

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 June 30, 2019

or

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

For the transition period from _____ to _____.

Commission File Number: 001-38608

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	WISA	The Nasdaq Capital Market

The number of shares of the registrant's common stock outstanding as of August 14, 2019 is 19,812,431.

SUMMIT WIRELESS TECHNOLOGIES, INC.
QUARTERLY REPORT ON FORM 10-Q
For the quarter ended June 30, 2019

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Summit Wireless Technologies, Inc.

Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
	(unaudited)	(1)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,322	\$ 3,218
Accounts receivable	18	112
Inventories	2,082	1,383
Prepaid expenses and other current assets	490	428
Total current assets	<u>5,912</u>	<u>5,141</u>
Property and equipment, net	107	110
Intangible assets, net	44	61
Other assets	94	94
Total assets	<u>\$ 6,157</u>	<u>\$ 5,406</u>
Liabilities, Preferred Stock and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 1,018	\$ 532
Accrued liabilities	760	846
Total current liabilities	<u>1,778</u>	<u>1,378</u>
Derivative liability	387	-
Warrant liability	39	210
Total liabilities	<u>2,204</u>	<u>1,588</u>
Commitments and contingencies (Note 9)		
Series A 8% Senior Convertible Preferred stock, par value \$0.0001; 1,250,000 shares authorized; 250,000 and zero shares issued and outstanding as of June 30, 2019 and December 31, 2018 (liquidation preference of \$1,016,000 and \$0 as of June 30, 2019 and December 31, 2018)	<u>477</u>	<u>-</u>
Stockholders' Equity:		
Common stock, par value \$0.0001; 200,000,000 shares authorized; 19,727,431 and 15,366,327 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	2	2
Additional paid-in capital	184,561	179,501
Accumulated other comprehensive loss	(58)	(45)
Accumulated deficit	(181,029)	(175,640)
Total stockholders' equity	<u>3,476</u>	<u>3,818</u>
Total liabilities, preferred stock and stockholders' equity	<u>\$ 6,157</u>	<u>\$ 5,406</u>

(1) The condensed consolidated balance sheet as of December 31, 2018 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 six months ended June 30, 2019 and 2018
 (in thousands, except share and per share data)
 (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue, net	\$ 352	\$ 380	\$ 817	\$ 662
Cost of revenue	330	433	737	831
Gross profit	<u>22</u>	<u>(53)</u>	<u>80</u>	<u>(169)</u>
Operating Expenses:				
Research and development	1,405	993	2,766	2,598
Sales and marketing	676	469	1,425	1,381
General and administrative	657	418	1,272	1,649
Total operating expenses	<u>2,738</u>	<u>1,880</u>	<u>5,463</u>	<u>5,628</u>
Loss from operations	(2,716)	(1,933)	(5,383)	(5,797)
Interest expense	-	(10,593)	-	(19,331)
Change in fair value of warrant liability	64	(4,358)	175	(4,249)
Change in fair value of derivative liability	(171)	(2,572)	(171)	(3,386)
Other income (expense), net	-	(1)	(3)	-
Loss before provision for income taxes	(2,823)	(19,457)	(5,382)	(32,763)
Provision for income taxes	1	-	7	2
Net loss	(2,824)	(19,457)	(5,389)	(32,765)
Preferred stock dividend	(16)	-	(16)	-
Net loss attributable to common stockholders	<u>\$ (2,840)</u>	<u>\$ (19,457)</u>	<u>\$ (5,405)</u>	<u>\$ (32,765)</u>
Net loss per common share - basic and diluted	<u>\$ (0.16)</u>	<u>\$ (59.84)</u>	<u>\$ (0.33)</u>	<u>\$ (100.80)</u>
Weighted average number of common shares used in computing net loss per common share	<u>17,226,739</u>	<u>325,148</u>	<u>16,317,174</u>	<u>325,041</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 six months ended June 30, 2019 and 2018

(in thousands, except share and per share data)

(unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net loss	\$ (2,824)	\$ (19,457)	\$ (5,389)	\$ (32,765)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(2)	-	(13)	(1)
Comprehensive loss	<u>\$ (2,826)</u>	<u>\$ (19,457)</u>	<u>\$ (5,402)</u>	<u>\$ (32,766)</u>

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

Summit Wireless Technologies, Inc.

Condensed Consolidated Statements of Preferred Stock and Stockholders' Equity (Deficit)

For the three and six months ended June 30, 2019 and 2018

(in thousands, except share and per share data)

(unaudited)

	Preferred Stock		Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2018	-	\$ -	15,366,327	\$ 2	\$ 179,501	\$ (45)	\$ (175,640)	\$ 3,818
Release of vested restricted common stock	-	-	123,848	-	(65)	-	-	(65)
Issuance of warrants for common stock	-	-	-	-	-	-	-	-
Currency translation adjustment	-	-	-	-	-	(11)	-	(11)
Net loss	-	-	-	-	-	-	(2,565)	(2,565)
Balance as of March 31, 2019	-	-	15,490,175	2	179,436	(56)	(178,205)	1,177
Proceeds from issuance of preferred stock and common stock warrant, net of issuance costs	250,000	720	-	-	200	-	-	200
Fair value of derivative liability in connection with issuance of preferred stock	-	(216)	-	-	-	-	-	-
Issuance of warrant for common stock in connection with preferred stock offering	-	(43)	-	-	43	-	-	43
Accretion of preferred stock dividend	-	16	-	-	(16)	-	-	(16)
Proceeds from issuance of common stock, net of issuance costs	-	-	4,075,726	-	4,664	-	-	4,664
Issuance of common stock for vendor services	-	-	161,530	-	234	-	-	234
Currency translation adjustment	-	-	-	-	-	(2)	-	(2)
Net loss	-	-	-	-	-	-	(2,824)	(2,824)
Balance as of June 30, 2019	250,000	\$ 477	19,727,431	\$ 2	\$ 184,561	\$ (58)	\$ (181,029)	\$ 3,476

	Preferred Stock		Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2017	2,762,594	\$ 64,735	324,821	\$ -	\$ 13,832	\$ (42)	\$ (108,283)	\$ (94,493)
Issuance of common shares to note holder upon extension of maturity date	-	-	327	-	-	-	-	-
Beneficial conversion feature upon issuance of convertible notes	-	-	-	-	255	-	-	255
Issuance of warrants for common shares	-	-	-	-	277	-	-	277
Reclassification of warrants	-	-	-	-	192	-	-	192
Stock compensation expense	-	-	-	-	2,156	-	-	2,156
Currency translation adjustment	-	-	-	-	-	(1)	-	(1)
Net loss	-	-	-	-	-	-	(13,308)	(13,308)
Balance as of March 31, 2018	2,762,594	64,735	325,148	-	16,712	(43)	(121,591)	(104,922)
Beneficial conversion feature upon issuance of convertible notes	-	-	-	-	410	-	-	410
Issuance of warrants for common shares	-	-	-	-	518	-	-	518
Currency translation adjustment	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	(19,457)	(19,457)
Balance as of June 30, 2018	2,762,594	\$ 64,735	325,148	\$ -	\$ 17,640	\$ (43)	\$ (141,048)	\$ (123,451)

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 six months ended June 30, 2019 and 2018

(in thousands, except share and per share data)

(unaudited)

	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (5,389)	\$ (32,765)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	28	19
Stock-based compensation	-	2,156
Amortization of intangible asset	17	17
Amortization of debt discounts	-	14,191
Change in fair value of warrant liability	(175)	4,249
Change in fair value of derivative liability	171	3,386
Expense for issuance of consultant warrants and common stock	238	65
Changes in operating assets and liabilities:		
Accounts receivable	94	48
Inventories	(699)	(123)
Prepaid expenses and other assets	(62)	(407)
Accounts payable	486	743
Accrued liabilities	(86)	60
Accrued interest	-	5,137
Net cash used in operating activities	<u>(5,377)</u>	<u>(3,224)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(25)	(36)
Net cash used in investing activities	<u>(25)</u>	<u>(36)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	4,664	-
Proceeds from the issuance of preferred stock and common stock warrant, net of issuance costs	920	-
Proceeds from issuance of promissory notes, net of issuance costs	-	2,002
Proceeds from issuance of convertible notes payable, net of issuance costs	-	1,435
Taxes paid related to net share settlements of equity awards	(65)	-
Net cash provided by financing activities	<u>5,519</u>	<u>3,437</u>
Effect of exchange rate changes on cash and cash equivalents	(13)	(1)
Net decrease in cash and cash equivalents	<u>104</u>	<u>176</u>
Cash and cash equivalents as of beginning of year	3,218	249
Cash and cash equivalents as of end of year	<u>\$ 3,322</u>	<u>\$ 425</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 7</u>	<u>\$ 2</u>
		\$ -
Noncash Investing and Financing Activities:		
Issuance of warrants in connection with convertible notes payable	\$ -	\$ 795
Issuance of common stock warrants in connection with preferred stock offering	\$ 243	\$ -
Issuance of warrants in connection in public offering	\$ 70	\$ -
Beneficial conversion feature of convertible notes payable	\$ -	\$ 665
Fair value of derivative liability in connection with issuance of preferred stock	\$ 216	\$ -
Accretion of preferred stock dividend	\$ 16	\$ -
Issuance of convertible notes in lieu of employee expense payments	\$ -	\$ 50
Conversion of accrued interest to accounts payable	\$ -	\$ 2
Conversion of interest to convertible notes payable as principal	\$ -	\$ 9
Fair value of derivative liability in connection with issuance of notes payable	\$ -	\$ 1,558
Reclassification of warrant from liability to equity	\$ -	\$ 192

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

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018
(unaudited)

1. Business and Viability of Operations

Summit Wireless Technologies, 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.

On April 18, 2019, we entered into a Securities Purchase Agreement, dated as of April 18, 2019, with Ms. Walsh (the “Preferred SPA”), pursuant to which we issued 250,000 shares of our Series A 8% Senior Convertible Preferred Stock, par value \$0.0001 per share (the “Series A Preferred Stock”), which shares have a stated value of \$4.00, grant holders the same voting rights as holders of our shares of common stock, and are convertible into shares of our common stock at price of \$4.00 per share, subject to a floor price of \$1.50 and to adjustment under our Certificate of Designations of the Preferences, Rights and Limitations of the Series A Preferred Stock, in consideration for \$1,000,000 (the “Initial Tranche”). The Series A Preferred Stock may be issued in tranches of at least \$500,000 and in an aggregate of up to \$5 million. In connection with the Initial Tranche, the Company also issued to the significant shareholder a warrant to purchase 255,102 shares of our common stock.

On May 24, 2019, the Company closed a public offering of the Company’s common stock (“Public Offering”). The Company’s registration statement on Form S-1 (File No. 333-230952) relating to the Public Offering was declared effective by the SEC on May 21, 2019. In connection with the Public Offering, the Company issued an aggregate of 4,075,726 shares of common stock at a public offering price of \$1.33 per share for gross proceeds of approximately \$5,420,000. The net proceeds to the Company, after deducting underwriting discounts and commissions and other offering expenses, were approximately \$4,664,000.

Liquidity and management plans

The condensed consolidated financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. The Company has incurred net operating losses each year since inception. As of June 30, 2019, the Company had cash and cash equivalents of \$3.3 million, an accumulated deficit of approximately \$181.0 million and has not generated positive cash flows from operations. The Company expects operating losses to continue in the foreseeable future because of additional costs and expenses related to research and development activities, plans to expand its product portfolio, and increase its market share. The Company’s ability to transition

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2019 and 2018
(unaudited)

1. Business and Viability of Operations, *continued*

to attaining profitable operations is dependent upon achieving a level of revenues adequate to support its cost structure. Based on current operating levels, the Company will need to raise additional funds by selling additional equity or incurring debt. To date, the Company has not generated significant revenues and has funded its operations primarily through sales of its common stock in public markets, sales of common and preferred units prior to its IPO and proceeds from convertible notes. Additionally, future capital requirements will depend on many factors, including the rate of revenue growth, the selling price of the Company's products, the expansion of sales and marketing activities, the timing and extent of spending on research and development efforts and the continuing market acceptance of the Company's products. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Management of the Company intends to raise additional funds through the issuance of equity securities or debt. There can be no assurance that, in the event the Company requires additional financing, such financing will be available at terms acceptable to the Company, if at all. Failure to generate sufficient cash flows from operations, raise additional capital and reduce discretionary spending could have a material adverse effect on the Company's ability to achieve its intended business objectives. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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, 2018 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.

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.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018
(unaudited)

2. Summary of Significant Accounting Policies, *continued*

Reclassification

Certain reclassifications have been made to prior periods' financial statements to conform to the current period presentation. These reclassifications did not result in any change in previously reported net loss, total assets or shareholders' equity.

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 June 30, 2019, the Company had two customers accounting for 84% and 15% of accounts receivable. As of December 31, 2018, the Company had two customers accounting for 47% and 42% of accounts receivable. The Company had three customers accounting for 38%, 38% and 15% of its net revenue for the three months ended June 30, 2019. The Company had three customers accounting for 53%, 34% and 6% of its net revenue for the six months ended June 30, 2019. The Company had three customers accounting for 60%, 25% and 11% of its net revenue for the three months ended June 30, 2018. The Company had two customers accounting for 63% and 25% of its net revenue for the six months ended June 30, 2018.

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, a single contractor in Japan for the production of its transmit semiconductor chip and a single contractor in China for the production of its receive semiconductor chip.

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.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018
(unaudited)

2. Summary of Significant Accounting Policies, *continued*

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 that we expect to be entitled to in exchange for those goods or services. Sales of products with alternative uses 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.

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 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.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018
(unaudited)

2. Summary of Significant Accounting Policies, continued

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, 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 six months ended June 30, 2019 and 2018.

Advertising Costs

Advertising costs are charged to sales and marketing expenses as incurred. Advertising costs for the three and six months ended June 30, 2019 and 2018 were not material.

Net Loss per Common Share

Basic net loss per common share is calculated by dividing the net loss attributable to common stockholders 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 attributable to common stockholders 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 six months ended June 30, 2019, warrants to purchase 9,060,003 shares of common stock, 250,000 shares of preferred stock and 492,808 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 six months ended June 30, 2018, warrants to purchase 7,366,944 shares of common stock, 2,762,594 shares of preferred stock, and 1,437,596 shares of restricted 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.

Recently Issued and Adopted Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") No. 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting". ASU 2018-07 applies to all entities that enter into share-based payment transactions for acquiring goods and services from nonemployees. The amendments in ASU 2018-07 expand the scope of Topic 718, Compensation - Stock Compensation, to include share-based payments transactions to nonemployees. Changes to the accounting for nonemployee awards as a result of ASU 2018-07 include: 1) equity-classified nonemployee share-based payment awards are measured at the grant date, instead of the previous requirement to remeasure the awards through the performance completion date, 2) for awards with performance conditions, compensation cost is recognized when the achievement of the performance condition is probable, rather than upon achievement, and 3) the current requirement to reassess the classification (equity or liability) for nonemployee awards upon vesting is eliminated. ASU 2018-07 clarifies that Topic 718 does not apply to financing transactions or awards granted to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in ASU 2018-07 are effective for public business entities for fiscal years beginning after December 15, 2018. The Company adopted this guidance as of January 1, 2019 and the adoption did not have a significant impact on the condensed consolidated financial statements.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

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2. Summary of Significant Accounting Policies, continued

Recently Issued and Not Yet Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases". The objective of the update is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet for leases with a lease term of more than 12 months. In addition, the update will require additional disclosures regarding key information about leasing arrangements. Under existing guidance, operating leases are not recorded as lease assets and lease liabilities on the balance sheet. As an emerging growth company, the Company is allowed to adopt accounting pronouncements at the same time as non-public business entities. As a result, we have elected to adopt the update for our fiscal year beginning after December 15, 2019. The Company does not expect the adoption of this standard to significantly impact the condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820). The FASB developed the amendments to Accounting Standards Codification 820 as part of its broader disclosure framework project, which aims to improve the effectiveness of disclosures in the notes to financial statements by focusing on requirements that clearly communicate the most important information to users of the financial statements. This update eliminates certain disclosure requirements for fair value measurements for all entities, requires public entities to disclose certain new information and modifies some of the existing disclosure requirements. The standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within such fiscal years, with early adoption permitted. The Company is evaluating the impact of ASU 2018-13 on its condensed consolidated financial statements.

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 (in thousands):

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Work in progress	\$ 304	\$ 191
Finished goods	1,778	1,192
Total inventories	<u>\$ 2,082</u>	<u>\$ 1,383</u>

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements
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3. Balance Sheet Components, continued

Property and equipment, net (in thousands):

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Machinery and equipment	\$ 771	\$ 746
Tooling	7	7
Computer software	89	89
Furniture and fixtures	15	15
Leasehold improvements	<u>11</u>	<u>11</u>
	893	868
Less: Accumulated depreciation and amortization	<u>(786)</u>	<u>(758)</u>
Property and equipment, net	<u>\$ 107</u>	<u>\$ 110</u>

Depreciation and amortization expense for the three months ended June 30, 2019 and 2018 was \$14,000 and \$9,000, respectively. Depreciation and amortization expense for the six months ended June 30, 2019 and 2018 was \$28,000 and \$19,000, respectively.

Accrued liabilities (in thousands):

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Accrued vacation	\$ 261	\$ 238
Accrued compensation	-	17
Accrued bonus	-	158
Customer advances	131	186
Accrued other	<u>368</u>	<u>247</u>
Total accrued liabilities	<u>\$ 760</u>	<u>\$ 846</u>

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

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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 \$358,000, 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 \$38,000, 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 \$13,000, (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 recognized interest expense of \$10,000 and \$20,000 for the three and six months ended June 30, 2018, respectively. The Company did not make any principal reduction payments under the Hallo Note during the three and six months ended June 30, 2018. On July 25, 2018, the outstanding convertible note automatically converted into 56,723 shares of common stock in connection with the Company’s IPO.

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 \$23,000, 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 \$13,000, (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 recognized interest expense of \$4,000 and \$9,000 for the three and six months ended June 30, 2018. The Company did not make principal reduction payments under the January 2015 Note during the three and six months ended June 30, 2018. On July 25, 2018, the outstanding convertible note automatically converted into 39,653 shares of common stock in connection with the Company’s IPO.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

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(unaudited)

4. Promissory Notes, continued

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 recognized interest expense of \$11,000 and \$22,000 for the three and six months ended June 30, 2018. On July 25, 2018, the outstanding convertible note automatically converted into 155,373 shares of common stock in connection with the Company's IPO.

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 recognized interest expense of \$5,000 and \$9,900 for the three and six months ended June 30, 2018. 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 \$353,000 (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. 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.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

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(unaudited)

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 \$9,000 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 recognized interest expense of \$4,000 and \$7,500 for the three and six months ended June 30, 2018. 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 and six months ended June 30, 2019 and 2018, the Company recognized \$0 from the amortization of the debt discount.

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 IPO. No convertible notes payable were outstanding as of December 31, 2018.

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 recognized interest expense of \$8,000 and \$15,000 for the three and six months ended June 30, 2018. On July 25, 2018, the outstanding convertible note automatically converted into 99,594 shares of common stock in connection with the Company's IPO.

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 the three and six months ended June 30, 2018, the Company recognized interest expense of \$0 from the amortization of the debt discount.

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5. Convertible Notes Payable, continued

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 \$201,000 and requested the May 2016 Advance be cancelled and its principal be aggregated with the \$201,000 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 \$209,000. The Company recognized interest expense of \$0 for the three and six months ended June 30, 2018. 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 six months ended June 30, 2018, the Company recognized interest expense of \$0 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.

Series D Convertible Notes Payable

On various dates in 2016 and 2017, the Company received total proceeds of \$4,717,000 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 \$172,000 and converted those to Series D Convertible Notes; (ii) extinguished other promissory notes in the amount of \$236,000 along with accrued interest of \$19,000 and converted those to Series D Convertible Notes; (iii) allowed Mr. Moyer to convert \$69,000 of reimbursable expense reports into Series D Convertible Notes; and (iv) allowed Mr. Jonathan Gazdak, 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 \$386,000. 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 recognized interest expense of \$2,837,000 and \$3,845,000 for the three and six months ended June 30, 2018. 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.

Summit Wireless Technologies, Inc.

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5. Convertible Notes Payable, continued

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 June 30, 2019 was therefore 2,035,434. During the three and six months ended June 30, 2018, the Company recognized interest expense of \$1,402,000 and \$2,875,000 from the amortization of the debt discounts.

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.

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 \$5,882,000, that the Series E Convertible Note holders were due, \$1,098,000 of default interest and penalties, reimbursement of \$179,000 of legal fees, and consulting, travel and lodging fees of \$102,000. 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 \$7,261,000 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 \$1,980,000 and additional general and administrative expenses of \$281,000 which was comprised of Series E Note holder’s legal fees and consulting expenses of \$179,000 and \$102,000, 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).

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5. Convertible Notes Payable, continued

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 six months ended June 30, 2018, the Company recognized interest expense of \$70,000 from the amortization of the debt discounts.

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 \$135,000. The Company recognized interest expense of \$393,000 and \$757,000 for the three and six months ended June 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 six months ended June 30, 2018, the Company recognized interest expense of \$5,124,000 and \$10,669,000, 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 at which time they converted to common stock in connection with the Company’s IPO.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

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(unaudited)

5. Convertible Notes Payable, continued

Series G Notes Payable

Between April 20, 2018 and June 29, 2018, the Company issued \$2,813,000 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 \$2,813,000 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.

The Company has recognized interest expense of \$450,000 for the three and six months ended June 30, 2018. 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 and six months ended June 30, 2018, the Company recognized interest expense of \$197,000 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. In July 2018, the derivative liability was reclassified to additional paid-in capital as of the date of the Company’s IPO.

Summit Wireless Technologies, Inc.

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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.

The Company’s financial assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2019 and December 31, 2018 by level within the fair value hierarchy, are as follows:

(in thousands)

	June 30, 2019		
	Quoted prices in active markets	Significant other observable inputs	Significant unobservable inputs
	(Level 1)	(Level 2)	(Level 3)
Liabilities:			
Derivative liability	\$ -	\$ -	\$ 387
Warrant liability	\$ -	\$ -	\$ 39

(in thousands)

	December 31, 2018		
	Quoted prices in active markets	Significant other observable inputs	Significant unobservable inputs
	(Level 1)	(Level 2)	(Level 3)
Liabilities:			
Warrant liability	\$ -	\$ -	\$ 210

There were no transfers between Level 1, 2 or 3 during the three and six months ended June 30, 2019 or June 30, 2018.

Summit Wireless Technologies, Inc.

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6. Fair Value Measurements, continued

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 six months ended June 30, 2019 and 2018:

	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Beginning balance	\$ 103	927	\$ 210	1,228
Additions	-	65	4	65
Change in fair value	(64)	4,358	(175)	4,249
Reclass to additional paid-in capital	-	-	-	(192)
Ending balance	\$ 39	\$ 5,350	\$ 39	\$ 5,350

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.

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 June 30, 2019 and December 31, 2018 is as follows:

	June 30, 2019	December 31, 2018
Common Stock Price	\$ 1.16	\$ 3.42
Term (Years)	3.77	4.27
Volatility	59%	58%
Risk-free rate of interest	1.74%	2.58%
Dividend Yield	0.0%	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 six months ended June 30, 2019 and June 30, 2018:

(in thousands)	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Beginning balance	\$ -	\$ 22,959	\$ -	\$ 20,832
Additions	216	245	216	1,558
Change in fair value	171	2,572	171	3,386
Ending balance	\$ 387	\$ 25,776	\$ 387	\$ 25,776

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

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6. Fair Value Measurements, continued

As of June 30, 2018, the Company measured the fair value of the derivative by estimating the fair value of the convertible notes payable at certain conversion points. To calculate the fair value of the convertible notes payable with the conversion feature, the Company calculated the present value of the convertible notes payable upon conversion at a qualifying initial public offering in the second 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 75% for the occurrence of a qualifying initial public offering in the second quarter of 2018 and a probability of 25% in the last quarter of 2018. The Company's derivative liabilities were measured at fair value using the Probability Weighted Expected Return valuation methodology.

As of June 30, 2019, the Company measured the fair value of the derivative by estimating the fair value of the Series A Convertible Preferred Stock as if conversion occurred on June 30, 2019. The Company calculated value of the conversion feature using the Fixed Conversion Price of the Series A Preferred Stock, as adjusted to 95% of the volume weighted average price of the common stock for the previous ten trading days and the specified floor price of \$1.50.

7. Preferred Stock and Stockholders' Equity

Preferred Stock

On July 26, 2018, upon the closing of the IPO, all shares of preferred stock then outstanding were automatically converted into 2,762,594 shares of common stock.

Series A 8% Senior Convertible Preferred Stock

On April 18, 2019, the Company entered into a Securities Purchase Agreement, dated as of April 18, 2019, with Ms. Walsh (the "Preferred SPA"), pursuant to which we issued 250,000 shares of our Series A Preferred Stock, par value \$0.0001 per share, which shares have a stated value of \$4.00 (the "Stated Value"), grant holders the same voting rights as holders of our shares of common stock, and are convertible into shares of our common stock at price of \$4.00 per share, subject to a floor price of \$1.50 and to adjustment under our Certificate of Designations of the Preferences, Rights and Limitations of the Series A Preferred Stock (the "Certificate of Designations"), in consideration for \$1,000,000 (the "Initial Tranche"). The Series A Preferred Stock may be issued in tranches of at least \$500,000 and in an aggregate of up to \$5 million. In connection with the Initial Tranche, the Company also issued to Ms. Walsh a warrant to purchase 255,102 shares of our common stock.

The Series A Preferred Stock contains an embedded conversion feature that the Company has determined is a derivative requiring bifurcation. The fair value of the derivative liability at the issuance of the Series A Preferred Stock was \$216,000, which was recorded as a derivative liability with the offset recorded as a discount to the Series A Preferred Stock. (See Note 6 – Fair Value Measurements for the fair value computation.)

The authorized, issued and outstanding shares of Series A Preferred Stock and liquidation preferences as of June 30, 2019, were as follows:

	<u>Number of Shares Authorized</u>	<u>Number of Shares Issued and Outstanding</u>	<u>Proceeds Net of Issuance Costs</u>	<u>Conversion Price per Share</u>	<u>Liquidation Preference</u>
Series A 8 % Senior Convertible Preferred Stock	<u>1,250,000</u>	<u>250,000</u>	<u>\$ 920,000</u>	<u>\$ 4.00</u>	<u>\$ 1,016,000</u>

Summit Wireless Technologies, Inc.

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7. Preferred Stock and Stockholders' Equity, continued

The Series A Preferred Stock rights, privileges and preferences are as follows:

Dividends — The holders of the Series A Preferred Stock are entitled to receive cumulative dividends at the rate per share of 8% per annum, payable on conversion. The form of the dividend payment on the Series A Preferred Stock will be determined based on the legal availability of funds for the payment and the satisfaction of the Equity Conditions (as defined in the Certificate of Designations) for the 5 consecutive trading days immediately prior to the payment date. The form of the payment, depending on the priority, may be made in cash or shares of common stock at the Company's option. If funds are not available and the Equity Conditions have not been met, the dividends will accrue to the next payment date or accrete to the Stated Value. The Company accrued dividends of \$16,000 for the three months ended June 30, 2019.

Liquidation Rights — In the event of any liquidation, dissolution, or winding-up of the Company, each holder of Series A Preferred Stock is entitled to receive an amount equal to the Stated Value, plus accrued and unpaid dividends and any other fees or liquidated damages before any distribution will be made to holders of junior securities. If assets are insufficient for such payment, then the entire assets will be distributed only to the holders of the Series A Preferred Stock. A fundamental or change of control transaction is not deemed a liquidation.

Conversion — Each share of Series A Preferred Stock is convertible at the option of the holder into the number of shares of common stock (subject to adjustment for certain events, including dilutive issuances, stock splits, and reclassifications) determined by multiplying such number by the ratio of the Stated Value by a conversion price, which price is originally equal to \$4.00 (the "Fixed Conversion Price"). However, if the closing price of the common stock is less than the Fixed Conversion Price, then the Fixed Conversion Price may be reduced to equal 95% of the lowest volume weighted average price of the common stock for the previous 10 trading days, which price shall not be less than \$1.50. Notwithstanding the foregoing, unless the Company obtains stockholder approval pursuant to the rules and regulations of The NASDAQ Capital Market, the Company cannot issue shares of common stock upon conversion of the Series A Preferred Stock in the event that such issuance exceeds 19.99% of the issued and outstanding shares of the Company's common stock as of April 18, 2019 or if such conversion is considered a "change of control" under NASDAQ rules and regulations.

Voting Rights — Each holder has the right to one vote for each share of common stock into which such preferred stock could be converted. So long as any shares of Series A Preferred Stock are outstanding, the Company shall not, without first obtaining the approval of more than 67% of the holders of Series A Preferred Stock then outstanding, voting together as a separate class (a) alter or amend the Certificate of Designations or alter or change adversely the powers, rights or preferences of the Series A Preferred Stock, including amending the Company's certificate of incorporation or other charter documents in any manner adversely affecting the holders of the Series A Preferred Stock; (b) authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon a liquidation senior to, or otherwise pari passu with, the Series A Preferred Stock; (c) increase the total number of authorized shares of Series A Preferred Stock; or (d) enter into any agreement with respect to any of the foregoing.

Redemption — The Series A Preferred Stock is not mandatorily redeemable as it does not have a set redemption date or a date after which the shares may be redeemed by the holders. However, if a Triggering Event (as defined in the Certificate of Designations) occurs, then each holder will receive 120% of the aggregate Stated Value, plus all accrued and unpaid dividends and any other fees or liquidated damages. Additionally, upon such an event, the dividend rate of the Series A Preferred Stock increases to 18% per annum. A Triggering Event is defined as any (1) default on credit obligations; (2) default on payment of certain Series A Preferred Stock payments or a default under the Certificate of Designations and any related transaction document entered into in connection with the issuance of the Series A Preferred Stock; (3) bankruptcy of the Company; (4) ineligibility for listing of the Company's common stock on a trading market; (5) change of control or fundamental transaction entered into by the Company, or other transaction entered into by the Company where more than 51% of the Company's assets are sold; (6) failure of the Company to perform certain regulatory reporting; (7) failure to timely deliver certificates representing shares of common stock upon conversion of the shares of Series A Preferred Stock; (8) failure of the Company to maintain a sufficient number of reserved shares pursuant to the Preferred SPA; and (9) judgment is entered or filed against the Company or its subsidiaries in excess of an aggregate of \$100,000 or the Company or any of its subsidiaries experiences a loss of property in excess of an aggregate of \$100,000. The Company has elected not to adjust the carrying values of the Series A Preferred Stock to the liquidation preferences of such shares because it is uncertain whether or when an event would occur that would obligate the Company to pay the liquidation preferences to holders of shares and at the balance sheet date, these circumstances were not probable. Subsequent adjustments to the carrying values of the liquidation preferences will be made only when it becomes probable that such a liquidation event will occur.

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7. Preferred Stock and Stockholders' Equity, continued

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. For fiscal year 2019, up to 2,304,909 shares of common stock are available for participants under 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 \$2,156,000 for the three and six months ended June 30, 2018.

On March 1, 2019, the Company released its second tranche of restricted shares under the January 2018 Restricted Stock Grant. The majority of the restricted stock that was 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 months ended March 31, 2019, 471,697 shares of restricted stock were released with an intrinsic value of approximately \$1.0 million. Of the restricted stock released, 323,162 shares were forfeited and we withheld 24,687 shares to satisfy approximately \$65,000 of employees' minimum tax obligation on the released restricted stock. As of June 30, 2019, there were 492,808 shares of restricted stock remaining under the January 2018 Restricted Stock Grant, 464,632 of such shares were to be released on September 1, 2019, with an additional 28,176 shares to be released to a terminated employee in four equal tranches over the next 20 months.

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 nominal interest expense for the three and six months ended June 30, 2018.

On January 4, 2019, the Company awarded 400,000 deferred shares to Michael Howse, a member of the Company's Board of Directors, in connection with a Deferred Shares Agreement under the LTIP. The shares vest immediately prior to a significant change in ownership, defined as a Fundamental Transaction in the agreement. In light of this performance vesting condition, the Company has not recorded any stock compensation expense for the issuance of these shares during the three and six months ended June 30, 2019.

During the three months ended June 30, 2019, the Company issued 161,530 common shares to vendors in exchange for services.

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7. Preferred Stock and Stockholders' Equity, 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 six months ended June 30, 2019 and 2018 is provided in the following paragraphs.

In connection with the Series F Convertible Notes issued during the three months ended June 30, 2018, the Company issued warrants to purchase 25,000 common shares at an exercise price of \$5.40 per share with a five-year term. The grant date fair value of the warrants was \$44,000 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 57%, risk-free interest rate 2.82% and expected life of 5 years.

In connection with the Series F Convertible Notes issued during the three months ended June 30, 2018, the Company issued warrants to investment bankers to purchase 3,222 common shares at an exercise price of \$5.40 per share with a five-year term. The grant date fair value of the warrants was \$5,700 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 57%, risk-free interest rate 2.82% and expected life of 5 years.

In connection with the Series G Notes issued during the three months ended June 30, 2018, the Company issued warrants to purchase 208,350 common shares at an exercise price of \$5.40 per share with a five-year term. The grant date fair value of the warrants was \$366,000 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 57%, risk-free interest rate 2.81% and expected life of 5 years.

In connection with the Series G Notes issued during the three months ended June 30, 2018, the Company issued warrants to investment bankers to purchase 58,334 common shares at an exercise price of \$5.40 per share with a five-year term. The grant date fair value of the warrants was \$102,000 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 57%, risk-free interest rate 2.82% and expected life of 5 years.

In April 2018, the Company granted warrants to purchase up to 275,000 shares of common stock to 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 June 30, 2019, warrants to purchase 110,000 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 warrants that vested in the three and six months ended June 30, 2019 was \$0 and \$4,000 respectively, 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 \$1.66, expected dividend yield 0%, expected volatility 59%, risk-free interest rate 1.74% and expected life of 3.77 years.

Summit Wireless Technologies, Inc.

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7. Preferred Stock and Stockholders' Equity, continued

In April 2019, the Company granted warrants to purchase up to 225,102 shares of common stock to Ms. Walsh, holder of Series A Preferred Stock. The warrants have an exercise price of \$1.98 per share and are fully vested. The fair value of the warrants at issuance was \$216,000. 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 \$2.08, expected dividend yield 0%, expected volatility 59%, risk-free interest rate 2.38% and expected life of 5.0 years. The Company determined the relative fair value of the warrant and the related Series A Preferred Stock, and recorded the warrant at \$200,000, with the offset recorded to additional paid-in capital.

In April 2019, the Company granted warrants to purchase up to 40,816 shares of common stock to Alexander Capital, L.P. in connection with the issuance of the Series A Preferred Stock. The warrants have an exercise price of \$2.18 per share and are fully vested but not exercisable until October 2019. The fair value of the warrants at issuance was \$43,000. 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 \$2.08, expected dividend yield 0%, expected volatility 59%, risk-free interest rate 2.38% and expected life of 5.0 years. The fair value was recorded as a cost of issuance of the Series A Preferred Stock, with the offset to additional paid-in capital.

In May 2019, the Company granted warrants to purchase up to 122,272 shares of common stock to Alexander Capital, L.P. in connection with the Public Offering. The warrants have an exercise price of \$1.66 per share and are fully vested but not exercisable until May 2020. The fair value of the warrants at issuance was \$70,000. 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 \$1.36, expected dividend yield 0%, expected volatility 60%, risk-free interest rate 2.18% and expected life of 4.0 years. The fair value was recorded as a cost of issuance of the common stock, with the offset to additional paid-in capital.

Information regarding warrants for common stock outstanding and exercisable as of June 30, 2019 is as follows:

<u>Exercise Price</u>	<u>Warrants Outstanding as of June 30, 2019</u>	<u>Remaining Life (years)</u>	<u>Warrants Exercisable as of June 30, 2019</u>
\$1.66 - \$2.18	693,190	4.41	365,102
\$3.00 - \$4.00	5,522,720	3.72	5,522,720
\$4.50 - \$4.95	298,882	1.90	298,882
\$5.40 - \$6.25	2,543,577	3.08	2,543,577
\$10.35	1,634	1.79	1,634
\$3.69	<u>9,060,003</u>	3.53	<u>8,731,915</u>

Warrants exercisable as of June 30, 2019 excludes warrants to purchase 165,000 common shares issued to Mr. Howse which have not yet vested.

Summit Wireless Technologies, Inc.

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8. Income Taxes

The Company recorded a provision for income taxes of \$7,000 for the six months ended June 30, 2019 and \$2,000 for the six months ended June 30, 2018. The provision for income taxes recorded for the six months both 2019 and 2018 was primarily due to state income tax expense.

The Company's effective tax rate was (0.04)% for the six months ended June 30, 2019 and (0.13)% for the six months ended June 30, 2018. The difference between the effective tax rate and the federal statutory tax rate for the six months ended June 30, 2019 and 2018 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 June 30, 2019, 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 six months ended June 30, 2019 and 2018 was calculated on a jurisdiction basis.

9. Commitments and Contingencies

Operating Leases

The Company rents its Beaverton, Oregon office under an operating lease, which was set to expire in October 2018. In July 2018, the Company extended its lease through October 31, 2020. 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 June 30, 2019 and 2018 was \$99,000 and \$91,000, respectively. Rent expense for the six months ended June 30, 2019 and 2018 was \$189,000 and \$179,000, respectively.

Future annual minimum lease payments under the non-cancelable operating lease as of June 30, 2019 are \$179,000 and \$304,000, respectively, for the years ending December 31, 2019 and 2020.

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.

Summit Wireless Technologies, Inc.

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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 \$63,000 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, \$537,000 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 June 30, 2019 and December 31, 2018, Mr. Moyer was owed \$0 of principal under convertible promissory notes and owned 1.2% and 1.5% of the outstanding shares of the Company's common stock respectively.

Michael Fazio

Mr. Fazio is the chairman of MARCorp Financial LLC, a private equity firm located in Illinois. Mr. Fazio served as a member of the Company's board of directors beginning May 2017. On May 17, 2017, the Company entered into a securities purchase agreement with MARCorp Signal, LLC, pursuant to which the Company borrowed a total of \$5,000,000 from MARCorp Signal, LLC in consideration for the Series E Convertible Note. MARCorp Signal, LLC is a wholly-owned subsidiary of MARCorp Financial LLC. In connection with such borrowings, MARCorp Signal, LLC was issued a warrant to purchase 2,614,381 of the Company's common units, which warrant was exercisable at \$4.50 per unit and had a five-year life. On November 30, 2017, MARCorp Signal, LLC's Series E Convertible Note was repaid by the Company in full. Pursuant to a settlement agreement that the Company entered into with MARCorp Signal, LLC on July 25, 2018, a warrant to purchase an aggregate of 487,864 shares of common stock was issued to MARCorp Signal, LLC, and following the Company's IPO, the exercise price of the warrants issued in connection with the Series E Convertible Note became \$3.00. On June 19, 2019, Mr. Fazio notified the Company of his decision to resign from the Company's board of directors effective June 19, 2019. Mr. Fazio resigned to focus on managing MARCorp Financial LLC and not due to any disagreement between the Company and Mr. Fazio, or any matter related to the Company's operations, policies or practices. As of June 30, 2019 and December 31, 2018, Mr. Fazio was owed \$0 of principal under convertible promissory notes and owned less than 1% of the outstanding shares of the Company's common stock.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018
(unaudited)

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, \$21,000 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 June 30, 2019 and December 31, 2018, Mr. Gazdak was owed \$0 of principal under convertible promissory notes and owned less than 1% of the outstanding shares of the Company.

The Company signed an engagement letter with Alexander Capital, L.P. in August of 2014 ("August 2014 Engagement Letter"), under which Alexander Capital, L.P. earned a fee on total investments by their clients. Alexander Capital, L.P. earned fees of \$200,250 and \$321,300 for the three and six months ended June 30, 2018, under the August 2014 Engagement Letter. As of June 30, 2019, 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, under the August 2014 Engagement Letter. The August 2014 Engagement Letter was terminated upon the completion of the IPO.

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 fully vested, 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.

The Company signed an engagement letter with Alexander Capital, L.P. in April of 2019 ("April 2019 Engagement Letter"), under which Alexander Capital, L.P. earns a fee on total investments by their clients. Alexander Capital, L.P. earned fees of \$80,000 for both the three and six months ended June 30, 2019, under the April 2019 Engagement Letter. As of June 30, 2019, Alexander Capital, L.P. has been issued warrants to purchase a total of 40,816 shares of common stock at an exercise price of \$2.18 per share, under the April 2019 Engagement Letter. The warrant is fully vested and exercisable after October 18, 2019 through April 18, 2024.

Pursuant to the underwriting agreement entered into between the Company and Alexander Capital, L.P. in connection with the Public Offering (the "Public Offering Underwriting Agreement"), Alexander Capital, L.P. was paid a cash fee of \$406,554, as well as a non-accountable expense allowance of \$54,207 and reimbursements of \$100,000. Pursuant to the Underwriting Agreement, we issued Alexander Capital, L.P. warrants to purchase 122,272 shares of common stock. Such warrants are fully vested, exercisable at a per share price of \$1.66 and are exercisable at any time during the five-year period commencing 365 days from the effective date of the Public Offering, which period shall not exceed five years from such effective date.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

(unaudited)

10. Related Parties, continued

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 \$2,438,000 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 \$3.00. As of June 30, 2019 and December 31, 2018, the Medalist Funds were owed \$0 of principal under convertible promissory notes and owned 10.0% and 12.7% of the outstanding shares of the Company, respectively.

Michael Howse

We are party to an agreement with Michael Howse, dated April 6, 2018, as amended effective as of December 27, 2018 (the "Howse Agreement"), pursuant to which Mr. Howse was appointed interim role as chief strategy officer on an "at-will" basis in consideration for a monthly cash salary as well as (i) a warrant to purchase 110,000 shares of our common stock, exercisable at a per share price of \$2.00 and which vested monthly over a nine-month period and which fully vested on January 6, 2019 and (ii) a warrant to purchase 165,000 shares of our common stock, exercisable at a per share price of \$2.00, which shall vest, so long as Mr. Howse continues to serve as interim chief strategy officer and/or as a member of our board of directors, (x) as to 110,000 shares of common stock upon the achievement of a significant milestone and (y) as to 65,000 shares of common stock upon the achievement of an additional significant milestone. The foregoing exercise prices are subject to adjustment as provided in each warrant. Pursuant to the Howse Agreement, such warrants shall fully vest on the earlier of (1) immediately prior to a Fundamental Transaction, as defined in such agreement, and (2) Mr. Howse's removal from our board of directors for any reason other than his resignation, his intentional illegal conduct or gross misconduct, or his conviction for any felony, theft, embezzlement or violent crime. In addition, pursuant to the Howse Agreement, we also agreed to appoint Mr. Howse to our board of directors, where he may only be removed for cause, or his termination or resignation.

Under the Howse Agreement, if the Company raises capital in one or more financings from certain pre-approved strategic investors, or is acquired by a third-party during the period that Mr. Howse serves as interim chief strategy officer (or within six months thereafter), he will receive a percentage cash bonus concurrently with the closing of such transaction based on the amount raised or consideration paid for the Company, as applicable, (A) which bonus doubles in the event that the Company does not incur an amount equal to 2% or more of the consideration (as defined in the Howse Agreement) in fees to any investment bank in connection with such transaction, if such transaction is a Fundamental Transaction, and (B) 50% of which bonus may be paid as a convertible note or preferred equity with the same terms as the other participants in such transaction, if such transaction is a financing. Pursuant to the Howse Agreement, we may terminate Mr. Howse at any time, with or without cause, upon 90 days' prior written notice. Such agreement provides for Company-sponsored benefits in accordance with our policies. Pursuant to the Howse Agreement, effective November 1, 2018, Mr. Howse was placed on our payroll and is now considered a part-time Company employee.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

(unaudited)

10. Related Parties, continued

In connection with the Howse Agreement, the Company is also party to the Deferred Shares Agreement, entered into as January 4, 2019 (the “Deferred Shares Agreement”), pursuant to which the Company granted Mr. Howse up to 400,000 deferred shares under the LTIP (the “Deferred Shares”). Pursuant to such agreement, if a Fundamental Transaction has not occurred within 180 days of the earlier of the date on which Mr. Howse no longer serves (i) as our interim chief strategy officer or (ii) on our board of directors, all of the Deferred Shares shall be forfeited and Mr. Howse will have no further rights to such shares. Pursuant to such agreement, the Deferred Shares shall vest immediately prior to a Fundamental Transaction, and the number of Deferred Shares that shall vest is based on the consideration paid for the Company in such transaction, which number of Deferred Shares that shall vest to double in the event that the Company does not incur general expenses (as defined). As of June 30, 2019, Mr. Howse has vested warrants to purchase 110,000 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 June 30, 2019 and December 31, 2018, affiliates of Mr. Kristensen were owed \$0 of principal under convertible promissory notes and owned less than 1.0% of the outstanding shares of the Company.

Significant Shareholders

In January 2017, Carl E. Berg invested the aggregate sum of \$300,000 in the Company’s Series D Convertible Note financing described in Note 5 of the Notes to the Consolidated Financial Statements and was granted a warrant to purchase 39,216 shares of common stock at an exercise price of \$5.40. Effective February 28, 2018, Mr. 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, \$1,479,000 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 June 30, 2019 and December 31, 2018, Mr. Berg was owed \$0 of principal under convertible promissory notes and owned 8.1% and 10.4% of the outstanding shares of the Company, respectively.

Summit Wireless Technologies, Inc.

Notes To Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018
(unaudited)

10. Related Parties, continued

In November 2017, Lisa Walsh invested \$6,500,000 in the Company's Series F Convertible Note financing and was issued warrants to purchase 722,222 shares of common stock at an exercise price of \$5.40 per share. Effective February 28, 2018, Ms. 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 \$288,000 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, \$8,330,000 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 \$3.00. On April 18, 2019, Ms. Walsh agreed to purchase 250,000 shares of our Series A Preferred Stock in consideration for \$1,000,000. Ms. Walsh was granted a warrant to purchase 255,102 shares of our common stock at an exercise price of \$1.98 per share. As of June 30, 2019 and December 31, 2018, Ms. Walsh was owed \$0 of principal under convertible promissory notes and owned 20.7% and 26.4% of the outstanding shares of the Company, respectively.

11. Segment Information

The Company operates in one business segment, wireless audio products. Our chief decision-maker, the President and Chief Executive Officer, evaluates our performance based on company-wide consolidated results.

Net revenue from customers is designated based on the geographic region to which the product is delivered. Net revenue by geographic region for the three and six months ended June 30, 2019 and 2018 was as follows:

(in thousands)	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
United States	\$ -	\$ 2	\$ 3	\$ 2
Europe	138	98	287	176
Asia Pacific	214	280	527	484
Total	<u>\$ 352</u>	<u>\$ 380</u>	<u>\$ 817</u>	<u>\$ 662</u>

Substantially all of our long-lived assets are located in the United States.

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 Report 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 24-bit audio up to 96 kHz 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 microsecond, 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 of its common stock ("IPO"). The Company's registration statement on Form S-1 relating to the IPO was declared effective by the U.S. Securities and Exchange Commission (the "SEC") on July 25, 2018. The shares began trading on The NASDAQ Capital Market under the ticker symbol "WISA" on July 27, 2018. Pursuant to the IPO, 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.

On May 24, 2019, the Company closed a public offering of the Company's common stock ("Public Offering"). The Company's registration statement on Form S-1 relating to the Public Offering was declared effective by the SEC on May 21, 2019. In connection with the Public Offering, the Company issued an aggregate of 4,075,726 shares of common stock at a public offering price of \$1.33 per share for gross proceeds of approximately \$5,420,000. The net proceeds to the Company, after deducting underwriting discounts and commissions and other offering expenses, were approximately \$4,664,000.

Comparison of the Three and Six Months Ended June 30, 2019 and 2018

Revenue

Revenue for the three months ended June 30, 2019 was \$352,000, a decrease of \$28,000 or 7%, compared to the same period of 2018. The decrease in revenue was attributable to lower module sales.

Revenue for the six months ended June 30, 2019 was \$817,000, an increase of \$155,000 or 23%, compared to the same period of 2018. The increase in revenue was attributable to higher module sales.

Cost of Revenue and Operating Expenses

Cost of Revenue

Cost of revenue for the three months ended June 30, 2019 was \$330,000, a decrease of \$103,000, compared to the same period of 2018. Cost of revenue decreased \$36,000 as a direct result of the decreased revenue between comparable time periods, decreased salary, incentive compensation and benefit expense of approximately \$38,000 and \$11,000 of decreased facility allocation charges.

Cost of revenue for the six months ended June 30, 2019 was \$737,000, a decrease of \$94,000, compared to the same period of 2018. Cost of revenue decreased as a result of decreased salary and benefit expenses of \$80,000, as two employees transferred to our research and development department, increased overhead capitalization of \$40,000, reduced facility allocation charges of \$24,000 and reduced stock compensation charges of approximately \$24,000, partially offset by the \$66,000 increase as a direct result of the increased revenue between comparable time periods.

Research and development

Research and development expenses for the three months ended June 30, 2019 were \$1,405,000, an increase of \$412,000, compared to the same period of 2018. The increase in research and development expenses is primarily related to increased salary, incentive compensation and benefit expense of approximately \$123,000, as we converted 6 intern positions to full time positions between comparison periods, increased consulting fees of \$196,000 and increased facility allocation charges of \$85,000 due to the additional headcount.

Research and development expenses for the six months ended June 30, 2019 were \$2,766,000, an increase of \$168,000, compared to the same period of 2018. The increase in research and development expenses is primarily related to increased salary and benefit expenses of \$224,000, as we increased our average headcount by four employees, increased consulting expenses of \$425,000, increased facility allocation charges of \$130,000 due to the additional headcount and additional recruiting fees of \$29,000, partially offset by decreased stock compensation charges of approximately \$662,000.

Sales and marketing

Sales and marketing expenses for the three months ended June 30, 2019 were \$676,000, an increase of \$207,000, compared to the same period of 2018. The increase in sales and marketing expenses is primarily related to increased salary, incentive compensation and benefit expense of \$165,000, as we increased our average headcount by three employees, increased public relations fees of approximately \$27,000 and increased legal fees of approximately \$11,000, partially offset by reduced consulting fees of approximately \$19,000.

Sales and marketing expenses for the six months ended June 30, 2019 were \$1,425,000, an increase of \$44,000, compared to the same period of 2018. The increase in sales and marketing expenses is primarily related to increased salary and benefit expense of \$335,000, as we increased our average headcount by three employees, increased consulting expenses of \$98,000, which includes \$28,000 of stock compensation charges, increased travel, tradeshow and public relation expenses of \$35,000, \$20,000 and \$60,000, respectively, partially offset by decreased stock compensation charges of approximately \$553,000.

General and Administrative

General and administrative expenses for the three months ended June 30, 2019 were \$657,000, an increase of \$239,000, compared to the same period of 2018. The increase in general and administrative expenses is primarily related to increased investor relation expenses of \$334,000, which includes \$173,000 of stock compensation charges, as we concluded a public offering in May 2019, partially offset by decreased salary, incentive compensation and benefit expense of \$29,000 as well as decreased consulting and legal fees of \$16,000 and \$77,000, respectively.

General and administrative expenses for the six months ended June 30, 2019 were \$1,272,000, a decrease of \$377,000, compared to the same period of 2018. The decrease in general and administrative expenses is primarily related to decreased stock compensation charges of approximately \$915,000, partially offset by increased salary and benefit expenses of \$32,000, increased investor relations fees of \$453,000, which includes \$204,000 of stock compensation charges and increased legal and franchise tax fees of \$24,000 and \$24,000.

Interest Expense

Interest expense for the three months ended June 30, 2019 was \$0, compared to \$10,593,000 for the same period of 2018. Interest expense for the three months ended June 30, 2018 was due to the amortization of debt discount charges and interest expense associated with the \$17,660,000 of convertible debt outstanding as of June 30, 2018. No interest expense was booked in the three months ended June 30, 2019 as the Company had no outstanding debt.

Interest expense for the six months ended June 30, 2019 was \$0, compared to \$19,331,000 for the same period of 2018. Interest expense for the six months ended June 30, 2018 was due to the amortization of debt discount charges and interest expense associated with the \$17,660,000 of convertible debt outstanding as of June 30, 2018. No interest expense was booked in the six months ended June 30, 2019, as the Company had no outstanding debt.

Change in Fair Value of Warrant Liability

Change in fair value of warrant liability for the three months ended June 30, 2019 was a gain of \$64,000, compared to an expense of \$4,358,000 in the same period of 2018. The gain for the three months ended June 30, 2019 is due to the decrease in our common stock price during the period. The expense for the three months ended June 30, 2018 is due to the increase in our common stock price, as we prepared for and then concluded an initial public offering on July 25, 2018, which led to an increase in the fair value of the warrants.

Change in fair value of warrant liability for the six months ended June 30, 2019 was a gain of \$175,000, compared to an expense of \$4,249,000 during the same period of 2018. The gain for the six months ended June 30, 2019 is due to the decrease in our common stock price during the period. The expense for the three months ended June 30, 2018 is due to the increase in our common stock price as we prepared for and then concluded an initial public offering on July 25, 2018, 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 June 30, 2019 was an expense of \$171,000, compared to an expense of \$2,572,000 in the same period of 2018. The \$171,000 expense recorded in the three months ended June 30, 2019 was related to the change in fair value of the embedded conversion feature included in the Company's Series A Preferred Stock as of June 30, 2019. The \$2,572,000 expense recorded in June 30, 2018 was related to the fair value of the embedded conversion feature included in nearly all of the Company's \$17,660,000 of outstanding convertible notes as of June 30, 2018.

Change in fair value of derivative liability for the six months ended June 30, 2019 was an expense of \$171,000, compared to an expense of \$3,386,000 in the same period of 2018. The \$171,000 expense recorded in the six months ended June 30, 2019 was related to the change in fair value of the embedded conversion feature included in the Company's Series A Preferred Stock as of June 30, 2019. The \$3,386,000 expense recorded in June 30, 2018 was related to the fair value of the embedded conversion feature included in nearly all the Company's \$17,660,000 of outstanding convertible notes as of June 30, 2018.

Liquidity and Capital Resources

Cash and cash equivalents as of June 30, 2019 were \$3,322,000, compared to \$3,218,000 as of December 31, 2018. The increase in cash and cash equivalents during the six months ended June 30, 2019 was directly related to the April 2019 Series A Preferred Financing under which the Company raised net proceeds of \$920,000 and the Public Offering under which the Company raised net proceeds of \$4,664,000, partially offset by the use of cash to fund operations and working capital requirements.

We incurred a net loss of \$5,389,000 for the six months ended June 30, 2019 and used net cash in operating activities of \$5,377,000. For the six months ended June 30, 2018 we incurred a net loss of \$32,765,000 and used net cash in operating activities of \$3,224,000. Excluding non-cash adjustments, the primary reasons for the use of net cash from operating activities during the six months ended June 30, 2019 is related to the increase in inventories of \$699,000, offset partially by the increase in accounts payable of \$486,000, compared to the increase in accounts payable, accrued liabilities and accrued interest by \$743,000, \$60,000, and \$5,137,000, respectively, offset partially by the increase in inventories and prepaid expenses of \$123,000 and \$407,000, respectively, during the six months ended June 30, 2018.

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 six months ended June 30, 2019, the Company did not borrow any funds. During the six months ended June 30, 2018, the Company borrowed \$3,770,000 from secured lenders receiving net proceeds of \$3,437,000 after issuance costs.

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 June 30, 2019, 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.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2019 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may be involved in various claims and legal actions arising in the ordinary course of our business. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, or any of our subsidiaries in which an adverse decision could have a material adverse effect upon our business, operating results, or financial condition.

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide the information required by this Item.

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

On April 18, 2019, we entered into a Securities Purchase Agreement, dated as of April 18, 2019, with Lisa Walsh (the "Preferred SPA"), pursuant to which we issued an initial tranche of 250,000 shares of our Series A 8% Senior Convertible Preferred Stock, par value \$0.0001 per share (the "Series A Preferred Stock") in consideration for \$1,000,000, which shares have a stated value of \$4.00, grant holders the same voting rights as holders of our shares of common stock, and are convertible into shares of our common stock at a price of \$4.00 per share (the "Fixed Conversion Price"), subject to a floor price of \$1.50 and to adjustment under our Certificate of Designations of the Preferences, Rights and Limitations of the Series A Preferred Stock (the "Certificate of Designations"). Pursuant to the Preferred SPA, the Series A Preferred Stock may be issued in tranches of at least \$500,000 and in an aggregate of up to \$5,000,000 Pursuant to the Certificate of Designations, in the event that the closing price of our common stock on a Trading Day (as defined in the Certificate of Designations) as quoted on the Trading Market (as defined in the Certificate of Designations) is less than the Fixed Conversion Price, the Fixed Conversion Price shall be reduced, at the option of any holder of shares of Series A Preferred Stock, to equal 95% of the average of the lowest VWAP (as defined in the Certificate of Designations) out of the prior 10 consecutive Trading Days prior to the date on which such holder delivers a notice of conversion to us to convert such holder's shares. Dividends on such shares are payable in cash or in kind at a rate of 8% per annum, payable upon conversion of such shares. In addition, upon a Triggering Event (as defined in the Certificate of Designations), which includes any default by us in the payment of amounts owed to Ms. Walsh and other customary events of default under the Certificate of Designations, Ms. Walsh has the right to require us to redeem each share of Series A Preferred Stock held by her at a redemption price equal to 120% of the Stated Value and all accrued but unpaid dividends on such shares, in addition to the payment of all liquidated damages and other costs, expenses or amounts due in respect of such shares.

Pursuant to the Preferred SPA, we also issued Ms. Walsh a warrant to purchase 255,102 shares of our common stock (the "Walsh Warrant"), which is immediately exercisable, has a five-year life and has an exercise price equal to the closing price of our common stock on the Trading Day prior to a Closing (as defined in the Preferred SPA), plus \$0.02. The Walsh Warrant is subject to 4.99/9.99% blockers and subject to adjustment for stock dividends and splits. We also issued to Alexander Capital, L.P., the placement agent in connection with the Preferred SPA, in addition to a cash fee, a warrant (the "Agent Warrant") to purchase up to eight percent (8%) of the aggregate number of shares of our common stock issuable to Ms. Walsh on the closing date of the initial tranche upon conversion of the shares of Series A Preferred Stock issued to Ms. Walsh at a price per share of our common stock on such closing date, which Agent Warrant shall have the same terms as the Walsh Warrant, except that the exercise price of such Agent Warrant shall be 110% of the lesser of (a) the price at which shares of Series A Preferred Stock are issued on such closing date or (b) the exercise price of the Walsh Warrant.

In addition, pursuant to the Preferred SPA, Ms. Walsh (i) has the right to require the Company to register the shares of Series A Preferred Stock held by her as well as the shares of our common stock underlying such shares and such warrant within 180 days of the Closing Date (as defined in the Preferred SPA) on which purchasers have committed to purchase an aggregate amount of Series A Preferred Stock with an aggregate stated value equal to or exceeding \$250,000; (ii) has a right of first refusal with respect to a Subsequent Financing (as defined in the Preferred SPA) effected by the Company so long as purchasers hold shares of Series A Preferred Stock with an aggregate stated value equal to or exceeding \$62,500; and (iii) has a right to tender her shares of Series A Preferred Stock for the securities offered pursuant to a Subsequent Financing, so long as purchasers hold shares of Series A Preferred Stock with an aggregate stated value equal to or exceeding \$125,000. Pursuant to the Certificate of Designations, the Preferred SPA, and the Walsh Warrant, unless the Company obtains stockholder approval pursuant to the rules and regulations of NASDAQ, the Company cannot issue shares of common stock upon conversion of the Series A Preferred Stock or exercise of the Walsh Warrant, as applicable, in the event that such issuance exceeds 19.99% of the issued and outstanding shares of common stock as of April 18, 2019.

On May 30, 2019, the Company issued 11,250 fully vested shares of restricted common stock to a consultant pursuant to an investor relations consulting agreement, in partial consideration for providing certain investor relations and financial media relations services to the Company for six months.

On May 30, 2019, the Company issued 5,280 fully vested shares of restricted common stock to a consultant pursuant to a consulting agreement in partial consideration for providing certain marketing services to WiSA, LLC, a Delaware limited liability company and one of the Company's wholly-owned subsidiaries, for an initial term of six months.

On May 30, 2019, the Company issued 30,000 fully vested shares of restricted common stock to a consultant pursuant to a consulting agreement, as amended, in partial consideration for providing certain investor relations services to the Company for a period of six months.

On June 26, 2019, the Company issued 100,000 shares of restricted common stock to a consultant pursuant to a consulting agreement in consideration for providing certain business advisory services to the Company in connection with its Public Offering.

The sale and the issuance of the shares of Series A Preferred Stock, the Walsh Warrant, the Agent Warrant and the shares of common stock issued to the consultants described above was offered and sold in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act") and Rule 506 of Regulation D promulgated under the Securities Act ("Regulation D"). We made this determination based on the representations of each investor which included, in pertinent part, that each such investor was either (a) an "accredited investor" within the meaning of Rule 501 of Regulation D or (b) a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and upon such further representations from each investor that (i) such investor acquired the securities for his, her or its own account for investment and not for the account of any other person and not with a view to or for distribution, assignment or resale in connection with any distribution within the meaning of the Securities Act, (ii) such investor agreed not to sell or otherwise transfer the purchased securities unless they are registered under the Securities Act and any applicable state securities laws, or an exemption or exemptions from such registration are available, (iii) such investor had knowledge and experience in financial and business matters such that he, she or it was capable of evaluating the merits and risks of an investment in us, (iv) such investor had access to all of our documents, records, and books pertaining to the investment and was provided the opportunity to ask questions and receive answers regarding the terms and conditions of the offering and to obtain any additional information which we possessed or were able to acquire without unreasonable effort and expense, and (v) such investor had no need for the liquidity in its investment in us and could afford the complete loss of such investment. In addition, there was no general solicitation or advertising for securities issued in reliance upon these exemptions.

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
<u>31.1</u>	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>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</u>
<u>32.2</u>	<u>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</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL 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: August 14, 2019

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

Date: August 14, 2019

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

EXHIBIT INDEX

Exhibit Number	Description
<u>31.1</u>	<u>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.</u>
<u>31.2</u>	<u>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.</u>
<u>32.1</u>	<u>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.</u>
<u>32.2</u>	<u>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.</u>
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.

**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 13-a13a-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: August 14, 2019

/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 13-a13a-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: August 14, 2019

/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 June 30, 2019 (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: August 14, 2019

/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 June 30, 2019 (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: August 14, 2019

/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.
