Life360, Inc.

Financial Statements

As of and for the Years Ended
December 31, 2018, 2017 and 2016

Life360, Inc.

Financial Statements

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December 31, 2018, 2017 and 2016

Life360, Inc.

Contents

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Independent Auditor's Report

Board of Directors
Life360, Inc.
San Francisco, California

We have audited the accompanying financial statements of Life360, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, convertible preferred stock and stockholders' deficit, and cash flows for the three years in the period ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Life360, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the three years in the period ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

March 8, 2019

Financial Statements

Life360, Inc.

Balance Sheets
(in thousands)

		December 31, 2018		December 31, 2017
ASSETS				
Current assets:				
Cash and cash equivalents	$	25,813	$	15,416
Accounts receivable, net		5,721		2,842
Costs capitalized to obtain revenue contracts, current portion		1,202		400
Prepaid expenses and other current assets		2,381		1,294
Total current assets		35,117		19,952
Restricted cash		243		241
Property and equipment, net		276		199
Costs capitalized to obtain revenue contracts, net of current portion		532		233
Intangible assets, net		152		247
Notes from affiliates		260		5,849
Other assets, noncurrent		1,109		367
Total assets	$	37,689	$	27,088
LIABILITIES, CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable	$	2,925	$	334
Accrued expenses and other liabilities		2,100		927
Deferred revenue		6,142		2,455
Notes payable, current portion and net of discount		1,638		4,993
Total current liabilities		12,805		8,709
Notes payable, net of current portion and discount		3,310		-
Preferred stock warrant liability		800		88
Deferred rent		295		265
Other noncurrent liabilities		838		918
COMMITMENTS AND CONTINGENCIES (Note 8)				
CONVERTIBLE PREFERRED STOCK				
Preferred Stock, $0.001 par value; 31,889,663 and 28,231,574 shares authorized as of December 31, 2018 and 2017, respectively; 30,405,056 and 26,640,926 issued and outstanding at December 31, 2018 and 2017, respectively (aggregate liquidation preferences of $123,632,206 and $90,773,695 as of December 31, 3018 and 2017, respectively)		115,641		82,374
Stockholders' Deficit				
Common Stock, $0.001 par value; 55,000,000 and 50,000,000 shares authorized as of December 31, 2018 and 2017, respectively; 9,457,862 and 10,312,066 issued and outstanding at December 31, 2018 and 2017, respectively		9		10
Additional paid-in capital		(8,889)		2,487
Notes due from affiliates		(621)		(621)
Accumulated deficit		(86,499)		(67,142)
Total stockholders' deficit		(96,000)		(65,266)
TOTAL LIABILITIES, CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' DEFICIT	$	37,689	$	27,088

Life360, Inc.

Statements of Operations
(in thousands)

	Year Ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Subscription revenue	$ 24,808	$ 9,877	$ 3,136
Partnership revenue	2,506	-	1,515
Data revenue	4,748	1,597	693
Total revenue	32,062	11,474	5,344
Operating expenses:			
Research and development	15,737	9,338	8,217
Sales and marketing	17,994	4,470	1,465
General and administrative	9,306	4,951	4,628
Technology expenses	7,198	4,089	2,900
Proceeds from legal settlement	-	(745)	-
Total operating expense	50,235	22,103	17,210
Loss from operations	(18,173)	(10,629)	(11,866)
Interest expense	346	255	250
Change in fair value of preferred stock warrant liability	712	(9)	87
Other expense/(income)	126	(270)	65
Loss before income taxes	(19,357)	(10,605)	(12,268)
Income tax provision (benefit)	-	-	-
Net loss	$ (19,357)	$ (10,605)	$ (12,268)

Life360, Inc.

Statements of Changes in Convertible Preferred Stock and of Stockholders' Deficit
(in thousands, except share data)

	Convertible Preferred Stock		Common Stock		Additional	Notes due	Accumulated	Total stockholders'
	Shares	Amount	Shares	Amount	paid-in capital	from affiliates	deficit	equity
Balance at December 31, 2015	**24,586,595**	**$ 63,885**	**6,037,159**	**$ 6**	**$ 27**	**$ -**	**$ (44,269)**	**$ (44,236)**
Exercise of stock options	-	-	175,628	-	45	-	-	45
Grant of restricted shares subject to non-recourse notes	-	-	3,993,540	4	42	(719)	-	(673)
Issuance of common stock warrants in connection with debt facility	-	-	-	-	14	-	-	14
Stock based compensation expense	-	-	-	-	1,493	-	-	1,493
Net Loss	-	-	-	-	-	-	(12,268)	(12,268)
Balance at December 31, 2016	**24,586,595**	**$ 63,885**	**10,206,327**	**$ 10**	**$ 1,621**	**$ (719)**	**$ (56,537)**	**$ (55,625)**
Issuance of convertible preferred stock,	2,054,331	18,489,000	-	-	-	-	-	-
Exercise of stock options	-	-	228,987	-	64	-	-	64
Grant of restricted shares subject to non-recourse notes	-	-	25,799	-	4	-	-	4
Repurchase and cancellations of common stock	-	-	(259,047)	-	(98)	98	-	-
Intangible asset acquisitions in exchange for common stock	-	-	110,000	-	236	-	-	236
Stock based compensation expense	-	-	-	-	660	-	-	660
Net Loss	-	-	-	-	-	-	(10,605)	(10,605)
Balance at December 31, 2017	**26,640,926**	**$ 82,374**	**10,312,066**	**$ 10**	**$ 2,487**	**$ (621)**	**$ (67,142)**	**$ (65,266)**
Issuance of convertible preferred stock,net of issuance cost $1.1 million	3,764,130	33,267,080	-	-	-	-	-	-
Exercise of stock options	-	-	780,848	1	266	-	-	267
Issuance of common stock for services	-	-	6,278	-	14	-	-	14
Fair value of common stock warrant issued	-	-	-	-	60	-	-	60
Repurchase of common stock	-	-	(1,641,330)	(2)	(13,580)	-	-	(13,582)
Stock-based compensation expense	-	-	-	-	1,864	-	-	1,864
Net Loss	-	-	-	-	-	-	(19,357)	(19,357)
Balance at December 31, 2018	**30,405,056**	**$ 115,641**	**9,457,862**	**$ 9**	**$ (8,889)**	**$ (621)**	**$ (86,499)**	**$ (96,000)**

Life360, Inc.

Statements of Cash Flows
(in thousands)

	Year Ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Cash flows from operating activities:			
Net loss	$ (19,357)	$ (10,605)	$ (12,268)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	133	171	174
Amortization of costs capitalized to obtain contracts	662	102	3
Amortization of debt issuance costs and discount on debt	35	19	-
Stock-based compensation expense	1,864	660	1,493
Issuance of common stock for services	13	-	-
Change in fair value of preferred stock warrant liability	712	(9)	87
Change in fair value of options to purchase company stock	120	(200)	(91)
Write-off of long-lived assets	-	-	102
Interest due under notes from affiliates	(138)	(114)	(206)
Changes in operating assets and liabilities:			
Accounts receivable	(2,880)	(1,726)	(430)
Prepaid expenses and other current assets	(1,087)	(1,115)	134
Costs capitalized to obtain revenue contracts, net	(1,763)	(667)	(67)
Other assets	(1,062)	-	109
Accounts payable	2,590	(30)	199
Accrued expenses and other liabilities	1,174	556	(74)
Deferred revenue	3,687	1,951	449
Other noncurrent liabilities	(70)	332	803
Net cash used in operating activities	(15,367)	(10,675)	(9,583)
Cash flows from investing activities:			
Purchases of capital assets	(131)	(156)	-
Issuance of notes to affiliates	-	(5,642)	(719)
Settlement of interest and notes due from affiliates	5,727	4,628	174
Acquisition of options to purchase company stock	-	(55)	-
Net cash provided by (used in) investing activities	5,596	(1,225)	(545)
Cash flows from financing activities:			
Proceeds from the issuance of preferred stock, net of issuance costs	33,267	18,489	-
Repurchase of common stock	(13,364)	(98)	-
Proceeds from the exercise of options and stock awards	267	65	91
Proceeds from borrowings	5,000	3,674	-
Payments on borrowings	(5,000)	-	-
Net cash provided by financing activities	20,170	22,130	91
Net increase (decrease) in cash and cash equivalents	10,399	10,230	(10,037)
Cash, cash equivalents and restricted cash at the beginning of the period	15,657	5,427	15,464
Cash, cash equivalents, and restricted cash at the end of the period	$ 26,056	$ 15,657	$ 5,427
Supplemental cash flow disclosure:			
Cash paid during the period for interest	$ 346	$ 255	$ 250
Issuance of common stock in connection with purchase of intangible assets	-	$ 236	-
Fair vlaue of warrant issued in connection with debt facility	$ 60	-	$ 14
Issuance of common stock for services	$ 14	-	-

The following table provides a table of cash, cash equivalents and restricted cash reported within the balance sheets to the total of the same such amounts showen above (in Thousands).

	Year Ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 25,813	$ 15,416	$ 5,200
Restricted cash included in non-current assets	243	241	227
Total cash, cash equivalents and restricted cash at the end of the period	$ 26,056	$ 15,657	$ 5,427

1. The Company

Life360, Inc. (the "Company") is a platform for today's busy families, bringing them closer together by helping them better know, communicate with, and protect the people they care about most. The Company was incorporated in the State of Delaware on April 17, 2007. The Company's core offering, the Life360 mobile application, is now a market leading mobile application for families, with features that range from communications to driving safety and location sharing. The Company operates under a "freemium" model where its core offering is available to users at no charge, with two premium subscription options that are available but not required.

Since the Company's inception, the Company has incurred losses and negative cash flows from operations. The Company has generated revenue primarily through subscription fees of its mobile application and through various business partnerships. The Company has recorded revenues of $32.1 million, $11.5 million and $5.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. The Company has recorded net losses of $19.4 million, $10.6 million and $12.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. The Company also has an accumulated deficit of $86.5 million.

The Company has funded its operations primarily through the sale and issuance of common stock, preferred stock, notes payable, and convertible notes. As of December 31, 2018, the Company had capital resources consisting of cash and cash equivalents of $25.8 million. The Company believes that its existing cash and cash equivalents will allow the Company to fund its operating plan through at least the next 12 months. If the Company is not able to secure adequate additional funding, the Company may be forced to make reductions in spending, or curtail planned programs. Any of these actions could materially harm the Company's business, results of operations and future prospects. There can be no assurance that such financing will be available at all or at terms acceptable to the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles in the United States, or ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Significant estimates made by management include, but are not limited to, the determination of revenue recognition and customer life, accounts receivable allowance, the fair value of preferred and common stock warrants and other equity-related instruments, the fair value of common stock and related stock-based compensation expense, legal contingencies, depreciable lives and income taxes including valuation allowances on deferred tax assets. The Company bases its estimates and judgments on historical experience and on various assumptions that it believes are reasonable under the circumstances. Actual results could differ significantly from those estimates.

Revenue Recognition

Pursuant to Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606), the Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the products or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Costs Capitalized to Obtain Contracts

Costs capitalized to obtain contracts comprise of revenue-share payments to Apple Inc. and Google Inc. in connection with subscription sales of the Company's mobile application on each respective mobile application store platform. Costs that are incremental and directly related to customer sales contracts in which revenue is deferred are accrued and capitalized upon execution of a non-cancelable customer contract, and subsequently expensed over the average life of the customer relationship, which is currently estimated to be two years.

Allowance for Doubtful Accounts

The Company makes judgments as to its ability to collect outstanding accounts receivable and provide allowances for accounts receivable when and if collection becomes doubtful. To date, the Company has not recorded any significant credit losses on customer accounts, and it had no allowance for doubtful accounts as of December 31, 2018 and 2017.

Significant Risks and Uncertainties

The Company is subject to certain risks and uncertainties that could have a material and adverse effect on its future financial position or results of operations. The Company's customers are primarily wireless carrier users and any changes in customer preferences and trends could have an adverse impact on its results of operations and financial condition.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. The Company limits its exposure to credit loss by placing cash and cash equivalents with institutions of high credit standing. Deposits of cash and cash equivalents may exceed the amount of insurance provided by the Federal Deposit Insurance Corporation ("FDIC") on these deposits.

The Company derives its accounts receivable from revenue earned from customers located in the United States and other locations outside of the United States. The Company does not perform ongoing credit evaluations of its customers' financial condition and does not require collateral from its customers. Historically, credit losses have been insignificant. Wireless carrier users accounted for the majority of the Company's revenue and accounts receivable for all periods presented. Accounts receivable contains $1.8 million of unbilled receivables at year end.

The following table sets forth the information about the Company's customers who represented greater than 10% of the company's revenue or accounts receivable, respectively:

	Percentage of Revenue			Percentage of Gross Accounts Receivable	
	Years Ended December 31,			As of December 31,	
	2018	2017	2016	**2018**	2017
Customer A	**54%**	53%	29%	**25%**	45%
Customer B	**21%**	31%	23%	**10%**	11%
Customer C	*****	*	*	*****	39%
Customer D	*****	*	*	**16%**	*
Customer E	*****	*	26%	*****	*

** Represents less than 20%.*

Research and Development Costs

The Company charges costs related to research, design and development of products to research and development expense as incurred. These costs consist of payroll related expenses, contractor fees, outside third party vendors, and allocated facilities costs.

Cash and Cash Equivalents

The Company considers all highly liquid investment securities with remaining maturities at the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents include deposit and money market funds.

Restricted Cash

Deposits of $0.2 million and $0.2 million, were restricted from withdrawal as of December 31, 2018 and 2017. The restriction is related to securing the Company's facility leases which expire in 2019 and 2022 in accordance with the operating lease agreements, as amended. The restrictions on these balances will be released in accordance with the operating lease agreements, as amended. These balances are included in Restricted Cash on the accompanying balance sheets.

Fair Value of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain financial and non-financial assets and liabilities to determine fair value disclosures. The accounting standards define fair value, establish a framework for measuring fair value, and require disclosures about fair value measurements. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the principal or most advantageous market in which the Company would transact are considered along with assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. The accounting standard for fair value establishes a fair value hierarchy based on three levels of inputs, the first two of which are considered observable and the last unobservable, that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs that may be used to measure fair value are as follows:

Level 1 - Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Valuations based on unobservable inputs to the valuation methodology and including data about assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

Property and Equipment, Net

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Equipment, computer software and furniture have estimated useful lives ranging from three to ten years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life or the term of the lease with expected renewals.

Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reported in operating expenses, net in the period realized.

Software Development Costs

For development costs related to internal use software projects, such as those used in the Company's services and network, the Company capitalizes costs incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Amortization of the costs of software developed for internal use begins when the assets are placed in productive use and are generally amortized over a period of ten years. The Company did not capitalize internal use software costs during the years ended December 31, 2018 and 2017, as the capitalizable costs were not material.

Intangible Assets

Intangible assets, including patents, trademarks, customer relationships and acquired developed technology, are carried at cost and amortized on a straight-line basis over their estimated useful lives. The Company determines the appropriate useful life of the Company's intangible assets by measuring the expected cash flows of acquired assets.

Impairment of Long-Lived Assets

The Company assesses the impairment of long-lived assets, such as property and equipment subject to depreciation and acquired intangibles subject to amortization, when events or changes in circumstances indicate that their carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company did not record any impairment charges for the years ended December 31, 2018, 2017, and 2016.

Leases

The Company's operating lease agreements include scheduled rent escalations over the lease term, as well as lease incentive allowances. Rent expense is charged ratably on a straight-line basis over the life of the lease. Deferred rent consists of the difference between cash payments and the recognition of rent expense on a straight-line basis for the buildings the Company occupies. Lease incentive allowances are recorded as a liability and amortized on a straight-line basis over the term of the lease as a reduction to rent expense.

Preferred Stock Warrants

The Company accounts for warrants to purchase shares of its preferred stock that are contingently redeemable as liabilities at their estimated fair value because these warrants may obligate the Company to transfer assets to the holders at a future date under certain circumstances, such as a deemed liquidation event. The warrants are subject to re-measurement to fair value at each balance sheet date, and any fair value adjustments are recognized as change in fair value of preferred stock warrant liability in the Statements of Operations. The Company will continue to adjust the liability for changes in fair value until the earlier of the exercise or expiration of the convertible preferred stock warrants, conversion of preferred stock into common stock, or until holders of the convertible preferred stock can no longer trigger a deemed liquidation event. At that time, the convertible preferred stock warrant liability will be adjusted to fair value in the Statement of Operations with the final fair value reclassified to additional paid-in capital.

Common Stock Warrants

The Company has issued freestanding warrants to purchase shares of common stock in connection with certain debt financing transactions. The warrants are recorded as equity instruments at the grant date fair value using the Black-Scholes option pricing model and are not subject to revaluation at each balance sheet date.

Stock-Based Compensation

The Company has an equity incentive plan under which various types of equity-based awards including, but not limited to, incentive stock options, non-qualified stock options, and restricted stock awards, may be granted to employees, non-employee directors, and non-employee consultants.

For equity awards granted to employees and directors, the Company recognizes compensation expense based on the grant-date estimated fair values. The fair value of stock options is determined using the Black-Scholes option pricing model. For restricted stock awards to employees, the fair value is based on the fair value of the stock as determined by the Company's Board of Directors. The Company recognizes compensation expense for stock option awards and restricted stock awards on a straight-line basis over the requisite service period of the award, generally four years. Forfeitures are recorded as they occur.

Stock-based compensation expense related to stock options granted to nonemployees is recognized based on the fair value of the stock options, determined using the Black-Scholes option pricing model, as they are earned. The awards generally vest over the time period the Company expects to receive services from the nonemployee.

Income Taxes

The Company accounts for income taxes under the asset and liability method. The Company estimates actual current tax exposure together with assessing temporary differences resulting from differences in accounting for reporting purposes and tax purposes for certain items, such as accruals and allowances not currently deductible for tax purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company's balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the Company's statements of operations and comprehensive loss become deductible expenses under applicable income tax laws or when net operating loss or credit carryforwards are utilized. Accordingly, realization of the Company's deferred tax assets is dependent on future taxable income against which these deductions, losses and credits can be utilized.

The Company must assess the likelihood that the Company's deferred tax assets will be recovered from future taxable income, and to the extent the Company believes that recovery is not likely, the Company establishes a valuation allowance. The assessment of whether or not a valuation allowance is required often requires significant judgment including current operating results, the forecast of future taxable income and on-going prudent and feasible tax planning initiatives.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the years ended December 31, 2018 and 2017, the Company did not accrue any interest or penalties related to income tax positions.

Contingencies

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business. The Company evaluates the likelihood of an unfavorable outcome in legal or regulatory proceedings to which it is a party and records a loss contingency on an undiscounted basis when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These judgments are subjective and based on the status of such legal proceedings, the merits of the Company's defenses, and consultation with legal counsel. Actual outcomes of these legal proceedings may differ materially from the Company's estimates. The Company estimates accruals for legal expenses when incurred as of each balance sheet date based on the facts and circumstances known to the Company at that time.

Segment Information

Management has determined that the Company operates as one reportable and operating segment. The chief executive officer, who is the Company's chief operating decision maker, reviews financial information on an aggregate basis for purposes of allocating resources and evaluating financial performance. The Company's revenue has been entirely sourced in the United States and all of the Company's long-lived assets are maintained in the United States. Also, the Company manages its operations as a single operating segment.

Recent Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting." This ASU improves financial reporting for share-based payments issued to nonemployees under ASC 718 by expanding the scope of the employee share-based payments guidance to include share based payments issued to nonemployees. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is still evaluating the impact the adoption of this standard will have on the Financial Statements.

In March 2018, the FASB issued Accounting Standards Update ("ASU") 2018-05, Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This standard amends Accounting Standards Codification 740, Income Taxes (ASC 740) to provide guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the Tax Reform Act) pursuant to Staff Accounting Bulletin No. 118, which allows companies to complete the accounting under ASC 740 within a one-year measurement period from the Tax Act enactment date. This standard is effective upon issuance. The Company adopted SAB 118 as of January 1, 2018, the results of which did not have a material impact to the Company's Financial Statements.

In February 2016, the FASB issued authoritative guidance under ASU 2016-02, Leases (Topic 842). ASU 2016-02 provides new comprehensive lease accounting guidance that supersedes existing lease guidance. Upon adoption of ASU 2016-02, the Company will be required to recognize most leases on its balance sheet at the beginning of the earliest comparative period presented with a corresponding adjustment to stockholders' equity. ASU 2016-02 requires the Company to capitalize most current operating lease obligations as right-of-use assets based on the present value of future operating lease payments and to recognize a corresponding liability. Criteria for distinguishing leases between finance and operating are substantially similar to criteria for distinguishing between capital leases and operating leases in existing lease guidance. The guidance is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Company is still evaluating the impact the adoption of this standard will have on the Financial Statements.

In November 2018, the FASB issued ASU 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606. ASU 2018-18 provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606. For public business entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. For all other entities, it is effective for annual periods beginning after December 15, 2020 and interim periods in annual periods beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period for all entities. The Company expects to adopt this guidance when effective and is currently assessing what effect the adoption of ASU No. 2018-18 will have on its financial statements and accompanying notes.

Reclassifications

Certain reclassifications have been made to prior year financial statement footnote disclosures to conform to current year presentation.

3. Revenue

Subscription Revenue

The Company's contracts with customers for its mobile application offering are established at the point of mobile application download and purchase as indicated through acceptance of the Company's Standard Service Terms. The Company's Standard Service Terms specifically outline terms and conditions, which include promises of each party under contract and payment terms, which include monthly or annual subscription fees for purchase of the mobile application. The Company determined that termination for convenience clauses and renewal options pursuant to the Company's Standard Service Terms was deemed to have no impact to the amount and pattern of revenue recognition.

The Company's mobile application subscription service includes multiple features that form a combined output that is effectively bundled together and consumed by the customer using the same measure of consumption (i.e., days of access). Additionally, the Company provides its customers with technical support along with unspecified updates and upgrades to the platform on an if and when available basis. The core mobile application is a single combined performance obligation, consisting of multiple features that can be purchased separately, but which are bundled together and delivered to the customer as combined output. Additionally, the core application offering has been defined as a series of distinct services (days of service), together with updates, upgrades, and technical support, which will be transferred to the customer over the respective obligation's term.

The Company recognizes subscription fees ratably over the subscription period. Subscription revenue for the years ended December 31, 2018, 2017 and 2016 was $24.8 million, $9.9 million and $3.1 million, respectively. Deferred subscription revenue as of December 31, 2018 and 2017 was $8.0 million and $2.8 million, respectively.

Data Monetization Revenue

The Company's data monetization arrangements with certain third parties are established through data acquisition and license agreements (collectively, "Data MSAs"), which outline specific terms governing the access and use of data and related fees. The Company determines a contract to exist upon the mutual execution of a Data MSA.

The Company's Data MSAs specifically outline terms and conditions, which include promises of each party under contract and payment terms, which include monthly or annual subscription fees in connection with the provision and access of data. The Company determined that termination for convenience clauses and renewal options pursuant to the Company's Data MSAs was deemed to have no impact to the amount and pattern of revenue recognition. Also, the Data MSAs generally do not include any other contractual promises above and beyond the provisioning of access to certain data. The Company identified its provisioning of access to data as a material promise capable of being distinct and distinct within the context of the contract.

The Company recognizes revenue based on its estimate of the total amount of variable consideration estimated without constraint using the expected value method. As the expected amount of data monetization revenue is not a binary outcome, but rather one of many possible outcomes, the Company determined the expected value approach to be appropriate. The Company believes that this results in the inclusion of a variable consideration amount where it is probable that a significant revenue reversal will not occur. The Company relies primarily on the review of historical fees collected in developing an estimate of fees to be collected at contract inception and updates its estimates at each reporting date.

Data monetization revenue for the years ended December 31, 2018, 2017 and 2016 was $4.7 million, $1.6 million and $0.7 million, respectively. Deferred data monetization revenue as of December 31, 2018 and 2017 was $0.5 million and $0.5 million, respectively.

ADT Master Services and Licensing Agreement

On July 11, 2017, the Company and ADT LLC ("ADT") which is also a related party pursuant to ADT's ownership of shares of the Company's preferred stock, entered into the Master Services and Licensing Agreement under which ADT will receive a license to the Company's technology through an integrated mobile application offered by ADT to its end customers. Pursuant to the agreement, the Company and ADT will contribute their proprietary mobile application technology to develop ADT Anywhere Basic and ADT Anywhere Premium. The Company is entitled to receive fees based on the number of active users on each mobile application platform.

The Company has considered the technology license that the Company has granted to ADT for the duration of the contract and concluded that the license is a distinct performance obligation. The customer is able to benefit from the license on a standalone basis (in this case, ADT's end customers will receive the benefit of platform access). As the obligation is to provide a license and contribute to the development of the mobile application platform, the Company has concluded that the license is a series of distinct performance obligations identified by the days of service provided. Access to the Company's platform also includes the obligation to host the services over the term of the agreement. The Company identified that the license and hosting services are both defined as a series of distinct services, which would have the same pattern of transfer to the customer. Accordingly, the obligations may be combined and treated as a single performance obligation. As such, the Company has concluded that the license and hosting services are a single stand ready performance obligation.

On June 6, 2017, one month prior to the signing of the agreement, the Company entered into a stock purchase agreement with ADT, whereby ADT purchased 1,111,112 shares of Series C-1 Preferred Stock for gross consideration of $10.0 million. Pursuant to the stock purchase agreement, ADT acquired the right to dividends when and if declared, voting rights, and the right to appoint one member to the Board of Directors. The purchase of shares of Series C-1 Preferred Stock was included in a round of financing with other investors who participated on a stand-alone basis and received terms identical to the other purchasers of the Series C-1 Preferred Stock. The Company has determined that ADT does not exercise significant control over the Company. The Company also concluded that the transaction price and the allocation thereof was not impacted by the existence

of the related party transaction.
The Company signed in 2017 an agreement with ADT which determined that revenue was recognized based on a variable fees structure. On October 18, 2018, the Company and ADT entered into Amendment No. 1 to the Master Services and License Agreement (the "ADT Amendment") under which ADT is required to pay fixed monthly prices for July 2018 through March 2019.

4. Costs Capitalized to Obtain Contracts

In addition to ASC 606, ASC 340-40 was added to codify guidance on the accounting for certain costs to obtain and fulfill a contract with a customer. Specifically, ASC 340-40-25-1, requires an entity to recognize as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. In order to capitalize the costs to obtain a contract, the costs must direct and be *incremental*. The Company determined that its costs to obtain contracts were both direct and incremental.

The Company generally pays a non-commensurate renewal commission, and accordingly, renewal contracts are considered non-commensurate with new contracts. Accordingly, the specifically anticipated renewal periods are taken into consideration in determining the required amortization period. Specifically, under the guidance of ASC 340-40, the Company is required to estimate the specifically anticipated renewals after the initial contract to which the initial commission asset relates. Based upon its assessment of historical data and other factors, the Company concluded that its average customer life was approximately two years, which is used as the amortization period for all capitalized acquisition cost assets.

The current portion of costs capitalized to obtain contracts, net of amortization, was $1.1 million and $0.4 million, as of December 31, 2018 and 2017, respectively. The non-current portion of costs capitalized to obtain contracts was $0.5 million and $0.2 million as of December 31, 2018 and 2017, respectively.

5. Fair Value Measurements

The Company measures and reports certain financial instruments as assets and liabilities at fair value on a recurring basis. These liabilities, consisting of warrants to purchase shares of the Company's Series A, Series B and Series C Preferred Stock (Note 11), are considered Level 3 instruments.

The fair value of these instruments as of December 31, 2018 and 2017 follows (in thousands):

As of December 31, 2018	Fair Value	Level 1	Level 2	Level 3
Liabilities				
Preferred stock warrant liability	$ 800	$ -	$ -	$ 800
Total liabilities measured at fair value	$ 800	$ -	$ -	$ 800

As of December 31, 2017	Fair Value	Level 1	Level 2	Level 3
Liabilities				
Preferred stock warrant liability	$ 88	$ -	$ -	$ 88

Total liabilities measured at fair value	$ 88	$ -	$ -	$ 88

The Company did not transfer any assets or liabilities measured at fair value on a recurring basis to or from Level 1 and Level 2 for the years December 31, 2018, 2017 and 2016.

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial instruments classified as liabilities as follows (in thousands):

	Preferred Stock Warrant Liability
Fair value as of January 1, 2016	$ 10
Change in fair value	87
Fair value as of December 31, 2016	97
Change in fair value	(9)
Fair value as of December 31, 2017	88
Change in fair value	712
Fair value as of December 31, 2018	$ 800

The fair value of warrants to purchase Series A, Series B, and Series C Preferred Stock were measured using the Black-Scholes option-pricing model (Note 12). Inputs used to determine estimated fair value of the options include the estimated fair value of the underlying stock at the valuation date, the estimated term of the options, risk-free interest rates, expected dividends and the expected volatility of the underlying stock as imputed from a group of peer companies to the Company.

The significant unobservable inputs used in the fair value measurement of the options to purchase Company stock are the fair value of the underlying stock at the valuation date and the estimated term of the options.

The fair value of options to purchase shares of the Company's common stock were considered to be Level 3 measurement and were measured using the lattice option-pricing model (Note 14). Inputs used to determine estimated fair value of the options include the estimated fair value of the underlying stock at the valuation date, the estimated term of the options, risk-free interest rates, expected dividends and the expected volatility of the underlying stock as imputed from a group of peer companies to the Company. The significant unobservable inputs used in the fair value measurement of the options to purchase Company stock are the fair value of the underlying stock at the valuation date and the estimated term of the options. Change in fair value was $(120), $200 and $91 during the years ended December 31, 2018, 2017 and 2016, respectively. The estimated fair value of such options as of December 31, 2018 was $30 as the Company completed repurchase of 24,444 of shares of common stock.

7. Balance Sheet Components

Property and Equipment, Net

Property and equipment, net consists of the following (in thousands):

	December 31, 2018	December 31, 2017
Computer equipment	$ 394	$ 329
Leasehold improvements	222	176
Wireless devices	67	67
Furniture and fixtures	59	40
Total property and equipment	742	612
Less accumulated depreciation	(466)	(413)
Property and equipment, net	$ 276	$ 199

Depreciation expense was $0.1 million, $0.2 million and $0.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Intangible Assets, Net

Intangible assets, net consists of the following (in thousands):

	December 31, 2018	December 31, 2017
Intellectual property	$ 225	$ 268
Customer-related assets	-	41
Licenses	237	237
Total intangible assets	462	546
Less accumulated amortization	(310)	(299)
Intangible assets, net	$ 152	$ 247

Amortization expense was $0.1 million, $0.1 million and $0.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

December 31, 2018		Intellectual Property		Licenses		Customer-Related Assets		Total Intangible Assets
Total intangible assets	$	225	$	237	$	-	$	462
Less accumulated amortization		(225)		(85)		-		(310)
Intangible assets, net	$	-	$	152	$	-	$	152
December 31, 2017								
Total intangible assets	$	268	$	237	$	41	$	546
Less accumulated amortization		(266)		(7)		(26)		(299)
Intangible assets, net	$	2	$	230	$	15	$	247

These intangible assets were acquired by the Company in exchange for shares of the Company's common stock and were recorded based on the fair value of common stock on the date of issuance of such stock. During the year ended December 31, 2017, the Company issued 110,000 shares of common stock with a fair value at the date of issuance of $0.2 million to acquire certain licenses from Pathsense, Inc. During the year ended December 31, 2018, the Company sold certain intangible assets acquired from Tenthbit Inc. to Couple App Inc. in exchange for 15% equity ownership in Couple App Inc. The net book value of the intangible assets sold was approximately $0.02 million (Note 14). Fair value of the 15% equity stake was insignificant and Couple App started to shut down its operations subsequent to the sale. Accordingly, the carrying value of such shares is Nil as of December 31, 2018.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

		December 31, 2018		December 31, 2017
Prepaid expenses	$	2,335	$	1,266
Other receivables		46		28
Total	$	2,381	$	1,294

Accruals and Other Current Liabilities

Accruals and other current liabilities consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Accrued vendor expenses	$ 1,373	$ 709
Accrued compensation	673	218
Interest payable	29	-
Customer retainers	25	-
Total	$ 2,100	$ 927

Other Non-Current Liabilities

Other non-current liabilities consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Stock option and award deposit liability	$ 665	$ 747
Lease incentive liability	148	157
Vendor deposits	25	14
Total	$ 838	$ 918

8. Notes Payable

Silicon Valley Bank Notes Payable

In March 2018, the Company entered into a loan and security agreement with Silicon Valley Bank for up to $7.0 million (the "Silicon Valley Notes Payable"), comprising of a First Tranche of $5.0 million to be drawn on or around the effective date of the agreement and a Second Tranche of $2.0 million, which shall be available for withdrawal through January 31, 2019 provided the Company has reached certain borrowing milestones as stipulated in the agreement (the "Borrowing Milestone"). Specifically, during the six-month period ended on August 31, 2018, the Company was required to earn revenue of at least $11.0 million and net losses not greater than $5.75 million and issue equity for proceeds of at least $5.0 million. The Borrowing Milestone was not achieved and, accordingly, the Second Tranche is not available to be drawn. From the proceeds of the First Tranche of the Silicon Valley Notes Payable, the Company used $5.0 million to fully repay the principal and accrued interest due under a loan and security agreement with City National Bank (see below). The Company was in compliance with its debt covenants as of and during the year ended December 31, 2018.

The Silicon Valley Bank Notes Payable, which mature in December 2021, collateralized by all personal property assets of the Company other than intellectual property (which is subject to a negative pledge), and bear interest on the outstanding principal balance at a floating per annum rate of one and one-half percentage points (1.50%) above the Prime Rate. Interest is computed on a 360-day year for the actual number of days elapsed. Accrued interest shall be payable on April 1, 2018 and on the first day of each month thereafter through December 31, 2018 (the "Interest-Only Period"). Following the Interest-Only Period, the outstanding note balance will be payable (i) in consecutive equal monthly payments of principal beginning on the first day of the calendar month after the end of the Interest-Only Period and continuing on the same day of each month thereafter, in amounts that would fully amortize such note balance, as of January 1, 2019, over the Repayment Period, plus (ii) monthly payments of accrued but unpaid interest. The final payment due on the maturity date shall include all outstanding principal and all accrued unpaid interest and an end of term payment totaling 1% of the principal amount of the note balance, or $0.1 million. The Silicon Valley Bank Notes Payables allow for prepayment at any time provided certain notification conditions are met, in which case, all outstanding principal plus accrued and unpaid interest, the end of term payment, and any bank expenses become due and payable.

In connection with the Silicon Valley Bank Notes Payable, the Company issued warrants to purchase 54,829 shares of common stock at $2.15 per share. Of the shares pursuant to the warrant, 9,829 shares were subject to the achievement of the Borrowing Milestone and the drawing of the Second Tranche of $2.0 million, which did not occur. The fair value of the warrants of $0.1 million was recorded as a debt discount and is amortized to interest expense using the effective interest method over the loan term. The Company also incurred $0.02 million of debt issuance costs in connection with the Silicon Valley Bank Notes Payable which is also being amortized using the effective interest method over the loan term. The unamortized debt discount balance was $0.05 million as of December 31, 2018.

As of December 31, 2018 (future principal payments under the Silicon Valley Bank Notes Payable are as follows (in thousands):

Principal payments - 2019	$	1,666
Principal payments - 2020		1,667
Principal payments - 2021		1,667
Total		5,000
Less debt discount		(52)
Less current portion		(1,638)
Notes payable, net of debt discount and current portion	$	3,310

The Company made interest payments on the Silicon Valley Bank Notes Payable of $0.2 million during the year ended December 31, 2018. As of December 31, 2018, the outstanding Silicon Valley Bank Notes Payable balance was $5.0 million.

City National Bank Notes Payable

In September 2015, the Company entered into a loan and security agreement with City National Bank for up to $5.0 million (the "City National Bank Notes Payable"). Advances up to $5.0 million shall be available to the company through 18 months following the date of execution of the agreement. Upon execution of the agreement, the Company received an advance of $1.3 million. In February 2017, the Company received a second advance of $3.7 million, which together with the first advance, amounted to the limit available to the Company under the agreement. From the proceeds of the first advance of the City National Bank Notes Payable, the Company used $1.3 million to fully repay the principal and accrued interest due under a loan and security agreement with Comerica Bank and Lighthouse Capital Partners.

The City National Bank Notes Payable, was collateralized by all personal property assets of the Company other than intellectual property (which is subject to a negative pledge), and bore interest on the outstanding principal balance at a floating per annum rate of one and one-quarter percentage points (1.25%) above the Prime Rate. Interest was computed on a 360-day year for the actual number of days elapsed. Accrued interest shall be payable on the first calendar day of each month. The City National Bank Notes Payable was subject to an eighteen (18) month interest-only period. Following the interest-only period, the outstanding note balance was payable (i) in 24 consecutive equal monthly payments of principal beginning on the first day of the calendar month after the end of the interest-only period and continuing on the same day of each month thereafter plus (ii) monthly payments of accrued but unpaid interest. The final payment due on the maturity date shall include all outstanding principal and all accrued unpaid interest. The City National Bank Notes Payables allowed for prepayment at any time provided certain notification conditions are met, in which case, all outstanding principal plus accrued and unpaid interest and any bank expenses become due and payable.

In addition, the agreement provided for a revolving credit facility of up to $2.5 million (the “City National Bank Credit Facility”). The City National Bank Credit Facility bore interest on the outstanding principal balance at a floating per annum rate of one and one-quarter percentage points (1.25%) above the Prime Rate. Interest was computed on a 360-day year for the actual number of days elapsed.

In connection with the City National Bank Notes Payable, the Company issued a warrant to purchase 7,761 shares of Series C Preferred Stock at $6.4428 per share. The fair value of the warrant of $0.01 million was recorded as a debt discount and was amortized to interest expense using the effective interest method over the loan term. The Company incurred $0.02 million of debt issuance costs in connection with the City National Bank Notes Payable, which were also being amortized using the effective interest method over the loan term.

Amendment #1 to City National Bank Loan and Security Agreement

The City National Bank Loan and Security Agreement was amended in September 2017 pursuant to the First Amendment by and between the Company and City National Bank. The amendment extended the interest-only period to December 31, 2017 and extended the maturity date of the City National Bank Notes Payable to December 2019. The amendment was not deemed substantial as the difference between present value of the cash flows under the modified facility and the present value of the remaining cash flows under the original facility was less than 10%. There was no impact to the financial statements.

The Company made interest payments on the City National Bank Notes Payable of $0.2 million during the year ended December 31, 2017. As of December 31, 2017, the outstanding City National Bank Notes Payable balance was $5.0 million.

The City National Bank Notes Payable was repaid in full without penalty in March 2018. The Company made interest payments on City National Bank Notes Payable of $0.07 million during the year ended December 31, 2018.

9. Commitments and Contingencies

Office Leases

In October 2013, the Company entered into a non-cancelable office lease for its San Francisco headquarters location spanning 7,762 square feet that requires monthly payments through November 2016. The office will be used for development and administrative functions. In November 2014, the Company executed a second amendment to its lease agreement for its San Francisco headquarters to expand its space by approximately 3,602 square feet. The lease terms of expansion space shall be consistent with those of the original premises and require monthly payments through December 2017. Concurrent with the execution of the second amendment of the lease agreement, the lease term of the original premises was also extended to December 2017. In January 2015, the Company executed a third amendment to its lease agreement to confirm the lease commencement date of the expansion space and lease termination date of its original premises and expansion space. In August 2017, the Company executed a fourth amendment to its lease agreement for its San Francisco headquarters to expand its space by approximately 4,098 square feet and extend the term of the lease to December 2022. The payments escalate over the term of the lease. The Company recognizes the expense on a straight-line basis over the term of the lease.

In connection with the Company's acquisition of certain intellectual property licenses from Pathsense, Inc., in 2017, the Company assumed a non-cancelable office lease in San Diego. In May 2018, the Company executed a second amendment to the lease agreement to temporarily surrender a portion of the premises and extend the term of the lease to June 2019. In October 2018, the Company executed a third amendment to the lease agreement and permanently surrendered the portion of the premises and expanded its space by approximately 1,037 square feet and extended the term of the lease to September 30, 2021. The payments escalate over the term of the lease. The Company recognizes the expense on a straight-line basis over the life of the lease.

Rent expense for the years ended December 31, 2018, 2017 and 2016 was $1.4 million, $0.8 million and $0.6 million, respectively.

As of December 31, 2018, the aggregate total future minimum lease payments under non-cancelable operating leases were as follows (in thousands):

Year Ending December 31,		
2019	$	1,432
2020		1,475
2021		1,477
2022 and thereafter		1,396
Total payments	$	5,780

Purchase Commitments

The Company has certain commitments from outstanding purchase orders primarily related to facilities, marketing and branding, professional services, and technology support. These agreements, which total $10.2 million, are cancellable at any time with the Company required to pay all costs incurred through the cancellation date.

Contingencies

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business activities. The Company accrues a liability for such matters when it is probable that future expenditures will be made, and such expenditures can be reasonably estimated. The Company is not subject to any current pending legal matters or claims that would have a material adverse effect on its financial position, results of operations or cash flows.

Indemnification

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third party with respect to its technology. The term of these indemnification agreements is generally perpetual after the execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable because it involves claims that may be made against the Company in the future but have not yet been made. The Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements.

The Company has entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual.

No amounts associated with such indemnifications have been recorded to date.

10. Common Stock

As of December 31, 2018 and 2017, the Company was authorized to issue up to 55,000,000 shares and 50,000,000 shares, respectively, of par value $0.001 per share common stock.

On November 11, 2018, the Company repurchased 833,790 shares of common stock in connection with share repurchase agreements with certain employees, including three executive officers of the Company for total consideration of approximately $ 7.6 million.

On December 3, 2018, the Company exercised its option to repurchase 807,540 shares of Company common stock from two executive officers and a former employee at a weighted-average exercise price of $7.11 pursuant to certain Satisfaction and Option Exercise Agreements to settle outstanding notes due to the Company (see Note 14) for a total consideration of approximately $5.7 million.

As of December 31, 2018 and 2017, the Company had 108,592 shares and 385,865 shares of common stock subject to the Company's right to repurchase, respectively.

The Company has also issued shares of common stock as a result of stock option exercises throughout its existence. Common stockholders are entitled to dividends when and if declared by the Board of Directors subject to the prior rights of the preferred stockholders. The holder of each share of common stock is entitled to one vote. The common stockholders voting as a class are entitled to elect three members to the Company's Board of Directors. No dividends have been declared in the Company's existence.

The Company has reserved shares of common stock on an as-if-converted basis, for issuance as follows:

As of December 31, 2018	
Issuances under stock incentive plan	6,961,441
Issuances upon exercise of common stock warrants	53,969
Conversion of convertible preferred stock	30,405,056
Issuances upon exercise of convertible preferred stock warrants	165,595
	37,586,061

11. Convertible Preferred Stock

As of December 31, 2018 and 2017, outstanding preferred stock was comprised of the following (in thousands, except share and per share amounts):

December 31, 2018	Shares Authorized	Shares Issued and Outstanding	Liquidation Value per Share	Liquidation Value
Series A-1	3,980,850	3,980,850	$1.52	$ 6,040,770
Series A	5,363,494	5,217,778	1.52	7,917,755
Series B	9,241,685	9,200,000	1.84	16,947,320
Series C-1	2,741,095	2,741,095	9.00	24,669,855
Series C	6,195,728	6,187,967	6.44	39,867,834
Series D	4,366,811	3,077,366	9.16	28,188,672
	31,889,663	30,405,056		$ 123,632,206

December 31, 2017	Shares Authorized	Shares Issued and Outstanding	Liquidation Value per Share	Liquidation Value
Series A-1	4,097,333	3,980,850	$1.52	$ 6,040,770
Series A	5,363,494	5,217,778	1.52	7,917,755
Series B	9,241,685	9,200,000	1.84	16,947,320
Series C-1	3,333,334	2,054,331	9.00	18,488,979
Series C	6,195,728	6,187,967	6.44	39,867,834
	28,231,574	26,640,926		$ 89,262,658

In October 2011, the Company initiated a round of Preferred Stock financing whereby the Company issued 2,635,988 shares of Series A Preferred Stock for cash at a price per share of $1.52. The Company also issued 2,128,806 shares of Series A Preferred Stock and 4,072,333 shares of Series A-1 Preferred Stock upon conversion of then-outstanding convertible debt. The Series A Preferred Stock and Series A-1 Preferred Stock have identical rights, preferences, privileges and restrictions, except that the Series A Preferred Stock is senior in preference to the Series A-1 Preferred Stock. In connection with the aforementioned financing, the Company amended and restated its Certificate of Incorporation. The Amended and Restated Certificate of Incorporation authorized the issuance of 20,000,000 shares of common stock and the issuance of 9,500,000 shares of Preferred Stock. Additionally, the board of directors approved an increase in the number of shares of common stock reserved for issuance pursuant to the Company's 2011 Stock Plan to 3,936,339.

In July 2013, the Company initiated a round of Preferred Stock financing whereby the Company issued 9,200,000 shares of Series B Preferred Stock for cash at a price per share of $1.8421. In connection with the aforementioned financing, the Company amended and restated its Certificate of Incorporation. The Amended and Restated Certificate of Incorporation authorized the issuance of 25,000,000 shares of common stock and 15,048,327 shares of Preferred Stock. Additionally, the Board of Directors approved an increase in the number of shares of common stock reserved for issuance pursuant to the Company's 2011 Stock Plan to 5,289,590.

In May 2014, the Company initiated a round of Preferred Stock financing whereby the Company issued 6,187,967 shares of Series C Preferred Stock for cash at a price per share of $6.4428. In connection with the aforementioned financing, the Company amended and restated its Certificate of Incorporation. The Amended and Restated Certificate of Incorporation authorized the issuance of 39,000,000 shares of Common Stock and 26,502,512 shares of Preferred Stock.

In July 2017, the Company initiated a round of Preferred Stock financing whereby the Company issued 2,714,095 shares of Series C-1 Preferred Stock for cash at a price per share of $9.00, of which 2,054,331 shares were issued and sold during the year ended December 31, 2017. In connection with the aforementioned financing, the Company amended and restated its Certificate of Incorporation. The Amended and Restated Certificate of Incorporation authorized the issuance of 50,000,000 shares of common stock and 27,398,240 shares of Preferred Stock. Additionally, the Board of Directors approved an increase in the number of shares of common stock reserved for issuance pursuant to the Company's 2011 Stock Plan to 11,918,869.

In January 2018, the Company initiated a round of Preferred Stock financing whereby the Company issued 686,764 shares of Series C-1 Preferred Stock for cash at a price per share of $9.00. The Series C-1 Preferred Stock Financing resulted in gross proceeds of $6.2 million. In connection with the aforementioned financing, the Company amended and restated its Certificate of Incorporation. The Amended and Restated Certificate of Incorporation authorized the issuance of 50,000,000 shares of common stock and 27,398,240 shares of Preferred Stock. Additionally, the Board of Directors approved an increase in the number of shares of common stock reserved for issuance pursuant to the Company's 2011 Stock Plan to 11,918,869.

In September and October 2018, the Company initiated a round of Preferred Stock financing whereby the Company issued 3,077,366 shares of Series D Preferred Stock for cash at a price per share of $9.16. The Series D Preferred Stock Financing resulted in gross proceeds of $28.2 million. In connection with the aforementioned financing, the Company amended and restated its Certificate of Incorporation. The Amended and Restated Certificate of Incorporation authorized the issuance of 55,000,000 shares of common stock and 31,860,096 shares of Preferred Stock. Additionally, the Board of Directors approved an increase in the number of shares of Common Stock reserved for issuance pursuant to the Company's 2011 Stock Plan to 15,954,232.

The convertible preferred stock is recorded outside of stockholders' deficit because, in the event of certain deemed liquidation events considered not solely within the Company's control, such as a merger, acquisition and sale of all or substantially all of all the Company's assets, the convertible preferred stock may become redeemable at the option of the holders.

Voting Rights

The holders of Preferred Stock vote together with the holders of Common Stock at any annual or special meeting of stockholders of the Company. Each holder of Preferred Stock is entitled to the number of votes equal to the number of shares of Common Stock into which such shares of Preferred Stock could be converted.

So long as any shares of Series C Preferred Stock remain outstanding, the Company cannot, without first obtaining the approval of the holders of a majority of the then outstanding shares of Series C Preferred Stock, (i) take any action which would alter or change the powers, preferences or special rights of the Series C Preferred Stock so as to affect the shares of Series C Preferred Stock adversely without similarly affecting the entire class of Preferred Stock or (ii) increase the authorized number of shares of Series C Preferred Stock.

So long as any shares of Series C-1 Preferred Stock remain outstanding, the Company cannot, without first obtaining the approval of the holders of a majority of the then outstanding shares of Series C-1 Preferred Stock, (i) take any action which would alter or change the powers, preferences or special rights of the Series C-1 Preferred Stock so as to affect the shares of Series C-1 Preferred Stock adversely without similarly affecting the entire class of Preferred Stock or (ii) increase the authorized number of shares of Series C-1 Preferred Stock.

So long as any shares of Series D Preferred Stock remain outstanding, the Company cannot, without first obtaining the approval of the holders of a majority of the then outstanding shares of Series D Preferred Stock, (i) take any action which would alter or change the powers, preferences or special rights of the Series D Preferred Stock so as to affect the shares of Series D Preferred Stock adversely without similarly affecting the entire class of Preferred Stock or (ii) increase the authorized number of shares of Series D Preferred Stock.

Additionally, the Delaware General Corporation Law provides the for certain voting rights for the holders of capital stock of a corporation incorporated in Delaware.

As long as any shares of Series A Preferred Stock remain outstanding, the holders of Series A Preferred Stock, voting as a separate class, shall be entitled to elected one member of the Company's Board of Directors. For so long as A-Fund, L.P. owns at least 625,618 shares of Series B Preferred Stock of the Company, it may designate one member of the Company's Board of Directors. For so long as ADT Holdings, Inc. and its affiliates own at least 55,556 shares of Series C-1 Preferred Stock of the Company, it may designate one member of the Board of Directors. So long as any shares of the Series D Preferred Stock remain outstanding and the Company has not effected an offering of the Company's Common Stock on the Australian Securities Exchange on or before June 30, 2019, the holders of Series D Preferred Stock shall be entitled to designate one member of the Board of Directors.

Dividend Rights

The holders of shares of Preferred Stock are entitled to receive dividends, out of any assets legally available therefore, prior and in preference to any declaration of any dividend (payable other than in common stock or other securities and rights convertible into or entitling the holder thereof to receive, directly or indirectly, additional shares of common stock of the Corporation) on the common stock of the corporation, at the per annum rate of 8% of the original issue price of $1.52 per share of Series A Preferred Stock and Series A-1 Preferred Stock (as adjusted for stock splits, stock dividends, reclassification and the like); $1.8421 per share (as adjusted for stock splits, stock dividends, reclassification and the like) of Series B Preferred Stock; $6.4428 per share of Series C Preferred Stock; $9.00 per share of Series C-1 Preferred Stock; and $9.16 per share of Series D Preferred Stock, when and if declared by the Board of Directors. As of December 31, 2018, no dividends to the holders of Preferred Stock had been declared by the Board of Directors.

Liquidation Preferences

In the event of any liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary: the holders of Series D Preferred Stock are entitled to receive prior and in preference an amount per share equal to their original issue price of $9.16 plus any declared or accrued but unpaid dividends; the holders of Series C-1 Preferred Stock are entitled to receive second in preference an amount per share equal to their original issue price of $9.00 plus any declared or accrued but unpaid dividends; the holders of Series C Preferred Stock are entitled to receive third in preference an amount per share of $6.4428 plus any declared or accrued but unpaid dividends; the holders of Series B Preferred Stock are entitled to receive fourth in preference an amount per share of $1.8421 plus any declared or accrued but unpaid dividends; the holders of Series A Preferred Stock are entitled to receive fifth in preference an amount per share of $1.517457252 plus any declared or accrued but unpaid dividends. Upon the completion of the above distributions, any remaining assets of the Company available for distribution shall be distributed shall be distributed among the holders of Series A-1 Preferred Stock and common stock pro rata based on the number of shares of common stock held by each (assuming conversion of all such Series A-1 Preferred Stock into common stock) until the holders of Series A-1 Preferred Stock shall have received an aggregate of $1.52 per share then held by them. Upon full payment of the liquidation preference amounts of all Preferred Stock, any remaining assets of the Company legally available for distribution will be distributed to the holders of common stock.

Conversion

Each share of Preferred Stock, at the option of the holder thereof, is convertible into the number of shares of common stock which results by dividing $1.52 in the case of the Series A Preferred Stock and Series A-1 Preferred Stock, $1.8421 in the case of the Series B Preferred Stock, $6.4428 in the case of the Series C Preferred Stock, $9.00 in the case of Series C-1 Preferred Stock and $9.16 in the case of Series D Preferred Stock. The initial conversion price of each share of Preferred Stock is the original issue price of that series of Preferred Stock. The conversion price of the Preferred Stock is subject to adjustment in certain circumstances, including upon certain dilutive issuances and stock splits, recapitalizations, dividends and distributions with respect to the Common Stock. Each share of Preferred Stock automatically converts into the number of shares of Common Stock into which these shares are convertible at the then-effective conversion ratio upon: (i) the Company's sale of its Common Stock in a public offering pursuant to a registration statement under the Securities Act of 1933, as amended, or if such offering is to occur in a jurisdiction other than the United States, pursuant to a listing on a "Designed Offshore Securities Market," as defined in Rule

902b) under Regulation S of the Securities Act on any recognized securities exchange which results in an aggregate cash proceeds to the Company of not less than $30,000,000, net of underwriting discounts and commissions, (ii) the Australian Stock Exchange ("ASX") grant listing approval for the Company to be admitted to the official list of the ASX and the CHESS Depositary Interests over Common Stock to be quoted on the ASX, subject to customary conditions or any other conditions which the board of directors considers acceptable to the Company and the board of directors approves the issuance of Common Stock to CHESS Depositary Nominees Pty Limited, the allotment of CHESS Depository Invests over Common Stock under the prospectus prepared by the Company in accordance with Chapter 6D of the Corporations Act 2001 (Cth) and instructs CHESS Depository Nominees Pty Limited to issue and allot the CHESS Depositary Interests over Common Stock pursuant to the Prospectus(subject to receipt of cleared funds), (iii) an event specified by vote or written consent of the holders of a majority of the then outstanding shares of Preferred Stock, voting together as a class on an as-converted basis.

Redemption Rights

The Preferred Stock is not mandatorily redeemable.

12. Warrants

Preferred Stock Warrants

The Company accounts for warrants to purchase shares of its preferred stock that may be contingently redeemable as liabilities at their estimated fair value because these warrants may obligate the Company to transfer assets to the holders at a future date under certain circumstances, such as a deemed liquidation event. The warrants are subject to re-measurement to fair value at each balance sheet date, and any fair value adjustments are recognized as change in fair value of preferred stock warrant liability in the Statements of Operations and Comprehensive Loss. The Company will continue to adjust the liability for changes in fair value until the earlier of the exercise or expiration of the convertible preferred stock warrants, conversion of preferred stock into common stock, or until holders of the convertible preferred stock can no longer trigger a deemed liquidation event. At that time, the convertible preferred stock warrant liability will be adjusted to fair value in the Statements of Operations and Comprehensive Loss with the final fair value reclassified to additional paid-in capital.

As of December 31, 2018 and 2017, the following preferred stock warrants were outstanding (in thousands, except share and per share amounts):

	Number of Shares Underlying Warrants	Exercise Price Per Share
Series A	116,149	$ 1.52
Series B	41,685	2.28
Series C	7,761	6.44
	165,595	

The fair value of the preferred stock warrants was estimated using the Black-Scholes option-pricing model the following weighted-average assumptions as of December 31, 2018 and 2017:

	2018	2017
Expected term (in years)	1.37	5.5
Expected volatility	50%	51%
Risk-free interest rate	2.71%	2.05%
Expected dividend rate	-%	-%

Common Stock Warrants

As of December 31, 2018, the Company had warrants to purchase 53,969 shares of Company common stock with exercise prices ranging from $0.91 to $2.15. In March 2018, in connection with the Silicon Valley Bank Notes Payable, the Company granted a warrant to purchase 45,000 shares of Company common stock with an exercise price of $2.15. The fair value of the warrant was recorded as a discount on debt and amortized over the term of the loan using the effective-interest method (see Note 7).

The fair value of the warrant granted to Silicon Valley Bank was estimated using the Black-Scholes option-pricing model the following assumptions:

March 20, 2018	
Expected term (in years)	10
Expected volatility	50.0%
Risk-free interest rate	2.89%
Expected dividend rate	-%

As of December 31, 2017, and 2016, the Company had a warrant to purchase 8,969 shares of Company common stock outstanding with an exercise price of $0.91.

13. Equity Incentive Plan

2011 Equity Incentive Plan

The Company's 2011 Stock Plan was originally adopted by the Board of Directors on July 27, 2011 and the stockholders on October 11, 2011, and most recently amended by the Board on September 7, 2018 and the stockholders on September 13, 2018 (as restated, the "Plan"). The Plan allows the Company to grant restricted stock units, restricted stock and stock options to employees and consultants of the Company and any of the Company's parent, subsidiaries or affiliates, and to the members of the Board of Directors. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options, or ISOs, may be granted only to employees of the Company or any of the Company's parent or subsidiaries (including officers and directors who are also employees). Nonqualified stock options, or NSOs, may be granted to any person eligible for grants under the Company's Plan.

Under the Plan, the Board of Directors determines the per share exercise price of each stock option, which for ISOs shall not be less than 100% of the fair market value of a share on the date of grant; provided that the exercise price of an ISO granted to a stockholder who at the time of grant owns stock representing more than 10% of the voting power of all classes of stock (a "10% stockholder") shall not be less than 110% of the fair market value of a share on the date of grant.

The Board of Directors determines the period over which options vest and become exercisable. Options granted to new employees generally vest over a four-year period: 25% of the shares vest on the first anniversary from the vesting commencement date of the option and an additional 1/48th of the shares vest on each monthly anniversary thereafter, subject to the employee's continuous service through each vesting date. Options granted to continuing employees generally vest monthly over a four-year period.

The Board of Directors also determines the term of options, provided the maximum term for ISOs granted to a 10% stockholder must be no longer than five years from date of grant and the maximum term for all other options must be no longer than ten years from date of grant. If an option holder's service terminates, options generally terminate three months from the date of termination except under certain circumstances such as death or disability.

The following summary of stock option activity for the periods presented is as follows:

	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Balance, December 31, 2016	3,202,440	0.28	8.49	$ 7,202
Options granted	1,698,767	2.08		
Options exercised	(228,987)	0.28		225
Options cancelled/forfeited	(340,618)	0.23		
Balance, December 31, 2017	4,331,602	0.99	8.32	6,662
Options granted	4,062,728	3.47		
Options exercised	(780,848)	0.34		2,146
Options cancelled/forfeited	(652,041)	1.26		
Balance, December 31, 2018	6,961,441	$ 2.49	8.63	$ 26,418
Exercisable, December 31, 2018	2,055,870	$ 1.12	6.41	$ 10,631

As of December 31, 2018 and 2017 the Company had 15,954,232 shares and 12,529,074 shares authorized for issuance under the Plan. As of December 31, 2018 and 2017, the Company had respectively 1,901,744 shares and 1,188,261 shares, available for issuance under the Plan.

The intrinsic values of outstanding, vested and exercisable options were determined by multiplying the number of shares by the difference in exercise price of the options and the fair value of the common stock as of December 31, 2018 of $6.28 per share. The intrinsic value of the options exercised represents the difference between the exercise price and the fair market value on the date of exercise.

The following table summarizes information with respect to stock options outstanding and currently exercisable as of December 31, 2018:

	Options Outstanding		
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (In Years)	Options Exercisable
$0.01 – 0.50	1,346,977	6.51	984,567
$0.51 – 0.75	90,279	4.75	90,279
$0.76 – 0.99	138,166	5.75	138,166
$1.00 – 2.00	43,765	6.84	39,390
$2.01 – 2.53	4,747,595	9.55	794,035
$2.54-9.55	594,659	9.84	9,433
	6,961,441		2,055,870

Stock Options and Restricted Stock Awards Granted to Employees

The fair value of the employee stock options granted was estimated using the Black-Scholes option-pricing model the following weighted-average assumptions during the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Expected term (in years)	5.16	4.8	5.0
Expected volatility	68%	50%	55%
Risk-free interest rate	2.62%	1.30%	1.27%
Expected dividend rate	-%	-%	-%

Fair Value of Common Stock: The fair value of the shares of common stock underlying the stock options has historically been determined by the Board of Directors. Because there is no public market for the Company's common stock, the Board of Directors has determined fair value of the common stock at the time of grant of the option by considering a number of objective and subjective factors including valuation of comparable companies, sales of preferred stock to third parties, operating and financial performance, the lack of liquidity of capital stock, and general and industry specific economic outlook, amongst other factors. The fair value of the underlying common stock shall be determined by the Board of Directors until such time as the Company's common stock is listed on an established stock exchange or national market system.

Expected Term: The expected term for employees is based on the simplified method, as the Company's stock options have the following characteristics: (i) granted at-the-money; (ii) exercisability is conditioned upon service through the vesting date; (iii) termination of service prior to vesting results in forfeiture; (iv) limited exercise period following termination of service; and (v) options are non-transferable and non-hedgeable, or "plain vanilla" options, and the Company has limited history of exercise data. The expected term for non-employees is based on the remaining contractual term.

Expected Volatility: Since the Company is a private entity with no historical data regarding the volatility of its common stock, the expected volatility used is based on volatility of a group of similar entities. In evaluating similarity, the Company considered factors such as industry, stage of life cycle and size. The Company will continue to analyze the historical stock price volatility and expected term assumptions as more historical data for the Company's common stock becomes available.

Risk-Free Interest Rate: The risk-free interest rate is based on U.S. Treasury constant maturity rates with remaining terms similar to the expected term of the options.

Expected Dividend Rate: The Company has never paid any dividends and does not plan to pay dividends in the foreseeable future, and, therefore, an expected dividend rate of zero is used in the valuation model.

Forfeitures: The Company accounts for forfeitures as they occur.

Stock Options Granted to Nonemployees

Stock-based compensation expense related to stock options granted to nonemployees is recognized as the stock options are earned. During the and years ended December 31, 2018, 2017 and 2016, the Company granted options to purchase 48,734, shares, 143,226 shares and 111,001 shares of common stock to nonemployees with a weighted-average exercise price of $2.15, $2.15 and $0.18 per share, respectively. Nonemployee stock compensation expense was not material in 2018, 2017 and 2016.

Stock-based compensation expense related to stock options granted to nonemployees is recognized as the stock options are earned. The Company believes that the fair value of the stock options is more reliably measurable than the fair value of services received.

The fair value of the nonemployee stock options granted in was estimated using the Black-Scholes option-pricing model the following weighted-average assumptions during the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Expected term (in years)	5.52	4.8	7.5
Expected volatility	68%	50%	55%
Risk-free interest rate	2.55%	1.30%	1.30%
Expected dividend rate	-%	-%	-%

Modification of Executive Officer Awards

In 2015, the Company granted 3,993,540 restricted stock awards to certain executive officers of the Company at an issue price of $0.18 per share, all of which were early-exercised pursuant to non-recourse notes issued concurrent with the grant of awards to fund the purchase price of the awards. The grant of such awards was made in connection with the cancellation of options to purchase 3,993,450 shares of common stock, or a 1:1 exchange of awards (Note 14).

Except as described in ASC 718, cancellation of an award accompanied by the concurrent grant of a replacement award or other valuable consideration shall be accounted for as a modification of the terms of the cancelled award. Therefore, incremental compensation cost shall be measured as the excess of the fair value of the replacement award or other valuable consideration over the fair value of the cancelled award at the cancellation date in accordance with ASC 718. Thus, the total compensation cost measured at the date of a cancellation and replacement shall be the portion of the grant-date fair value of the original award for which the requisite service is expected to be rendered (or has already been rendered) at that date plus the incremental cost resulting from the cancellation and replacement. The incremental compensation cost should be recognized prospectively over the remaining service period in addition to the remaining unrecognized grant date fair value.

The Company recognized $0.0 million, $0.1 million and $0.2 million in stock-based compensation expense for the years ended December 31, 2018, 2017 and 2016, respectively for the modification of awards.

Modification of Former Executive Officer Award

Pursuant to a Separation Agreement dated June 2, 2017 between an employee and the Company, the parties agreed to accelerate the vesting of 32,546 shares of restricted stock in connection with the February 26, 2016 grant of 544,681 shares of restricted stock, which was purchased on such date for $0.18 per share. The remaining balance of unvested awards totaling 259,047 shares of restricted stock was subject to the Company's repurchase option, which was exercised. The Company agreed to pay the terminated employee $46,628 pursuant to the exercise of the repurchase option. In connection with the award modification, the Company recorded $0.03 million during the year ended December 31, 2017.

2016 Stock Option Repricing Program

On May 16, 2016, the Board approved the repricing of 1,296,864 stock options pursuant to terms outlined in its 2016 Option Repricing Program. The repricing of an award shall be accounted for as a modification of the terms of the original award. Therefore, incremental compensation cost shall be measured as the excess of the fair value of the repriced award over the fair value of the original award at the date of exchange. As the awards do not require further service, this amount was recognized immediately. In connection with the repricing program, the Company recorded $0.1 million during the year ended December 31, 2016.

Total Stock-Based Compensation

Total stock-based compensation expense related to options granted to employees and non-employees was allocated as follows during the years ended December 31, 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
Research and development	$ 1,018	$ 382	$ 983
General and administrative	760	259	484
Sales and marketing	86	19	26
Total stock-based compensation expense	$ 1,864	$ 660	$ 1,493

As of December 31, 2018, 2017 and 2016, there was total unrecognized compensation cost for outstanding stock options and restricted stock awards of $8.8 million, $2.1 million and $1.2 million to be recognized over a period of approximately 2.7 years, and 3.1 years and 2.9 years, respectively.

There were no capitalized stock-based compensation costs or recognized stock-based compensation tax benefits during the years ended December 31, 2018, 2017 and 2016.

14. Income Taxes

Income before income tax consisted of the following (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Domestic	$ (19,357)	$ (10,605)	$ (12,268)
International	-	-	-
Total	$ (19,357)	$ (10,605)	$ (12,268)

The Company did not record any income tax expense or benefit as the Company incurred losses in all periods presented.

The reconciliation of the Company's effective tax rate to the U.S. statutory federal income tax rate was as follows:

	Year Ended December 31,		
	2018 (%)	2017 (%)	2016 (%)
Statutory federal income tax rate	21	34	34
Research and development tax credits	2	2	1
Other	(3)	(1)	(4)
Impact of tax reform act	-	(78)	-
Change in valuation allowance	(20)	43	(31)
Effective tax provision rate	-	-	-

The significant components of net deferred income tax assets were as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Deferred tax assets:			
Reserves and allowances	$ 332	$ 187	$ 108
Depreciable assets	49	48	44
Net operating loss carryforward	20,781	16,671	20,801
Stock-based compensation	158	74	82
Credit carryforwards	2,027	1,735	1,290
Total deferred tax assets	23,347	18,715	22,325
Less valuation allowance and other reserves	(23,347)	(18,715)	(22,325)
Net deferred tax assets	$ -	$ -	$ -

The authoritative guidance provided by FASB requires deferred tax assets and liabilities to be recognized for temporary differences between the tax basis and financial reporting basis of assets and liabilities, computed at the expected tax rates for the periods in which the assets or liabilities will be realized, as well as for the expected tax benefit of net operating loss and tax credit carryforwards. Significant management judgment is required in determining the companies provision for income taxes, the companies deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. The company evaluated the recoverability of these net deferred tax assets in accordance with the authoritative guidance provided by FASB. The Company's ability to utilize the deferred tax assets and the continuing need for a related valuation allowance are being monitored on an ongoing basis.

Based upon the weight of available evidence, which includes the Company's historical operating performance and the reported cumulative net losses to date, the Company believes that it is not more likely than not that its net deferred tax assets will be realizable. Accordingly, the Company has provided a full valuation allowance on its net deferred tax assets. In aggregate, the valuation allowance increased by $4,632 thousand in fiscal 2018 when compared to fiscal 2017. The increase in valuation allowance primarily related to change in Net Operating Loss.

At December 31, 2018, the Company had approximately $78.3 and $62.0 million of federal and state net operating loss carryforwards available to offset future taxable income. Such carryforwards expire in varying amounts beginning in 2028.

The Company's ability to utilize net operating losses in the future may be subject to substantial restriction in the event of past or future ownership changes as defined in Section 382 of the Internal Revenue Code and similar state tax laws. In the event the Company should experience an ownership change, as defined, utilization of its net operating loss carryforwards may be subject to a substantial annual limitation. The annual limitation may result in the expiration of net operating losses before utilization. The Company has not performed a Section 382 analysis.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities through the nation. The Company is not currently under audit by the Internal Revenue Service or other similar state and local authorities. All tax years remain open to examination by major taxing jurisdictions to which the Company is subject to.

The Company accounts for uncertain tax positions in accordance with ASC 740. ASC 740-10 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative probability) likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits under taxes on income.

At the end of fiscal 2018 and 2017, the company had $1,377 and $1,040 of gross unrecognized tax benefits related to federal and state research credits. As of December 31,2018 all unrecognized tax benefits are subject to a full valuation allowance and, if recognized, will not affect the Company's effective tax rate. The company does not anticipate any unrecognized tax benefits in the next 12 months that would result in a material change to its financial position.

The Company includes interest and penalties in the financial statements as a component of income tax expense. The Company did not record any accrued interest and penalties as of December 31, 2018, or any prior period.

The aggregate changes in the balance of gross unrecognized tax benefits were as follows (in thousands):

Balance, December 31, 2016	$	830
Lapse of statute of limitations		-
Increases in balances related to tax positions taken during prior periods		-
Increases in balances related to tax positions taken during current period		210
Balance, December 31, 2017		1,040
Lapse of statute of limitations		-
Increases in balances related to tax positions taken during prior periods		-
Increases in balances related to tax positions taken during current period		337
Balance, December 31, 2018	$	1,377

15. Related-Party Transactions

The Company has entered into secondary financing transactions with certain executive officers and Board members of the Company. A summary of the transactions is detailed below.

Notes Due From Affiliates (Asset-Classified)

In August 2014, the Company entered into an aggregate of $4.2 million in secured partial recourse promissory notes with the Company's President and the Chief Executive Officer both of whom are also members of the Company's Board of Directors. The notes bear an annual interest rate of 1.89% compounded annually. In connection with the transactions, the Company acquired five-year options to purchase 673,923 shares of its common stock from these employees at the fixed per share price between $6.22 and $6.26 plus a monthly increment of $0.01, which accretes each month the option remains outstanding through the date of expiration. In November 2017, the Company issued replacement notes for the 2014 notes and amended the option agreements to increase the exercise price to a price per share of $6.65 plus a monthly increment, which accretes each month the option remains outstanding through the date of expiration.

In November 2017, the Company entered into an aggregate of additional $1.2 million in secured partial recourse promissory notes with three executive officers. The notes bear an annual interest rate of 2.5% compounded annually. In connection with the transactions, the Company acquired five-year options to purchase 135,555 shares of its common stock from these employees at a fixed per share price between $8.59 and $8.60 plus a monthly increment of $0.02, which accretes each month the option remains outstanding through the date of expiration.

The Company accounted for the 2014 and 2017 loans to certain executive officers as related party notes and included the principal amounts due from such notes under Notes Due From Affiliates on the Balance Sheets. On December 3, 2018, the Company exercised its option to purchase 807,540 shares of its common stock from two executive officers and a former employee at a weighted-average exercise price of $7.11 pursuant to certain Satisfaction and Option Exercise Agreements to settle outstanding notes due to the Company. Pursuant to such Satisfaction and Option Exercise Agreements, $5.6 million of Notes Due From Affiliates, including $0.1 million in interest was fully discharged, with the company acquiring the shares under the option purchase agreement. As of December 31, 2018, one note with a principal amount of $0.2 million was due from an executive officer.

As of December 31, 2018, 2017 and 2016, the Company had options to purchase 24,444, 831,984, and 696,429 shares of common stock. The Company determined the fair value of such options for each period using a lattice option-pricing model using expected volatility ranging from 67.2% to 76.1%, risk-free interest rates ranging from 1.4% to 2.6% and the expected dividend rate of 0%. The options had the estimated fair value as December 31, 2018, 2017 and 2016 of $0.03 million, $0.37 million and $0.1 million, respectively, and are included under Other Assets on the Balance Sheets.

Notes Due From Affiliates (Contra Equity)

In February 2016, the Company issued an aggregate of $0.6 million in secured partial recourse promissory notes to the chief executive officer, president and two other executive officers of the Company. Such loans to affiliates are secured by shares of common stock owned by such employees.

The Company accounted for the 2016 non-recourse notes as consideration received for the exercise of the related equity award, because even after the original options are exercised or the shares are purchased, an employee could decide not to repay the loan if the value of the shares declines below the outstanding loan amount and could instead choose to return the shares in satisfaction of the loan. The result would be similar to an employee’s electing not to exercise an option whose exercise price exceeds the current share price. When shares are exchanged for a non-recourse note, the principal and interest are viewed as part of the exercise price of the “option” and no interest income is recognized. Additionally, compensation cost is recognized over any requisite service period, with an offsetting credit to additional paid-in capital. Periodic principal and interest payments, if any, are treated as deposit liabilities until the note is paid off, at which time, the note balance is settled and the deposit liability balance is transferred to additional paid-in capital. As of December 31, 2018, 2017 and 2016, the Company had deposit liability balances of $0.7 million, $0.8 million, and $0.7 million, respectively, in connection with the 2016 non-recourse notes and other early exercises of equity awards. Principal amounts due under the 2016 non-recourse notes, or $0.6 million, are included in Notes Due From Affiliates as a reduction in stockholders' equity on the balance sheets.

Common Stock Repurchase

On November 11, 2018, the Company repurchased 833,970 shares of common stock in connection with share repurchase agreements with certain employees, including three executive officers of the Company for $9.16 per share or gross consideration of $7.6 million.

Equity Investment

During the year ended December 31, 2018, the Company sold certain intangible assets acquired from Tenthbit Inc. to Couple App Inc. in exchange for 15% equity ownership in Couple App Inc. The net book value of the intangible sold was approximately $0.02 million. One of the Company's executives is on the board of Couple App Inc. Another Company executive is also a shareholder of Couple App Inc. Fair value of the 15% equity ownership was insignificant and, subsequent to December 31, 2018, Couple App Inc. decided to terminate its operations.

16. Defined Contribution Plan

The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code covering substantially all employees over the age of 21 years. Contributions made by the Company are voluntary and are determined annually by the Board of Directors on an individual basis subject to the maximum allowable amount under federal tax regulations. The Company has made no contributions to the plan since its inception.

17. Subsequent Events

The Company evaluated subsequent events through March 8, 2019, the date the audited financial statements were issued.

Acquisition of Zen Labs, Inc.

On March 4, 2019, the Company entered into an Agreement and Plan of Merger and reorganization (the "Agreement") by and among the Company, Zen Labs, Inc, a Delaware corporation, and Zenlabs Acquisition Corporation, a Delaware corporation and wholly owned subsidiary of the Company. Upon the closing of and subject to and upon the terms and conditions of the Agreement, Zenlabs Acquisition Corporation shall be merged with and into Zen Labs, Inc., the separate corporate existence of Zenlabs Acquisition Corporation shall cease, and Zen Labs, Inc. shall continue as the surviving corporation and as a wholly owned subsidiary of the Company.

The Company acquired 100% of the issued and outstanding shares of Zen Labs, Inc. through the issuance of 34,092 shares of Company Common Stock to Zen Labs, Inc. shareholders. The share exchange represents a ratio of 0.00287 Company common stock shares for each issued and outstanding share of Zen Labs, Inc. common stock. In addition, the Company issued 95,908 shares of Common Stock to settle outstanding notes and obligations of Zen Labs Inc. and certain change of control payments.