 for the Series D Convertible Notes, \$3.00 for the Series F Convertible Notes, \$2.00 for the Series G Notes, and at an average conversion price \$3.90 for all other outstanding convertible notes. On July 25, 2018, in connection with the Company's initial public offering, holders of 2,762,594 shares of the Company's preferred stock were automatically converted into a total of 2,762,594 shares of common stock at a ratio of 1-to-1.

On July 26, 2018, the Company issued 40,000 shares of restricted common stock to a consultant pursuant to a consulting agreement in consideration for providing business advisory services to the Company for a period of two months.

On August 7, 2018, the Company issued a three-year warrant to purchase 50,000 shares of common stock at a per share price of \$3.00 to a consultant pursuant to a consulting agreement in consideration for providing business advisory services to the Company for a period of three months.

On September 25, 2018, the Company issued 20,000 shares of restricted common stock to a consultant pursuant to a media advertising agreement in partial consideration for providing certain media agent services to the Company for a period of 180 days.

On September 25, 2018, the Company issued 25,000 shares of restricted common stock to a consultant pursuant to a consulting agreement in consideration for providing certain consulting services to the Company for a period of one year.

The offers and sales of securities in the transactions above were made pursuant to the exemption from registration provided by Section 4(a) (2) of the Securities Act, including pursuant to Rule 506 thereunder. Such offers and sales were made solely to "accredited investors" as defined under Rule 506 and were made without any form of general solicitation and with full access to any information requested by such investors regarding the Company or the securities offered in such transactions.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

There have been no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

Item 6. Exhibits

Exhibit Number	Description
4.1	Form of Common Stock Purchase Warrant issued to holders of Series E Senior Secured Original Issue Discount Convertible Notes.
10.1	Settlement Agreement and Mutual Release, dated July 25, 2018, by and between Summit Semiconductor, Inc. and MARCorp Signal, LLC.
31.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

SIGNATURES

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

Summit Wireless Technologies, Inc.

Date: November 15, 2018

By: /s/ Brett Moyer
Name: Brett Moyer
Title: Chief Executive Officer
(Duly Authorized Officer and Principal Executive Officer)

Date: November 15, 2018

By: /s/ Gary Williams
Name: Gary Williams
Title: Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND APPLICABLE STATE SECURITIES LAWS, AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF CORPORATE COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

**COMMON STOCK PURCHASE WARRANT
SUMMIT SEMICONDUCTOR, INC.**

Warrant Shares: [_____]

Original Issue Date: [_____]

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, [_____] or its assigns (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the [_____] (the "Original Issue Date") and on or prior to the close of business on the fifth (5th) anniversary of the Original Issue Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Summit Semiconductor, Inc., a Delaware corporation (the "Company"), up to [_____] shares (as subject to adjustment hereunder, the "Warrant Shares") of Common Stock (as defined below). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

WHEREAS, the Company and the Holder entered that certain Securities Purchase Agreement, dated as of May 17, 2017 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time) (the "Purchase Agreement"), pursuant to which the Company issued to the Holder a Senior Secured Original Issue Discount Convertible Note (the "Note") and a warrant to purchase common units of the Company (the "Original Warrant", and collectively with the Note and the Purchase Agreement, the "Loan Documents"); and

WHEREAS, the Company and the Holder entered into a Settlement Agreement and Mutual Release, dated July 25, 2018, pursuant to which, among other things, the Company agreed to issue the Holder new warrants to purchase an aggregate of 3,102,244 shares of Common Stock, including this Warrant to purchase [_____] shares of Common Stock, in satisfaction of the obligations of the Company owed to the Holder under the Loan Documents, including, but not limited to, the Original Warrant.

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Warrant and for other good and valuable consideration, the Company and the Holder each agree as follows:

Section 1. Definitions. In addition to the terms defined elsewhere in this Warrant, the following terms have the meanings set forth in this Section 1:

“Affiliate” means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the Securities Act.

“Beneficial Ownership Limitation” shall have the meaning ascribed to such term in Section 2(e).

“Bloomberg” means Bloomberg, L.P.

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“Buy-In” shall have the meaning ascribed to such term in Section 2(d)(vii).

“Commission” means the United States Securities and Exchange Commission.

“Common Stock” means the common stock of the Company, par value \$0.0001 per share, and any other class of securities into which such securities may hereafter be reclassified or changed.

“Common Stock Equivalents” means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Company” shall have the meaning ascribed to such term in the Preamble.

“DWAC” shall have the meaning ascribed to such term in Section 2(d).

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Exercise Price” shall have the meaning ascribed to such term in Section 2(b).

“Holder” shall have the meaning ascribed to such term in the Preamble.

“Loan Documents” shall have the meaning ascribed to such term in the Recitals.

“Note” shall have the meaning ascribed to such term in the Recitals.

“Original Issue Date” shall have the meaning ascribed to such term in the Preamble.

“Original Warrant” shall have the meaning ascribed to such term in the Recitals.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Purchase Agreement” shall have the meaning ascribed to such term in the Recitals.

“Rule 144” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Termination Date” shall have the meaning ascribed to such term in the Preamble.

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock (or any other common stock of any other Person that references the Trading Market for its common stock) is listed or quoted for trading on the date in question: the OTC Bulletin Board, The NASDAQ Global Market, The NASDAQ Global Select Market, The NASDAQ Capital Market, the New York Stock Exchange, NYSE Arca, the NYSE MKT, or the OTCQX Marketplace, the OTCQB Marketplace, the OTC Pink Marketplace or any other tier operated by OTC Markets Group Inc. (or any successor to any of the foregoing).

“VWAP” means, for or as of any date, the dollar volume-weighted average price for such security on the Trading Market (or, if the Trading Market is not the principal trading market for such security, then on the principal securities exchange or securities market on which such security is then traded) during the period beginning at 9:30:01 a.m., New York time, and ending at 4:00:00 p.m., New York time, as reported by Bloomberg through its “HP” function (set to weighted average) or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security during the period beginning at 9:30:01 a.m., New York time, and ending at 4:00:00 p.m., New York time, as reported by Bloomberg, or, if no dollar volume-weighted average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in the “pink sheets” by OTC Markets Group Inc. (formerly Pink Sheets LLC). If the VWAP cannot be calculated for such security on such date on any of the foregoing bases, the VWAP of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. All such determinations shall be appropriately adjusted for any stock dividend, stock split, stock combination, recapitalization or other similar transaction during such period.

“Warrant” shall have the meaning ascribed to such term in the Preamble.

“Warrant Register” shall have the meaning ascribed to such term in Section 4(c).

“Warrant Share Delivery Date” shall have the meaning ascribed to such term in Section 2(d).

“Warrant Shares” shall have the meaning ascribed to such term in the Preamble.

Section 2. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Original Issue Date and on or before the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed copy of the Notice of Exercise form annexed hereto (via facsimile or electronic mail) and within three (3) Trading Days of the date said Notice of Exercise is delivered to the Company, the Company shall have received payment of the aggregate Exercise Price of the shares of Common Stock thereby purchased by wire transfer to an account designated by the Company or cashier’s check drawn on a United States bank or, if available, pursuant to the cashless exercise procedure specified in Section 2(c) below. If the amount of payment received by the Company is less than the aggregate Exercise Price of the shares of Common Stock being purchased, the Holder shall make payment of the deficiency within three (3) Trading Days following notice thereof. No ink-original Notice of Exercise shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Exercise form be required. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall automatically reduce the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form within two (2) Business Days of receipt of such notice. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per share of Common Stock under this Warrant shall be equal to the lesser of (A) \$4.50 and (B) the price per share of Common Stock sold in the Company’s initial public offering of Common Stock multiplied by 60% (as may be adjusted hereunder, the “Exercise Price”; however, in no event shall the Exercise Price be adjusted below \$3.00).

c) Cashless Exercise. If at any time there is no effective registration statement registering, or no current prospectus available for, the resale of the Warrant Shares by the Holder, then this Warrant may also be exercised, in whole or in part, at such time by means of a “cashless exercise” in which the Holder shall be entitled to receive a number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = as applicable: (i) the VWAP on the Trading Day immediately preceding the date of the applicable Notice of Exercise if such Notice of Exercise is (1) both executed and delivered pursuant to Section 2(a) hereof on a day that is not a Trading Day or (2) both executed and delivered pursuant to Section 2(a) hereof on a Trading Day prior to the opening of “regular trading hours” (as defined in Rule 600(b)(64) of Regulation NMS promulgated under the federal securities laws) on such Trading Day, (ii) the bid price of the Common Stock on the principal Trading Market as reported by Bloomberg as of the time of the Holder’s execution of the applicable Notice of Exercise if such Notice of Exercise is executed during “regular trading hours” on a Trading Day and is delivered within two (2) hours thereafter pursuant to Section 2(a) hereof or (iii) the VWAP on the date of the applicable Notice of Exercise if the date of such Notice of Exercise is a Trading Day and such Notice of Exercise is both executed and delivered pursuant to Section 1(a) hereof after the close of “regular trading hours” on such Trading Day;

(B) = the Exercise Price of this Warrant, as adjusted hereunder; and

(X) = the number of Warrant Shares that would be issuable upon exercise of this Warrant in accordance with the terms of this Warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

Notwithstanding anything herein to the contrary, on the Termination Date, this Warrant shall be automatically exercised via cashless exercise pursuant to this Section 2(c).

d) Mechanics of Exercise.

i. Delivery of Certificates Upon Exercise. Certificates for shares of Common Stock purchased hereunder shall be transmitted by VStock Transfer, LLC (the “Transfer Agent”) to the Holder by crediting the account of the Holder’s prime broker with The Depository Trust Company through its Deposit or Withdrawal at Custodian system (“DWAC”) if the Company is then a participant in such system and either (A) there is an effective registration statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by the Holder or (B) the shares of Common Stock are eligible for resale by the Holder without volume or manner-of-sale limitations pursuant to Rule 144, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise by the date that is five (5) Trading Days after the latest of (A) the delivery to the Company of the Notice of Exercise, (B) and (B) payment of the aggregate Exercise Price as set forth above (including by cashless exercise, if permitted) (such date, the “Warrant Share Delivery Date”). The Warrant Shares shall be deemed to have been issued, and Holder or any other Person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised, with payment to the Company of the Exercise Price (or by cashless exercise, if permitted) and all taxes required to be paid by the Holder, if any, pursuant to Section 2(d)(vi) prior to the issuance of such shares, having been paid.

ii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iii. Rescission Rights. If the Company fails to cause the Transfer Agent to transmit to the Holder a certificate or the certificates representing the Warrant Shares pursuant to Section 2(d)(i) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

iv. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause the Transfer Agent to transmit to the Holder a certificate or the certificates representing the Warrant Shares pursuant to an exercise on or before the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount, if any, by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (1) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored (in which case such exercise shall be deemed rescinded) or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted exercise of Common Stock with an aggregate sale price giving rise to such purchase obligation of \$10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

v. No Fractional Shares or Scrip. No fractional shares of Common Stock or scrip representing fractional shares of Common Stock shall be issued upon the exercise of this Warrant. As to any fraction of a share of Common Stock which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share of Common Stock.

e) Holder's Exercise Limitations. The Company shall not effect any exercise of this Warrant, and the Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, the Holder (together with the Holder's Affiliates, and any other Persons acting as a group together with the Holder or any of the Holder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (i) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates and (ii) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Common Stock Equivalents) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(e), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(e) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(e), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (A) the Company's most recent periodic or annual report filed with the Commission, as the case may be, (B) a more recent public announcement by the Company or (C) a more recent written notice by the Company or the Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two (2) Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Holder, upon not less than 61 days' prior notice to the Company, may increase or decrease the Beneficial Ownership Limitation provisions of this Section 2(e), provided that the Beneficial Ownership Limitation in no event exceeds 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant held by the Holder and the provisions of this Section 2(e) shall continue to apply. Any such increase or decrease will not be effective until the 61st day after such notice is delivered to the Company. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(e) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

Section 3. Certain Adjustments.

a) Issuance of Additional Shares of Common Stock.

i. In the event the Company shall issue any Additional Shares of Common Stock (as defined below), at a price per share less than the Exercise Price then in effect or without consideration, then the Exercise Price upon each such issuance shall be adjusted to that price determined by multiplying the Exercise Price then in effect by a fraction:

(A) the numerator of which shall be equal to the sum of (x) the number of outstanding shares of Common Stock (assuming full exercise, conversion or exchange of all warrants and other securities which are convertible into or exercisable or exchangeable for, and any right to subscribe for, Common Stock) immediately prior to the issuance of such Additional Shares of Common Stock plus (y) the number of shares of Common Stock (rounded to the nearest whole share of Common Stock) which the aggregate consideration for the total number of such Additional Shares of Common Stock so issued would purchase at a price per share equal to the Exercise Price then in effect, and

(B) the denominator of which shall be equal to the number of outstanding shares of Common Stock (assuming full exercise, conversion or exchange of all warrants and other securities which are convertible into or exercisable or exchangeable for, and any right to subscribe for, shares of Common Stock) immediately after the issuance of such Additional Shares of Common Stock.

ii. "Additional Shares of Common Stock" means all shares of Common Stock issued by the Company after the date hereof, except: (i) securities issued (other than for cash) in connection with a merger, acquisition, or consolidation, (ii) the Warrant Shares, and (iii) shares of Common Stock issued pursuant to the Company's 2018 Long-Term Stock Incentive Plan.

c) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share of Common Stock, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

d) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall notify the Holder via regular or electronic mail setting forth the Exercise Price after such adjustment and any resulting adjustment to the number of Warrant Shares and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend on the shares of Common Stock, (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the shares of Common Stock, (C) the Company shall authorize the granting to all holders of the shares of Common Stock rights or warrants to subscribe for or purchase any shares of Common Stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 10 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or Common Stock exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or Common Stock exchange; provided that the failure to notify Holder or any defect therein or in the notification thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any of the Company's subsidiaries, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

e) Voluntary Adjustment by Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

Section 4. Transfer of Warrant.

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Section 4(d) hereof, this Warrant and all rights hereunder (including, without limitation, any registration rights) are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company unless the Holder has assigned this Warrant in full, in which case, the Holder shall surrender this Warrant to the Company within ten (10) Trading Days of the date the Holder delivers an assignment form to the Company assigning this Warrant full. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the Original Issue Date and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary. The Holder will promptly notify the Company upon any transfer or assignment of this Warrant.

d) Representation by the Holder. The Holder, by the acceptance hereof, represents and warrants that it is acquiring this Warrant and, upon any exercise hereof, will acquire the Warrant Shares issuable upon such exercise, for its own account and not with a view to or for distributing or reselling such Warrant Shares or any part thereof in violation of the Securities Act or any applicable state securities law, except pursuant to sales registered or exempted under the Securities Act.

e) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be either (i) registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws or (ii) eligible for resale without volume or manner-of-sale restrictions or current public information requirements pursuant to Rule 144, the Company may require, as a condition of allowing such transfer, that the Holder or transferee of this Warrant, as the case may be, comply with Section 5(k).

Section 5. Miscellaneous.

a) No Rights as Stockholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise hereof as set forth in Section 2(d)(i), except as expressly set forth in Section 3.

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares.

The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock is listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation, as amended, or bylaws, or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (i) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and (ii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body having jurisdiction thereof.

e) Jurisdiction. The corporate laws of the State of Delaware shall govern all issues concerning the relative rights of the Company and its stockholders. All other questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. The Company and Holder each agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Warrant (whether brought against the Company or Holder, or their respective affiliates, directors, officers, stockholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. The Company and Holder each hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. The Company and Holder each hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to one another at the address in effect for notices to it under this Warrant and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either the Company or Holder shall commence an action, suit or proceeding to enforce any provisions of the Warrant, then, the prevailing party in such action, suit or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding and/or incurred in connection with the preparation therefor. The Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) and the Holder hereby irrevocably waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Warrant or any transaction contemplated hereby.

f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered and the Holder does not utilize cashless exercise, will have restrictions upon resale imposed by state and federal securities laws.

g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder or Company shall operate as a waiver of such right or otherwise prejudice the Holder's or Company's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If either party willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the other, the first party shall pay to the other party such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the affected party in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

h) Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of: (a) the date of transmission, if such notice or communication is delivered via email or facsimile at the email address or facsimile number set forth below at or prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of email or facsimile transmission, if such notice or communication is delivered via email or facsimile at the email address or facsimile number set forth below on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the second (2nd) Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth below:

For Holder:

Name: []
Address: []
Telephone Number: []
Email: []

For Company:

Name: Summit Semiconductor, Inc.
Address: 6840 Via Del Oro Ste. 280
San Jose, CA 95119
Attn: Chief Executive Officer
Telephone Number: (408) 627-4716
Email: bmoyer@summitsemi.com

i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any shares of Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

j) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

(Signature Page Follows)

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

SUMMIT SEMICONDUCTOR, INC.

By: _____
Name: Brett Moyer
Title: Chief Executive Officer

NOTICE OF EXERCISE

TO: SUMMIT SEMICONDUCTOR, INC.

(1) The undersigned hereby elects to purchase _____ Warrant Shares pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box): lawful money of the United States; or if permitted the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in Section 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in Section 2(c).

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following DWAC Account Number or by physical delivery of a certificate to:

(4) Accredited Investor. The undersigned is an “accredited investor” as defined in Regulation D promulgated under the Securities Act of 1933, as amended, and that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale, in connection with the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares of Common Stock.

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____

Signature of Authorized Signatory of Investing Entity: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____

ASSIGNMENT FORM

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to exercise the Warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is
_____.

Dated: _____, _____

Holder's Signature: _____
Holder's Address: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of entities and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

July 25, 2018

VIA ELECTRONIC MAIL

Summit Semiconductor, Inc.
Attn: Brett Moyer and Gary Williams
68040 Via Del Oro
San Jose, CA95119
bmoyer@summitsemi.com; gwilliams@summitsemi.com

Re: Senior Secured Original Issue Discount Convertible Note Payoff Letter

Gentlemen:

Reference is hereby made to (a) that certain Securities Purchase Agreement, dated as of May 17, 2017 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time prior to the date hereof, the "**Purchase Agreement**"), by and among Summit Semiconductor, Inc., a Delaware corporation (f/k/a Summit Semiconductor, LLC, a Delaware limited liability company) (the "**Company**"), and MARCorp Signal, LLC, a Delaware limited liability company (the "**Purchaser**") and (b) the Note issued by the Company to Purchaser on May 17, 2017 (as amended and updated from time to time, the "**Note**"). Capitalized terms used in this letter and not defined herein shall have the meanings ascribed to such terms in the Purchase Agreement.

Please be advised that the sum of the aggregate outstanding amount of principal, accrued interest, default penalties and all other payment obligations and other amounts (other than unasserted indemnification obligations, the provisions set forth in Section 4.9 of the Purchase Agreement, and other provisions which by the terms of such Loan Document (as defined below) expressly survive termination of such Loan Document and repayment of the Note (collectively, the "**Contingent Obligations**"), the survival of which by execution hereof, the Company hereby acknowledges, confirms and reaffirms) due under the Transaction Documents other than the Warrants (the Transaction Documents other than the Warrants, the "**Loan Documents**"), as of November 30, 2017 (the "**Repayment Date**") is the aggregate of the amounts and Common Units set forth on Schedule I attached hereto (the "**Payoff Amount**").

In an effort to settle all differences and to avoid the costs of litigation, the Company hereby acknowledges, confirms and reaffirms that the number of Warrants owned by the Purchaser as of Repayment Date is set forth on Schedule II attached hereto. The Purchaser acknowledges that it has received the Payoff Amount set forth on Schedule I attached hereto on or about November 30, 2017.

Upon (i) receipt by the Purchaser of an executed counterpart of this letter by the Company and (ii) having confirmed receipt by the Purchaser of the Payoff Amount:

(A) the Purchaser hereby acknowledges and agrees that such payment of the Payoff Amount will constitute payment in full of the Note and the full satisfaction of all obligations of the Company under the Loan Documents owed to the Purchaser, and the Note shall be thereby be deemed paid in full, released and discharged, all without any further action being required to effectuate the foregoing, and such agreements, documents and instruments shall be deemed automatically terminated and of no further force or effect (other than Section 4.9 of the Purchase Agreement and those provisions that expressly survive termination) and the Purchaser shall have no further obligations to the Company under the Loan Documents;

(B) the Purchaser hereby agrees to promptly execute and deliver such additional documents, terminations, releases or other agreements, take such additional actions and shall provide any additional information as the Company may reasonably require to carry out the terms of this letter, in each case at the Company's sole expense; and

(C) upon request by the Company, the Purchaser agrees to promptly deliver to the Company or its designee the original Note (or its statement that the Note has been lost in the form customarily used by the Purchaser in such circumstances).

In consideration of the foregoing, by their execution of the acknowledgment and agreement hereto, the Company and the Purchaser shall execute mutual releases attached hereto as **Exhibit A**.

This letter embodies the entire agreement and understanding among the parties hereto and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and any prior arrangements made with respect to the payment by the Company of (or any indemnification for) any fees, costs or expenses payable to or incurred (or to be incurred) by or on behalf of the Purchaser.

This letter shall be a contract made under and governed by the internal laws of the State of New York applicable to contracts made and to be performed entirely within such State, without regard to conflict of law principles. This letter may be executed in any number of separate counterparts, each of which shall, collectively and separately, constitute one agreement. Fax or electronic (by email delivery) signatures shall have the same force and effect as if original signatures had been delivered.

[signature pages follow]

Very truly yours,

MARCORP SIGNAL, LLC

By: /s/ Jeffery L. McCoy

Name: Jeffery L. McCoy

Title: President

**SIGNATURE PAGE TO
PAYOFF LETTER**

Acknowledged and agreed to
as of the date first written above:

Company:

SUMMIT SEMICONDUCTOR, INC.

By: /s/ Gary Williams
Name: Gary Williams
Title: CFO

**SIGNATURE PAGE TO
PAYOFF LETTER**

Schedule I

Payoff Details

Name	Payoff Amount Category	Wire Instructions
MARCorp Signal, LLC (principal, interest and penalty)	\$6,980,048	Bank Name: [] ABA/Routing: [] Custody Account #: [] Account Name: []
MARCorp Signal, LLC (out of pocket expenses)	\$280,708	Bank Name: [] ABA/Routing: [] Custody Account #: [] Account Name: []

PAYOFF AMOUNT DETAILS:

Payoff Date:	November 30, 2017
Amount Funded	5,000,000
Default Interest as of Oct. 31, 2017	316,250
Default Penalty	616,791
OID	1,047,007
Total Principal	<u>\$ 6,980,048</u>

REIMBURSEMENT OF DIRECT COSTS:

Consulting	30,000
Airfare	19,965
Lodging	32,361
Other Travel	5,749
Meals and Entertainment	9,004
Business	4,984
Legal	178,645
Total Direct Costs	<u>\$ 280,708</u>

Schedule II

Warrant Details

WARRANTS:

46,533,653 - Units

NOTE: The Warrants will be subject to the following terms and will be reflected in the reissued Warrants to be issued within five (5) business days of the date of this letter:

A. MARCorp's total warrants will be 46,533,653 (or 3,102,244 after 15 to 1 reverse split) and will be comprised of 2,614,381 warrants that were not in dispute ("Good Warrants") and 487,863 warrants that were in dispute ("Dispute Warrants").

B. Good Warrants to provide for a strike price equal to the lesser of a) a 40% discount to the IPO price of the Common Stock or b) \$4.50 per share.

C. Dispute Warrants, with a strike price equal to the lesser of a) a 40% discount to the IPO price of the Common Stock or b) \$4.50 per share, will have an expiration date of five (5) years from date of Closing, as defined herein, and all other terms of the Warrants remain the same consistent with the Good Warrants as originally issued.

Exhibit A

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Brett Moyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Summit Wireless Technologies, Inc. (the “registrant”):
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 15, 2018

/s/ Brett Moyer

Name: Brett Moyer

Title: Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Gary Williams, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Summit Wireless Technologies, Inc. (the “registrant”):
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 15, 2018

/s/ Gary Williams

Name: Gary Williams

Title: Chief Financial Officer

(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Summit Wireless Technologies, Inc. (the "Company") for the period ended September 30, 2018 (the "Report"), I, Brett Moyer, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 15, 2018

/s/ Brett Moyer

Name: Brett Moyer

Title: Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report on Form 10-Q of Summit Wireless Technologies, Inc. (the "Company") for the period ended September 30, 2018 (the "Report"), I, Gary Williams, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 15, 2018

/s/ Gary Williams

Name: Gary Williams

Title: Chief Financial Officer

(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
