To the Audit Committee
Smart Wires Inc.
Union City, California

INDEPENDENT AUDITORS' REPORT

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Smart Wires Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, stockholders' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced operating losses and negative cash flows from operations and has an accumulated deficit of $305,486,361 at December 31, 2020. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Frank, Rimerman & Co. LLP

San Francisco, California
May 12, 2021

Smart Wires Inc.
Consolidated Balance Sheets

	December 31, 2020	December 31, 2019
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,641,093	$ 29,265,976
Accounts receivable	2,448,217	8,740,535
Inventory	22,075,349	10,890,508
Prepaid expenses and other current assets	1,296,146	575,688
Total current assets	35,460,805	49,472,707
Property and Equipment, net	4,184,656	4,087,678
Deposits	255,355	237,977
Intangible Assets, net	235,156	255,801
Total assets	$ 40,135,972	$ 54,054,163
LIABILITIES, CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	$ 4,826,734	$ 4,118,152
Accrued expenses and other current liabilities	2,807,463	4,909,611
Deferred revenue and customer deposits	15,915,819	15,604,045
Current portion of long-term debt, net of debt issuance costs and discounts	503,457	-
Convertible notes payable, net of debt discounts	8,294,514	5,522,967
Line of credit	-	4,950,000
Derivative liability	734,785	623,885
Total current liabilities	33,082,772	35,728,660
Long-Term Debt, net of debt issuance costs and discounts	22,755,620	-
Royalty Payable	47,240	56,688
Restricted Stock Unit Liability	55,081	126,687
Commitments and Contingencies (Notes 1, 5, 6, 8, 10, 13)		
Series I convertible preferred stock, $0.00001 par value, 615,000,000 shares authorized at December 31, 2020 and 2019; 546,400,159 and 452,106,351 shares issued and outstanding, at December 31, 2020 and 2019, respectively; aggregate liquidation preference of $284,466,908 and $234,799,870 at December 31, 2020 and 2019, respectively	282,179,013	232,676,567
Stockholders' Deficit		
Common stock, $0.00001 par value	351	362
Additional paid-in capital	7,502,256	7,277,478
Accumulated deficit	(305,486,361)	(221,812,279)
Total stockholders' deficit	(297,983,754)	(214,534,439)
Total liabilities, convertible preferred stock and stockholders' deficit	$ 40,135,972	$ 54,054,163

See Independent Auditor's Report and Notes to Consolidated Financial Statements

Smart Wires Inc.
Consolidated Statements of Operations

	Years Ended December 31, 2020	2019
Revenues		
Product revenue	$ 6,551,068	$ 8,110,487
Construction revenue	8,890,950	-
Total revenues	15,442,018	8,110,487
Cost of Revenues		
Product cost	4,700,584	4,545,534
Construction cost	7,076,425	-
Other cost of revenues and manufacturing costs	18,220,636	5,640,691
Cost of revenues	29,997,645	10,186,225
Gross margin	(14,555,627)	(2,075,738)
Operating Expenses		
Research and development	24,560,821	23,163,492
Sales, marketing, and customer support	11,467,541	10,721,841
General and administrative	9,463,786	7,464,478
Total operating expenses	45,492,148	41,349,811
Loss before Other Income (Expenses)	(60,047,775)	(43,425,549)
Preferred Stock Warrant Liability Revaluation Gain	-	3,983,667
Interest Expense, net	(3,063,072)	(35,055,850)
Other Expense, net	-	(44,160)
Net Loss	$ (63,110,847)	$ (74,541,892)

Smart Wires Inc.
Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit
Years Ended December 31, 2020 and 2019

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balances at December 31, 2018	174,519,655	$ 186,884,494	13,180,487	$ 131	$ 6,942,652	$ (197,530,944)	$ (190,588,161)
Issuance of Series D-1 convertible preferred stock at $0.918 per share in exchange for convertible notes payable and accrued interest, net of issuance costs	69,209,108	53,533,962	-	-	-	-	-
Accretion of convertible preferred stock cumulative dividends in connection with Series A-1, A-2, A-3, B, B-2, C and D-1	-	11,801,918	-	-	-	(11,801,918)	(11,801,918)
Cancellation of Series A-1, A-2, A-3, B, B-2, C and D-1 convertible preferred stock and accreted cumulative dividends in connection with the recapitalization	(243,728,763)	(252,220,374)	-	-	-	-	-
Issuance of Series I-1 convertible preferred stock at $0.6165 per share in exchange for cancelled redeemable convertible preferred stock and cumulative dividends	307,282,435	189,439,621	-	-	-	62,780,753	62,780,753
Issuance of Series I-1 and Series I-2 convertible preferred stock at $0.6165 per share in exchange for cash and convertible notes payable and accrued interest, net of issuance costs	144,823,916	42,518,668	-	-	-	-	-
Accretion of convertible preferred stock cumulative dividends in connection with Series I-1	-	718,278	-	-	-	(718,278)	(718,278)
Issuance of common stock in exchange for services	-	-	2,597,050	26	25,945	-	25,971
Issuance of common stock upon exercise of stock options	-	-	20,476,182	205	241,442	-	241,647
Stock-based compensation	-	-	-	-	67,439	-	67,439
Net loss	-	-	-	-	-	(74,541,892)	(74,541,892)
Balances at December 31, 2019	452,106,351	$ 232,676,567	36,253,719	$ 362	$ 7,277,478	$ (221,812,279)	$ (214,534,439)

(continued)

Smart Wires Inc.
Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit (continued)
Years Ended December 31, 2020 and 2019

	Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit
Balances at December 31, 2019	452,106,351	$ 232,676,567	36,253,719	$ 362	$ 7,277,478	$ (221,812,279)	$ (214,534,439)
Issuance of Series I-1 and Series I-2 convertible preferred stock at $.6165 per share in exchange for convertible notes payable and beneficial conversion feature	10,137,874	3,125,000	-	-	-	-	-
Issuance of Series I-1 and Series I-2 convertible preferred stock at $0.6165 per share in exchange for cash, net of issuance costs	84,033,516	25,732,470	-	-	-	-	-
Issuance of convertible preferred stock in connection with conversion of restricted stock units	122,418	81,741	-	-	-	-	-
Accretion of convertible preferred stock cumulative dividends	-	20,563,235	-	-	-	(20,563,235)	(20,563,235)
Issuance of common stock in exchange for services	-	-	119,009	1	1,190	-	1,191
Issuance of common stock upon exercise of stock options	-	-	452,305	4	37,282	-	37,286
Repurchase of early exercised stock options	-	-	(1,590,105)	(16)	(15,886)	-	(15,902)
Stock-based compensation	-	-	-	-	202,192	-	202,192
Net loss	-	-	-	-	-	(63,110,847)	(63,110,847)
Balances at December 31, 2020	546,400,159	$ 282,179,013	35,234,928	$ 351	$ 7,502,256	$ (305,486,361)	$ (297,983,754)

Smart Wires Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31, 2020	2019
Cash Flows from Operating Activities		
Net loss	$ (63,110,847)	$ (74,541,892)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inventory reserve	-	(71,923)
Depreciation and amortization	2,121,103	906,618
Loss on sale of property and equipment	-	120,266
Non-cash interest expense	1,302,656	34,655,498
Gain on writeoff of accrued interest	(205,966)	-
Revaluation of derivative liability	1,115	-
Revaluation of preferred stock warrant liability	-	(3,983,667)
Stock-based compensation	203,382	84,586
Restricted stock unit liability	10,134	13,225
Changes in operating assets and liabilities:		
Accounts receivable	6,292,318	(7,977,971)
Inventory	(11,184,841)	(5,800,933)
Prepaid expenses and other current assets	(720,458)	23,431
Accounts payable	708,582	1,433,329
Accrued expenses and other liabilities	(2,188,554)	1,566,194
Deferred revenue and customer deposits	311,774	8,526,439
Royalty Payable	(9,448)	(9,448)
Net cash used in operating activities	(66,469,050)	(45,056,248)
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,197,435)	(3,597,080)
Proceeds from the sale of property and equipment	-	81,709
Change in deposits	(17,378)	165,959
Net cash used in investing activities	(2,214,813)	(3,349,412)
Cash Flows from Financing Activities		
Repayment of debt	(9,180,000)	-
Proceeds from long-term debt	25,000,000	4,950,000
Capitalized debt issuance cost	(1,514,875)	-
Proceeds from the issuance of convertible notes payable	9,000,000	36,000,000
Proceeds from the issuance of convertible preferred stock, net	25,732,470	31,876,696
Proceeds from issuance of common stock	37,287	241,673
Repurchase of early exercised options to purchase shares of common stock	(15,902)	-
Net cash provided by financing activities	49,058,980	73,068,369
Net Increase (Decrease) in Cash and Cash Equivalents	(19,624,883)	24,662,709
Cash and Cash Equivalents, beginning of year	29,265,976	4,603,267
Cash and Cash Equivalents, end of period	$ 9,641,093	$ 29,265,976

Smart Wires Inc.
Consolidated Statements of Cash Flows (continued)

	Years Ended December 31, 2020	2019
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,850,758	$ 406,999
Cash paid for income taxes	$ 1,894	$ 6,717
Supplemental Disclosure of Non-Cash Financing Activities		
Cancellation and re-issuance of convertible preferred stock in connection with the recapitalization	$ -	$ 252,220,374
Issuance of convertible preferred stock in exchange for convertible notes payable and accrued interest	$ 2,500,000	$ 41,880,559
Accrual of convertible preferred stock equity issuance costs	$ -	$ 1,000,000
Accretion of convertible preferred stock cumulative dividends	$ 20,563,235	$ 12,520,196
Recognition of embedded derivative	$ 734,785	$ 2,248,080
Extinguishment in derivative liability in connection with conversion of convertible notes payable	$ (625,000)	$ (1,624,195)
Issuance of convertible preferred stock in connection with conversion of restricted stock units	$ 81,741	$ -
Issuance of common stock in exchange for services	$ 1,191	$ -

1. Nature of Business and Management's Plans Regarding the Financing of Future Operations

Nature of Business

Smart Wires Inc. (the "Company" or "Smart Wire"), was incorporated in Delaware on October 27, 2010 and commenced operations in May 2011. The Company is headquartered in Union City, California. The Company formed a wholly-owned foreign subsidiary, Smart Wire Grid Europe Limited ("SWG Europe"), which has had minimal activity since its formation. The Company also has a Brazilian entity, Smart Wire Grid Tecnologia LTDA, however, the entity is dormant with no activity. In January 2021, the Company formed a foreign holding company, Smart Wires Limited, in the British Virgin Islands as it explored different financing alternatives.

The Company manufactures Smart Wire technology to provide congestion relief and reliability improvements by redistributing power flow over transmission networks. Smart Wire technology consists of an array of distributed series reactance (DSR) units that attach to transmission lines and transmission towers and control the flow of electrical current on the transmission network. The Company's operations since inception have consisted primarily of developing its technology and products, and raising capital. During 2020, the Company significantly increased its commercial activity and marketed its products globally.

COVID-19

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus disease ("COVID-19") as a pandemic, and the Company expected its operations in all locations to be affected as the virus continues to proliferate. The Company's overall revenue increased compared to prior year due to increase in new construction revenue, however revenue from the sale of its power flow control devices decreased due to delayed product installations and delayed contract execution as customers assessed the impact of COVID-19 on their own businesses. In addition, due to the shelter in place ordinances in March, employees' ability to work on-site and complete development and conduct testing necessary to advance product lines was temporarily suspended. This ordinance delayed the ability to complete product design and has impacted the ability to manufacture product for timely delivery to customers. Accordingly, COVID-19 required the Company to incur unnecessary and higher costs for material purchases, manufacturing build out costs, and logistics.

1. Nature of Business and Management's Plans Regarding the Financing of Future Operations (continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), was signed into law in response to the COVID-19 pandemic. The CARES Act includes several significant income tax relief provisions as well as the deferral of the employer portion of the social security payroll tax. The income tax benefits include a favorable increase in the interest expense limitation under section 163(j), allowing a five-year net operating loss ("NOL") carryback provision for certain NOLs, and increasing the amount of NOLs corporations may use to offset income for taxable years beginning before 2021. The Company has evaluated the income tax impacts of the CARES Act and does not expect that the income tax relief provisions of the CARES Act would significantly impact the Company, since it has had taxable losses since inception.

Liquidity

The consolidated financial statements have been prepared on a going concern basis. Management has the responsibility to evaluate conditions or events that raise substantial doubt about the Company's ability to continue as a going concern within one year from the date these consolidated financial statements are issued. Management evaluated relevant conditions and events known at the date these consolidated financial statements were issued, including the following:

The Company has incurred operating losses and net cash outflows from operations since inception in connection with the development of its technology and products, and sales and marketing efforts to introduce its products. At December 31, 2020 and 2019, the Company had an accumulated deficit of $305,486,361 and $221,812,279, respectively. Further, during the year ended December 31, 2020 and 2019, the Company had negative operating cash flows of $66,469,050 and $45,056,248, respectively. The Company's cash and cash equivalents balance as of December 31, 2020 and 2019 was $9,641,093 and $29,265,976, respectively. Since inception, the Company has relied on equity and debt financing to fund operations. The Company is expecting to incur additional losses from operations and net cash outflows in 2021.

In February 2021, the Company entered into a new loan agreement with an existing lender for an additional credit facility of $25,000,000 in gross proceeds and with maturity date of January 2023. As part of the new agreement, the maturity date of the original loan agreement was extended from June 2022 to January 2023 (Note 6).

The Company issued $4,625,500 in convertible note agreements in January 2021 for cash, which were subsequently converted to equity in February 2021 (Note 13).

1. Nature of Business and Management's Plans Regarding the Financing of Future Operations (continued)

The aforementioned factors create substantial doubt as to the Company's ability to continue as a going concern. Management is currently focusing on increasing revenues through elevated sales efforts. If the Company does not generate sufficient revenues over the longer term, additional debt or equity financing may be required. Should the Company require additional debt or equity financing, it is not certain such financing will be available at terms acceptable to the Company, or at all. The inability to obtain additional financing, if needed, may adversely affect the Company's long-term ability to achieve its intended business objectives. The consolidated financial statements do not include any adjustments that might result from these uncertainties.

These consolidated financial statements do not include any adjustments to the carrying amounts or classification of assets, liabilities, and reported expenses that may be necessary should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

Basis of Presentation:

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned foreign subsidiary, SWG Europe, an Irish corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency Translation and Foreign Operations:

Operations outside the United States include SWG Europe's activities in Ireland. The functional currency for the Company's subsidiary is the United States Dollar. For consolidation purposes, the financial statements of SWG Europe were re-measured in United States dollars with the assets and liabilities translated at the current rate of exchange at the balance sheet date. Revenues and expenses are translated at the average exchange rate on a monthly basis. Any resulting gains or losses were included in operations. The Company recognized $222,865 in foreign currency transaction loss in 2020 and $18,745 in foreign currency transaction gains in 2019 and is included in the operating expenses in the accompanying consolidated statements of operations.

2. Significant Accounting Policies (continued)

Revenues:

Nature of Goods and Services

Revenues are comprised of amounts earned from the sale of products and services performed under commercial product and services agreements and government agreements. The Company determines revenue recognition in accordance with the five-step model prescribed by Accounting Standards Codification ("ASC") 606 through the following steps:

1. Identification of the contract, or contracts, with a customer;
2. Identification of the performance obligations in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenues are measured utilizing an input or output method based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenues when it satisfies a performance obligation by transferring control over a product or service to a customer.

The Company's customer contracts are complex and highly negotiated. A typical contract provides for the purchase and delivery of Smart Wires power flow control equipment, consulting services to advise and assist customers as they undertake the installation, activation and integration of the devices into their electric grid, and a standard product warranty between three and five years. Construction services are provided to some customers to assist the customers site ready for product delivery.

The Company identifies as many as ten promises and offerings in the Company's commercial contracts with its customers, constituting as many as four distinct performance obligations for the purposes of revenue recognition.

2. Significant Accounting Policies (continued)

Revenues: (continued)

Products and Services	Nature and Timing of Satisfaction of Performance Obligations
Equipment Revenue	Equipment revenue is recognized at a point in time, specifically upon transfer of control to the customer which coincides with delivery of the product units from the point of manufacture.
Construction Revenue	Construction revenue, when applicable, is recognized over time, using an input method. Total costs incurred at each period end are utilized to calculate revenue earned for the period.
Government Revenue	Revenue from government research and development contracts is generated under terms that are cost plus. These contracts are set up such that the Company demonstrates the effectiveness of its products over a period of time to a group of future customers. The government agency facilitates the demonstrations as research and development of energy effectiveness projects. There is usually one performance obligation in these arrangements and revenue is recognized over time based on an input cost model. The Company constrains revenue when there is risk of future reversals.
Consulting Revenue	Consulting revenue includes customer training, device installation, and activation is recognized over time, according to contractually promised milestones.

Cost of Revenues:

The Company's cost of revenues consists primarily of raw material costs, labor and overhead related to the manufacturing of DSR units sold. The Company also performs construction activities for its customers and facilitate the sale of its DSR units and will subcontract the construction activities to third parties. The costs associated with these construction activities are expensed as the related construction revenues are recognized, which is based on the level of completion of the underlying construction project. Fulfillment costs are usually incurred in the same period revenue is recognized and are expensed when incurred. Due to limited sales history and a lack of history of warranty claims, the Company is electing to record any warranty related costs as incurred until warranty claims are established. Since inception, warranty related costs are insignificant.

2. Significant Accounting Policies (continued)

Deferred Revenue and Customer Deposits:

Deferred revenue and customer deposits are contract liabilities consisting of amounts received from customers in advance of the associated services being performed, product being delivered or during customer trial periods.

Advertising:

All advertising costs are expensed as incurred and included in sales and marketing expenses. Advertising expenses incurred by the Company were insignificant in 2020 and 2019.

Research and Development Costs:

Research and development costs are expensed as incurred. Research and development costs consist primarily of salaries, benefits, and certain facility costs.

Cash and Cash Equivalents:

Cash and cash equivalents include all cash balances and highly liquid investments purchased with an original maturity of three months or less.

Deposits:

Deposits are comprised of lease deposits and a certificate of deposit. The certificate of deposit consists of funds in interest bearing instruments held as collateral in accordance with the Company's California operating lease agreements (Note 5). Restriction requirements continue through the term of the leases expiring during 2021.

Concentration of Credit Risk:

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents, restricted certificates of deposit and accounts receivable. The Company's cash and cash equivalents are deposited with a major financial institution. Cash deposits at this institution were in excess of the Federal Deposit Insurance Corporation's insurable limit. The Company has not experienced any losses on its cash and cash equivalents and its certificate of deposit.

Accounts receivable are unsecured receivables under the Company's customer contracts and the Company generally does not require collateral from its customers. The Company evaluates the collectability of its accounts receivable and provides an allowance for potential credit losses as necessary. The Company does not have any history of losses and as such does not have allowances in 2020 and 2019.

2. Significant Accounting Policies (continued)

Concentration of Credit Risk: (continued)

Major customers are defined as those generating revenue that exceeds 10% of the Company's annual revenues. In 2020 and 2019, revenues were primarily earned from commercial sales and services by two customers. Revenue from the major customers accounted for 82% and 91% of revenues in 2020 and 2019, respectively. Accounts receivable from major customers totaled $2,200,000 and $1,490,000 at December 31, 2020 and 2019, respectively.

Shipping and Freight Expenses:

Shipping and freight expenses are recorded to cost of revenues and are recognized as an expense during the period in which they are incurred. Amounts billed to the customer for shipping are recorded as equipment revenue.

Inventory:

Inventory is stated at the lower of cost or market. Cost is determined using standard costs, which approximate the first-in, first-out (FIFO) method. Market represents the lower of replacement cost or estimated net realizable value. Inventory deposits are made up of nonrefundable cash deposits held with the Company's third-party manufacturer for the future purchase of raw materials for use in building the Company's products.

Property and Equipment:

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the improvements. Construction in progress represents the ongoing build of equipment to be used in servicing the Company's contracts with its customers and is not depreciated until placed in service. Depreciation and amortization on property and equipment was $2,100,457 and $885,972 during 2020 and 2019, respectively.

Intangible Assets:

Intangibles assets consist of developed technology acquired under a licensing arrangement, purchased domain names, and costs of filing and defending patents and trademarks. Intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated remaining useful life of the asset and is primarily included in research and development expense on the consolidated statements of operations.

2. Significant Accounting Policies (continued)

Intangible Assets: (continued)

The estimated useful life for patents and licenses and developed technology is generally 15 years. The Company began to amortize the developed technology and patents upon the first commercial sale of the product in March 2013. Amortization expense was $20,646 in 2020 and 2019. A royalty payable is included in the accompanying consolidated balance sheets for amounts currently due under the licensing arrangement and for the remaining expected future payments.

Accounting for Impairment of Long-Lived Assets:

Long-lived assets include property and equipment and intangible assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of their carrying cost or fair value less cost to sell. The Company recognized no impairment losses on long-lived assets in 2020 or 2019.

Stock-Based Compensation:

In June 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The standard expands the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. The standard is effective beginning January 1, 2020, with early adoption permitted so long as it is not earlier than the entity’s adoption of ASC 606. The Company adopted ASU 2018-07 on January 1, 2019 and the adoption did not have a material impact on the consolidated statements of operations.

The Company generally grants stock options to its employees for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for employee options using the fair value method and all stock-based compensation is recognized as the underlying options vest. The Company accounts for forfeitures of unvested options as an estimate upon issuance (rate of 10% in 2020 and 2019).

2. Significant Accounting Policies (continued)

Stock-Based Compensation: (continued)

Stock-based compensation recorded by the Company in 2020 and 2019 is not expected to be indicative of stock-based compensation in future years as the number of awards subject to measurement is expected to increase in those periods. Stock-based compensation for warrants issued or options granted to non-employees is measured on the date of performance at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Stock-based compensation for options granted to non-employees is periodically re-measured as the underlying options vest.

The Company also issues restricted stock units (RSU) (Note 10), which are classified as liabilities on the consolidated balance sheets because the RSU can be converted to cash at the option of the holder. RSU are measured and recognized at fair value, and are subject to re-measurement at each balance sheet date. At the end of each reporting period, changes in fair value of the RSU liability during the period are recognized as a revaluation gain or loss in the consolidated statements of operations. The Company recognized a revaluation loss of $10,134 and $13,225 in 2020 and 2019, respectively and recorded the loss in the consolidated statements of operations. The Company will continue to adjust the RSU liability for changes in the fair value until the earlier of the termination of the RSU or the completion of a liquidation event, including completion of an initial public offering, at which time all such RSU will be either converted to cash or converted into shares of convertible preferred stock and the RSU liability will be reclassified to additional paid-in capital.

Derivative Liability:

The Company accounts for embedded features in its debt and equity instruments based upon the guidance of ASC 480, *Distinguishing Liabilities from Equity* and ASC 815, *Derivatives and Hedging.* Any embedded features are analyzed to determine if they should be bifurcated from the host instrument and recorded at fair value. The Company uses a probability weighted approach to determine the fair value of the derivative liability at inception of the notes and subsequently re-measured at each balance sheet date to reflect any changes in fair value. The offsetting entry is recorded as a debt discount to the original instrument and is amortized to interest expense using the effective interest method. At the end of each reporting period, changes in fair value of the derivative liability were recognized as a revaluation gain or loss in the consolidated statement of operations. The Company adjusts the derivative liability when the convertible notes are redeemed in cash or converted to convertible preferred stock.

2. Significant Accounting Policies (continued)

Preferred Stock Warrants:

Freestanding warrants related to the Company's preferred stock were classified as liabilities because the underlying shares of preferred stock are contingently redeemable due to the liquidation rights of preferred stockholders upon a change in control event. Therefore, the Company may have been obligated to transfer assets at a future date. Such warrants were measured and recognized at fair value, and are subject to re-measurement at each balance sheet date. At the end of each reporting period, changes in fair value of the preferred stock warrant liabilities were recognized as a revaluation gain or loss in the consolidated statements of operations. The Company adjusted the preferred stock warrant liability for changes in the fair value until the recapitalization in 2019, at which time the warrants were cancelled upon issuance of Series I-1 convertible preferred stock ("Series I-1").

Convertible Preferred Stock:

The Company classifies convertible preferred stock outside of stockholders' deficit because, upon the occurrence of certain change in control events that are outside the Company's control, including liquidation, sale or transfer of the Company's assets, holders of the convertible preferred stock can cause redemption for cash. Holders of a majority of the outstanding convertible preferred stock can also require the Company to repurchase the convertible preferred stock by providing the Company a written notice requesting such redemption. The Company recognizes changes in the redemption value immediately as they occur and adjusts the carrying amount of the convertible preferred stock to equal the redemption value at the end of each reporting period. In the absence of retained earnings these accretion charges are recorded against additional paid in capital, if any, and then to accumulated deficit. The Company analyzed all embedded derivatives and beneficial conversion features for its convertible preferred stock and concluded that none requires bifurcation.

Fair Value of Financial Instruments:

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements of ASC 820. The new guidance is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. The Company adopted this standard effective as of January 1, 2020, and the adoption of the standard did not have an impact on the Company's consolidated financial statements.

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments: (continued)

The Company uses a three-level hierarchy, which prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information for fair value measurement based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with those financial instruments.

The three-level hierarchy for fair value measurement is defined as follows:

Level I: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level II: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III: Inputs to the valuation methodology, which are significant to the fair value measurement, are unobservable.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's certificate of deposit is valued daily and classified within Level II of the fair value hierarchy.

The Company's preferred stock warrants and restricted stock unit liabilities have been valued using a Black-Scholes model and are classified within Level III of the fair value hierarchy. The Company's derivative liability have been valued using a probability weighted net present value methodology and is classified within Level III of the fair value hierarchy.

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments: (continued)

The following table shows the fair value of assets and liabilities for each level:

As of December 31, 2020	Assets	Liabilities
Level I	$ -	$ -
Level II	222,374	-
Level III	-	789,867
Total	$ 222,374	$ 789,867

As of December 31, 2019	Assets	Liabilities
Level I	$ -	$ -
Level II	221,126	-
Level III	-	750,572
Total	$ 221,126	$ 750,572

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments: (continued)

The initial value and changes in value of the preferred stock warrant, restricted stock unit, and derivative liabilities are summarized below:

Balances, December 31, 2018	$	4,105,927
Increase in fair value of the preferred stock warrant liability recorded in the consolidated statement of operations		796,276
Preferred stock warrants cancelled in connection with the recapitalization event (Note 8) recorded in the consolidated statement of operations		(4,779,943)
Decrease in fair value of the restricted stock unit liability in connection with the recapitalization event (Note 8) recorded in the consolidated statement of operations within stock-based compensation		(8,798)
Increase in fair value of the restricted stock unit liability recorded in the consolidated statement of operations		13,225
Fair value of the derivative liabilities recorded in connection with the issuance of convertible notes		2,248,080
Decrease in fair value of the derivative liabilities upon conversion of the convertible notes to convertible preferred stock		(1,624,195)
Balances, December 31, 2019	$	750,572
Increase in fair value of the restricted stock unit liability recorded in the consolidated statement of operations within stock-based compensation		10,134
Decrease in fair value of the derivative liability upon conversion of the convertible notes to convertible preferred stock		(623,885)
Fair value of the derivative liability recorded in connection with the issuance of convertible notes		734,785
Issuance of convertible preferred stock in connection with conversion of restricted stock units		(81,741)
Balances, December 31, 2020	$	789,867

2. Significant Accounting Policies (continued)

Income Taxes:

The Company accounts for income taxes using the asset and liability method. The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred income tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

In evaluating the ability to recover its deferred income tax assets, the Company considers all available positive and negative evidence, including its operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction-by-jurisdiction basis. In the event the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, it would make an adjustment to the valuation allowance that would reduce the provision for income taxes. Conversely, in the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period when such determination is made. As of December 31, 2020 and 2019, respectively, the Company recorded a full valuation allowance on its deferred income tax assets.

Tax benefits related to uncertain tax positions are recognized when it is more likely than not that a tax position will be sustained during an audit. Interest and penalties related to unrecognized tax benefits are included within the provision for income tax.

Reclassifications:

Certain reclassifications have been made to prior year balances to conform with current year presentation.

Use of Estimates:

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

The COVID-19 pandemic has adversely impacted the global economy, as well as the Company's operations, and the extent and duration of the impacts remain unclear. The Company's future estimates, including, but not limited to the fair value measurements, may be impacted and continue to evolve as conditions change as a result of the COVID-19 pandemic.

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective:

Leases:

In February 2016, the FASB issued ASC Topic 842, Leases. This standard requires all entities that lease assets with terms of more than 12 months to capitalize the assets and related liabilities on the balance sheet.

Topic 842 is effective for the Company as of January 1, 2022 and requires the use of a modified retrospective transition approach for its adoption. The Company is currently evaluating the effect Topic 842 will have on its consolidated financial statements and related disclosures. Management expects the assets leased under operating leases, similar to the leases disclosed in Note 5 to the consolidated financial statements, will be capitalized together with the related lease obligations on the consolidated balance sheet upon the adoption of the standard. The Company is currently assessing the impact the guidance will have on the Company's consolidated financial statements.

Simplifying the Accounting for Income Taxes:

In December 2020, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"). ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 will be effective for public entities for interim and annual periods beginning after December 15, 2020, with early adoption permitted. ASU 2019-12 will be effective for private entities for annual periods beginning after December 15, 2021, and interim periods beginning after December 15, 2020, with early adoption permitted. The Company is currently assessing the impact, if any, the guidance will have on the Company's consolidated financial statements.

Reference Rate Reform:

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance is effective for all entities during the period March 12, 2020, through December 31, 2022. In January 2021, FASB issued ASU 2021-01, which expanded the scope of guidance in ASU 2020-04, to allow companies to apply the optional expedients to derivative instruments affected by the clearing house changes. The Company is currently assessing the impact, if any, the guidance will have on the Company's consolidated financial statements.

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

Debt with Conversion and Other Options and Derivatives and Hedging:

In August 2020, the FASB issued ASU No. 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. ASU 2020-06 is effective on a prospective basis for annual reporting periods beginning after December 15, 2023 and for interim periods within those periods. Early adoption is permitted. The Company has not yet determined the impact that this new standard will have on the Company's consolidated financial statements.

3. Revenues from Contracts with Customers

Disaggregation of Revenues

Product or Service Line	Year Ended December 31, 2020	2019
Equipment Revenue	$ 4,859,596	$ 7,416,659
Construction Revenue	8,890,950	-
Government Revenue	742,508	-
Consulting Revenue	948,964	693,828
	$ 15,442,018	$ 8,110,487

Contract Balances

Receivables from contracts with customers were $2,448,217 and $8,740,535 at December 31, 2020 and 2019, respectively. The change in the balance relates to cash received and performance obligations completed during the year.

Deferred revenue and customer deposits are contract liabilities consisting of amounts received from customers in advance of the associated services being performed, product being delivered or during customer trial periods. Contract liabilities were $15,915,819 and $15,604,045 at December 31, 2020 and 2019, respectively. Contract liabilities are included in current liabilities on the consolidated balance sheets. Revenue recognized from deferred revenue and customer deposits were $13,312,940 in 2020 and $2,675,964 in 2019. The remaining balance is expected to be recognized in the next year.

3. Revenues from Contracts with Customers (continued)

Contract Balances (continued)

Following is an activity summary of the deferred revenue and customer deposits:

	Amounts
Balances, December 31, 2018	$ 7,077,606
Customer deposits	11,202,403
Revenue recognized	(2,675,964)
Balances, December 31, 2019	$ 15,604,045
Customer deposits	13,624,714
Revenue recognized	(13,312,940)
Balances, December 31, 2020	$ 15,915,819

4. Balance Sheet Detail

Inventory:

Inventory consists of the following:

	As of December 31, 2020	As of December 31, 2019
Raw materials	$ 14,474,527	$ 6,716,228
Work in progress	4,165,864	1,436,685
Finished goods	2,556,485	1,910,752
Inventory deposits	878,473	826,843
Total	$ 22,075,349	$ 10,890,508

4. Balance Sheet Detail (continued)

Property and Equipment, net:

Property and equipment consist of the following:

	As of December 31, 2020	As of December 31, 2019
Machinery and equipment	$ 7,063,648	$ 2,355,241
Computer hardware and software	1,468,218	2,032,742
Construction in progress	-	1,924,092
Leasehold improvements	579,993	540,512
Total	9,111,859	6,852,587
Less accumulated depreciation and amortization	(4,927,203)	(2,764,909)
Property and Equipment, net	$ 4,184,656	$ 4,087,678

Intangible Assets, net:

Intangible assets consist of the following:

	As of December 31, 2020	As of December 31, 2019
Developed technology	$ 246,199	$ 246,199
Domain names	89,000	89,000
Patents and licenses	63,490	63,490
Trademarks	1,625	1,625
Total	400,314	400,314
Less accumulated amortization	(165,158)	(144,513)
Intangible Assets, net	$ 235,156	$ 255,801

4. Balance Sheet Detail (continued)

Accrued Expenses and Other Current Liabilities:

Accrued expenses and other current liabilities consist of the following:

	As of December 31, 2020	As of December 31, 2019
Accrued compensation	$ 1,384,543	$ 2,975,130
Sales tax and VAT payable	798,863	339,006
Accrued equity issuance costs	-	1,000,000
General accrued expenses	591,705	486,530
Deferred rent	32,352	108,945
Accrued Expenses and Other Current Liabilities	$ 2,807,463	$ 4,909,611

During 2020, the Company recognized that due to changes in circumstances resulting from the COVID-19 pandemic, it would not pay all accrued discretionary bonuses and accordingly its actual payments related to 2019 compensation were $594,000 less than the accrued compensation. This change in estimated payments could not have been anticipated at December 31, 2019 and the $594,000 adjustment was recognized as a reduction to the 2020 discretionary bonus expense in the 2020 consolidated statement of operations.

5. Commitments and Contingencies

Lease Commitments:

The Company leases its facilities under non-cancelable operating leases, which expire at various dates through August 2021. Certain facility leases provide for scheduled increases in minimum rental payments. The related rent expense for these leases is calculated on a straight-line basis with the difference recorded as deferred rent. Rent expense under operating leases was $683,000 and $795,000 for the years ended December 31, 2020 and 2019, respectively.

Aggregate future minimum lease payments under all non-cancelable operating leases are $537,000 from January 2021 to August 2021.

5. Commitments and Contingencies (continued)

Indemnification Agreements:

From time to time, in its normal course of business, the Company may indemnify other parties, with which it enters into contractual relationships, including customers, lessors and parties to other transactions with the Company. The Company may agree to hold other parties harmless against specific losses, such as those that could arise from a breach of representation, covenant or third-party infringement claims. It may not be possible to determine the maximum potential amount of liability under such indemnification agreements due to the unique facts and circumstances that are likely to be involved in each particular claim and indemnification provision. Historically, there have been no such indemnification claims. As a result, management believes any potential liability from these agreements will not be material to the consolidated financial statements.

Purchase Commitments:

The Company has outstanding purchase orders for a total of $6,462,000 and $6,095,000 at December 31, 2020 and 2019, respectively, for various types of inventory.

6. Debt Financing

Convertible Notes Payable:

In November and December 2018, the Company entered into two convertible note agreements (the “2018 Notes”) with existing stockholders for a total of $10,000,000. The 2018 Notes bear interest at the rate of 8% per annum, compounding monthly. Interest is accumulated throughout the term of the agreements and due upon conversion, redemption or repayment. The 2018 Notes were to mature on November 2, 2020. The 2018 Notes were subject to a prepayment premium of up to 6% per annum reduced by any accrued and unpaid interest such that the prepayment premium in connection with accrued interest will equal a total rate of 14% per annum, compounding monthly. In the event of a Company acquisition, the noteholders will receive an amount equal to the sum of: (a) the then outstanding principal and accrued interest, plus (b) the original principal balance of the note, plus (c) a premium equal to an additional interest component up to 6% per annum, compounding monthly, through the date of acquisition. In the event of conversion upon a qualified financing, the noteholder is entitled to receive the number of shares of Series D-2 convertible preferred stock (the “Series D-2”) obtained by dividing the then outstanding principal and accrued interest by the price per share of Series D-2. In addition, the noteholder is entitled to receive a bonus share of Series D-1 convertible preferred stock (the “Series D-1”) convertible for each share of Series D-2 received. Total principal and accrued interest on the 2018 Notes was $10,098,397 at December 31, 2018. The Company evaluated whether the 2018 Notes contain embedded features that meet the definition of derivatives under ASC Topic 815 and concluded the embedded features meet the definition of derivatives due to the beneficial conversion features and investor puts contained in the agreements at inception. The Company determined this represented multiple embedded derivatives. Upon evaluation, due to the conversion feature being a beneficial feature in the money at issuance date, the Company recorded a beneficial conversion feature debt discount of $10,000,000 with an offsetting amount recorded within additional paid-in capital in the convertible preferred stock. The discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the 2018 Notes. The Company recognized approximately $619,000 of amortization of debt discount as interest expense in the consolidated statements of operations for the year ended December 31, 2018 and the outstanding unamortized debt discount was approximately $9,381,000 as of December 31, 2018. The effective interest rate on the 2018 Notes ranged from 196% to 218%. The 2018 Notes were converted as part of the Recapitalization (Note 8).

6. Debt Financing (continued)

Convertible Notes Payable: (continued)

In 2019, the Company entered into additional convertible note payable agreements (the 2019 Notes) under the same agreement as the 2018 Notes with existing stockholders for a total of $20,000,000. The Company evaluated whether the 2019 Notes contain embedded features that meet the definition of derivatives under ASC Topic 815 and concluded the embedded features meet the definition of derivatives due to the beneficial conversion features and investor puts contained in the agreements at inception. The Company determined this represented multiple embedded derivatives. Upon evaluation, due to the conversion feature being a beneficial feature in the money at issuance date, the Company recorded a beneficial conversion feature debt discount of $20,000,000 with an offsetting amount recorded within additional paid-in capital in the convertible preferred stock. The 2019 Notes were converted as part of the Recapitalization (Note 8). Due to 2019 Notes being issued with the full face value of $20,000,000 as debt discount resulting in carrying value of $0 at issuance and the conversion in the same year, the Company concluded it is not meaningful to show the effective interest for each of the 2019 Notes.

In December 2019, all borrowings under the 2018 Notes and the 2019 Notes, including accrued interest, and the beneficial conversion debt discount were converted into shares of Series D-1 and Series D-2, which were cancelled and reissued as Series I-1 in the recapitalization. Through conversion in December 2019, the debt discounts were fully amortized. In 2018, the Company recognized accrued interest expense of approximately $98,000 and amortization of debt discount as interest expense of $619,000. In 2019, the Company recognized approximately $1,668,000 of interest expense and recognized an additional non-cash interest expense of $31,148,000 from the debt discounts and the beneficial conversion features. In aggregate, the Company recognized accrued interest expense of approximately $1,767,000 and non-cash interest expense of $31,767,000 related in connection with the 2018 Notes and the 2019 Notes.

6. Debt Financing (continued)

Convertible Notes Payable: (continued)

In September and October 2019, the Company entered into convertible note payable agreements (the New 2019 Notes) with existing investors for a total of $6,000,000. The New 2019 Notes bore interest at the rate of 8% per annum, compounding annually. In the event of conversion upon a qualified financing, the noteholder is entitled to receive the number of shares of the Company's equity securities sold at the close of the Company's Next Equity Financing by dividing the then outstanding principal and accrued interest by 80% of the price per share of the Next Equity Financing Price. The Company evaluated whether the New 2019 Notes contain embedded features that meet the definition of derivatives under ASC Topic 815. The Company determined that the beneficial conversion features represented an embedded derivative. Thus, the embedded conversion features were bifurcated from the face value of the note and accounted for as a derivative liability to be remeasured at the end of each reporting period. The derivative liability had a fair value of $1,500,403 on the issuance date with the offsetting amount being recorded as a debt discount. The derivative liability is subject to fair value remeasurement at the end of each reporting period. The discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the New 2019 Notes. The effective interest rate on the New 2019 Notes were 69.3% and 81.8%. The New 2019 Notes including the 20% conversion discount totaling $7,641,972 were converted into 12,395,737 shares of Series I-1 and 12,395,737 shares of Series I-2 convertible preferred stock ("Series I-2") in December 2019 (Note 8). Due to the conversion, the aforementioned derivative liability, debt discount, and accrued interest were adjusted and a total non-cash interest expense of $1,641,972 was recognized in the consolidated statement of operations for the year ended December 31, 2019.

6. Debt Financing (continued)

Convertible Notes Payable: (continued)

In October 2019, the Company entered into a convertible note payable agreement (the New Investor Note) with a new investor for a total of $4,000,000. The New Investor Note bore interest at the rate of 12% per annum, compounding monthly. In the event of conversion upon a qualified financing, the noteholder is entitled to receive the number of shares of the Company's equity securities sold at the close of the Company's Next Equity Financing by dividing the then outstanding principal and accrued interest by the price per share of the Next Equity Financing Price. The Company evaluated whether the New Investor Note contain embedded features that meet the definition of derivatives under ASC Topic 815. The Company determined that the conversion features represented an embedded derivative. Thus, the embedded conversion features were bifurcated from the face value of the note and accounted for as a derivative liability to be remeasured at the end of each reporting period. The derivative liability had a fair value of $123,792 on the issuance date with the offsetting amount being recorded as a debt discount. The derivative liability is subject to fair value remeasurement at the end of each reporting period. The discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the New Investor Note. The effective interest rate on the 2019 Notes was 15.2%. The New Investor Note totaling $4,000,000 was converted into 6,488,240 shares of Series I-1 and 6,488,240 shares of Series I-2 (accrued interest totaling $64,693 was waived upon conversion) (Note 8). Due to the conversion, the aforementioned derivative liability, debt discount, and accrued interest were adjusted and no interest expense was recognized in the consolidated statement of operations for the year ended December 31, 2019.

6. Debt Financing (continued)

Convertible Notes Payable: (continued)

In December 2019, the Company entered into a convertible note payable agreement (the 2019 Convertible Affiliate Note) with an existing investor for a total of $2,500,000. The 2019 Convertible Affiliate Note bore interest at the rate of 12% per annum, compounding annually. Interest is accumulated throughout the term of the agreement and is due upon conversion, redemption or repayment. The 2019 Convertible Affiliate Note was to mature on October 31, 2020. In the event of conversion upon a qualified financing, the noteholder is entitled to receive the number of shares of the Company's equity securities sold at the close of the Company's Next Equity Financing by dividing the then outstanding principal (accrued interest shall automatically be forgiven in consideration for such conversion) by 80% of the price per share of the next equity financing price. Total principal and accrued interest on the 2019 Convertible Affiliate Note was $2,500,000 at December 31, 2019. The Company evaluated whether the 2019 Convertible Affiliate Note contains embedded features that meet the definition of derivatives under ASC Topic 815. The Company determined that the beneficial conversion features represented an embedded derivative. Thus, the embedded conversion features were bifurcated from the face value of the note and accounted for as a derivative liability to be remeasured at the end of each reporting period. The derivative liability had a fair value of $623,885 on the issuance date with the offsetting amount being recorded as a debt discount. The derivative liability is subject to fair value remeasurement at the end of each reporting period. The discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the 2019 Convertible Affiliate Note. The Company recognized $41,852 of amortization of debt discount as interest expense in the consolidated statement of operations for the year ended December 31, 2019 and the unamortized debt discount outstanding is $582,033 as of December 31, 2019. The effective interest rate on the 2019 Convertible Affiliate Note was 44.1%. The 2019 Convertible Affiliate Note including the 20% conversion discount of $3,125,000 was converted into 5,068,937 shares of Series I-1 and 5,068,937 shares of Series I-2 in July 2020 (accrued interest of $205,966 was waived upon conversion) (Note 8). The unamortized debt discount and the accrued interest were adjusted and a total of $582,033 of non-cash interest was recognized in the consolidated statement of operations for the year ended December 31, 2020.

6. Debt Financing (continued)

Convertible Notes Payable: (continued)

In December 2020, the Company entered into convertible note payable agreements for $9,000,000 (the 2020 Convertible Notes) with existing investors. The 2020 Convertible Notes bear interest at the rate of 8% per annum and mature on December 31, 2021. In the event of conversion upon a qualified financing, the noteholder is entitled to receive the number of shares of the Company's equity securities sold at the close of the Company's Next Equity Financing by dividing the then outstanding principal and accrued interest by the price per share of the Next Equity Financing Price. If the Next Equity Financing does not occur before the maturity date, the entire principal amount and accrued interest of the 2020 Convertible Notes will automatically convert on the maturity date into shares of Series I-3 Preferred Stock at the same price as Series I-1 and an equal number of shares in Series I-2. Total principal and accrued interest on the 2020 Convertible Notes was $9,015,484 at December 31, 2020. The Company evaluated whether the 2020 Convertible Notes contain embedded features that meet the definition of derivatives under ASC Topic 815. The Company determined that the conversion features represented an embedded derivative. Thus, the embedded conversion features were bifurcated from the face value of the note and accounted for as a derivative liability to be remeasured at the end of each reporting period. The derivative liability had a fair value of $734,785 on the issuance date with the offsetting amount being recorded as a debt discount. The derivative liability is subject to fair value remeasurement at the end of each reporting period. The discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the 2020 Convertible Notes. The Company recognized $13,815 of amortization of debt discount as interest expense in the consolidated statement of operations for the year ended December 31, 2020 and the unamortized debt discount outstanding is $720,970 as of December 31, 2020. The effective interest rate on the 2020 Convertible Notes is 16.4%. The 2020 Convertible Notes were converted into shares of Series I-1 and I-2 in February 2021 (Note 13).

Non-Convertible Notes:

In November 2019, the Company entered into non-convertible note payable agreements (the 2019 Affiliate Notes) with existing investors for a total of $3,500,000. The 2019 Affiliate Notes bear interest at the rate of 12% per annum, compounding monthly. The 2019 Affiliate Notes were set to mature on October 31, 2020. Interest is accumulated throughout the term of the agreements and is due upon repayment. The amount due under the 2019 Affiliate Notes upon any such prepayment will be the greater of (i) the then-outstanding principal amount and all accrued interest on or (ii) the then-outstanding principal amount and ninety days' interest. Total principal and accrued interest on the 2019 Affiliate Notes was $3,605,000 at December 31, 2019. In January 2020, the Company paid the outstanding principal amount of $3,500,000 and accrued interest of $105,000.

6. Debt Financing (continued)

Loan Agreement:

In June 2020, the Company entered into a loan agreement with a new lender for total aggregate proceeds of $25,000,000 (the 2020 Loan Agreement). The 2020 Loan Agreement bears interest at rate of LIBOR plus 13% (with a floor of 1%), (“14% as of December 31, 2020”). The 2020 Loan Agreement matures in June 2022 and includes financial covenants. The Company must maintain a cash and cash equivalents balance of $5,000,000 and the Company must achieve $30,000,000 in revenue for the trailing twelve-month period ending September 30, 2021, increasing to $50,000,000 for the trailing twelve-month period ending December 31, 2021. The revenue covenant remains at $50,000,000 for the trailing twelve-month periods in 2022 until maturity. During 2020 and as of December 31, 2020, the Company is compliant with the covenants. The 2020 Loan Agreement has a prepayment penalty of 2% if prepaid between June 2021 and June 2022. There is no prepayment penalty if repaid prior to the first anniversary of the 2020 Loan Agreement.

In conjunction with the 2020 Loan Agreement, the Company paid an origination fee of $750,000 and a loan agency fee of $125,000 to the lender and recorded these as debt discount. In addition, the Company paid $639,874 in debt issuance costs. The total debt discount and debt issuance costs of $1,514,874 was amortized using the effective interest method and the effective interest was 17.8%. In 2020, the Company made principal payments of $625,000 and the outstanding principal amount is $24,375,000 as of December 31, 2020. In 2020, the Company amortized $398,952 related to debt discount and debt issuance costs to interest expense and the unamortized amount is $1,115,923 as of December 31, 2020. On the first anniversary of the 2020 Loan Agreement, the Company will pay an anniversary fee of $500,000 and a loan agency fee of $125,000. The 2020 Loan Agreement is secured by all assets of the Company.

Following is a summary of the future minimum principal payments and debt discount amortization:

	2021	2022	Total
Principal payment due	$1,250,000	$23,125,000	$24,375,000
Less: discount amortization	(746,543)	(369,380)	(1,115,923)
Total	$ 503,457	$22,755,620	$23,259,077

6. Debt Financing (continued)

Line of Credit:

In February 2019, the Company entered into a $5,000,000 line of credit agreement (the Line Agreement) with an investor. Outstanding borrowings bear interest at a rate of 12% per annum. Interest is payable monthly beginning March 1, 2019. At December 31, 2019, the Line Agreement had an outstanding balance of $4,950,000. The outstanding balance, and unpaid interest, is due and payable February 1, 2021 or 120 days after demand for payment, provided the demand is issued after May 31, 2019.

In December 2019, the Line Agreement was amended to remove the on-demand repayment terms. In June 2020, the Line Agreement was fully repaid with the proceeds from the 2020 Loan Agreement (Note 6).

7. Income Taxes

Net loss before income taxes was $63,110,847 and $74,541,892 for the years ended December 31, 2020 and 2019, respectively. The Company did not incur income tax expense or benefit for the years ending December 31, 2020 or December 31, 2019.

The Company's geographical breakdown of its loss before provision for income taxes is as follows:

	Year Ended December 31,	
	2020	2019
Domestic	$ (62,223,145)	$ (74,131,307)
Foreign	(887,702)	(410,585)
Loss before provision for income taxes	$ (63,110,847)	$ (74,541,892)

The provision for income taxes differs from the amount which would result by applying the federal statutory income tax rate to pre-tax income (loss) for the years ended December 31, 2020 and 2019.

The reconciliation of the provision computed at the federal statutory rate to the Company's provision (benefit) for income taxes for the year ended December 31, 2020 and 2019 was as follows:

7. Income Taxes (continued)

	Year Ended December 31, 2020	2019
Provision for income taxes at federal statutory rates	$ (13,253,278)	$ (15,653,798)
State taxes, net of federal benefit	(789,190)	(23,022)
Non-deductible expenses and other	378,340	6,589,289
Research and development credits	(447,127)	(548,553)
Change in valuation allowance	14,111,255	9,636,084
Total	-	-

For 2020 and 2019, the effective tax rate differs from the amount computed by applying the statutory federal and state income tax rates to net loss before income tax, primarily as the result of state income taxes, R&D credits and changes in our valuation allowance.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities are as follows at December 31, 2020 and 2019:

	As of December 31, 2020	2019
Deferred tax assets:		
Net operating loss carryforwards	$ 59,247,358	$ 47,179,892
Research and development credit carryforward	3,476,263	2,830,012
Other accruals	2,768,655	1,371,117
Total gross deferred tax assets	65,492,276	51,381,021
Less: valuation allowance	(65,492,276)	(51,381,021)
Net deferred tax assets	$ -	$ -

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain.

The Company could not conclude that it was more likely than not that tax benefits from operating losses would be realized and, accordingly, has provided a full valuation allowance against its deferred tax assets of $65,492,276 and $51,381,021, as of December 31, 2020 and 2019, respectively. The valuation allowance increased by $14,111,255 and $9,636,084 for the years ended December 31, 2020 and 2019, respectively, due to current and previous year losses and credits claimed.

7. Income Taxes (continued)

As of December 31, 2020, the Company had $249,559,106 and $111,080,483 of U.S. federal and state net operating losses (“NOLs”) available to reduce future taxable income, which will begin to expire in 2031 for federal and state tax purposes. Approximately $130,432,016 of the federal NOLs included above can be carried forward indefinitely. As of December 31, 2019, the Company had $194,464,028 and $98,637,761 of federal and state NOLs available to reduce future taxable income.

The Company also has federal and state research and development tax credits carryforwards of $5,095,318 and $2,350,896, respectively, as of December 31, 2020 compared to $4,201,064 and $1,846,784, respectively, as of December 31, 2019. The federal credits begin to expire in 2031 and the state credits have no expiration date.

Sections 382 and 383 of the Internal Revenue Code limit the annual use of the Company’s net operating loss and income tax credit carryforwards, respectively. The Company has not performed a Section 382 study to determine whether it had experienced a change in ownership and, if so, whether the tax attributes (NOLs or credits) were impaired. Under Section 382 of the Internal Revenue Code of 1986, as amended, the Company’s ability to utilize NOL or other tax attributes, such as research tax credits, in any taxable year, may be limited if the Company has experienced an “ownership change.” Generally, a Section 382 ownership change occurs if there is a cumulative increase of more than 50 percentage points in the stock ownership of one or more stockholders or groups of stockholders who owns at least 5% of a corporation’s stock within a specified testing period. Similar rules may apply under state tax laws.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Balance at beginning of year	$ 3,023,924	$ 2,264,688
Additions based on tax positions related to the current year	699,183	760,236
Balance at end of year	$ 3,723,107	$ 3,023,924

The Company has not performed a research and development tax credit study. During the years ended December 31, 2020 and 2019 the amount of unrecognized tax benefits increased $699,183 and $760,236 respectively, due to additional research and development credits generated during the year. As of December 31, 2020 and 2019 the total amount of unrecognized tax benefits was $3,723,107 and $3,023,924, respectively. The reversal of the uncertain tax benefits would not affect the Company's effective tax rate to the extent that it continues to maintain a full valuation allowance against its deferred tax assets.

7. Income Taxes (continued)

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company recognized no accrued interest and penalties associated with unrecognized tax benefits during 2019 and 2020 and for the years ended December 31, 2020 and 2019 no amounts have been recognized in the Company's consolidated statements of operations. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, foreign, state and local jurisdictions, where applicable. The Company believes all tax return years since inception remain open to examination by the major taxing jurisdictions to which the Company is subject to.

In March 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" (the "Act") was signed into law. The Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. As of December 31, 2020, the Company expects that these provisions will not have a material impact as the Company has no net operating losses or AMT credits that would fall under these provisions and does not expect interest expense to be deductible due to current year losses.

8. Capital Stock

Recapitalization:

In connection with the initial closing of the Series I-1 and Series I-2 financing in December 2019, the existing convertible preferred stock of the Company was converted to Series I-1 as part of a recapitalization of the Company. The recapitalization of the Company was accomplished through the conversion of all then outstanding convertible preferred stock, warrants, and restricted stock units, including accrued and unpaid dividends, with anti-dilution protection, into newly issued shares of Series I-1 based upon their common stock equivalent. In 2019, the Company accreted dividends totaling $11,801,918 through the date of the recapitalization. In connection with the recapitalization, the Company cancelled 243,728,763 shares of convertible preferred stock, resulting in a net decrease in accumulated deficit of $62,780,753 as the exchange of the Series A to D convertible preferred stock for the Series I-1 was recognized as an extinguishment. The Company also cancelled 19,613,778 warrants to purchase various types of its previous convertible preferred stock. The Company also converted 196,928 restricted stock units for various types of its previous convertible preferred stock to 204,910 restricted stock units for its Series I-1 shares.

8. Capital Stock (continued)

Convertible Preferred Stock:

In 2019, the Company was authorized to issue 615,000,000 shares of convertible Series I preferred stock with a par value of $0.00001 per share.

As part of the aforementioned recapitalization in December 2019, the Company issued 307,282,435 shares of Series I-1 in exchange for the then outstanding convertible preferred stock, warrants, and restricted stock units of the Company prior to the recapitalization.

In December 2019, the Company issued a total of 72,411,958 shares of Series I-1 and 72,411,958 shares of Series I-2 in exchange for cash and convertible notes payable and accrued interest of $42,518,668, net of issuance costs, comprised of the following: 1) 53,527,981 shares of Series I-1 and 53,527,981 shares of Series I-2 in exchange for cash of $30,876,696, net of issuance costs; 2) 6,488,240 shares of Series I-1 and 6,488,240 shares of Series I-2 in exchange for the New Investor Note of $4,000,000 (Note 4); and 3) 12,395,737 shares of Series I-1 and 12,395,737 shares of Series I-2 in exchange for the New 2019 Notes of $7,641,972 of outstanding principal and the 20% conversion discount (Note 6).

From April to July 2020, the Company issued 42,016,758 shares of Series I-1 and 42,016,758 shares of Series I-2 in exchange for cash proceeds of $25,732,470, net of issuance costs.

In July 2020, the 2019 Convertible Affiliate Note was converted into 5,068,937 shares of Series I-1 and 5,068,937 shares of Series I-2 for a total equity value of $3,125,000, representing the note principal of $2,500,000 and 20% beneficial conversion discount of $625,000 inclusive of any accrued interest and unamortized debt discount.

At December 31, 2020, the Company had the following shares of convertible preferred stock issued and outstanding:

	Shares Authorized	Shares Issued and Outstanding	Aggregate Liquidation Preference
Series I-1	470,000,000	426,902,506	$ 263,185,395
Series I-2	145,000,000	119,497,653	-
Accretion of convertible preferred stock cumulative dividends	-	-	21,281,513
	615,000,000	546,400,159	$ 284,466,908

Upon issuance of Series I-1 and I-2 in 2019, all previous series of convertible preferred stock were converted into Series I-1 and Series I-2 and cancelled.

8. Capital Stock (continued)

Convertible Preferred Stock: (continued)

The holders of Series I-1 and Series I-2 have rights, preferences and privileges as follows:

Dividends:

Holders of Series I-1 are entitled to receive dividends, at an annual rate of 8%, compounding quarterly, of the conversion price listed below, per share, as adjusted for any stock dividends, combinations, splits or the like, prior to and in preference to any declaration or payment of dividends on common stock. Series I-2 is not entitled to receive dividends. All Series I-1 dividends are cumulative beginning on the respective share issuance date, and payable when and if declared by the Board of Directors. After payment of such dividends, any additional dividends or distributions will be distributed among holders of common stock and Series I-1 in proportion to the number of shares of common stock that would be held by each holder if all shares of Series I-1 were converted to shares of common stock. At December 31, 2020, the Company has accreted $21,281,513 of Series I-1 cumulative dividends and included this amount in the liquidation preferences of the preferred stock. The Board of Directors has not declared any dividends through December 31, 2020.

Conversion:

Series I-1 is convertible, one-for-one, into shares of common stock at any time at the option of the holder. Series I-2 is not convertible. The conversion ratio is subject to adjustment, for any stock dividends, combinations, splits or the like and for dilutive issuances of new securities. The conversion ratio for Series I-1 shares is $0.6165. Each share of Series I-1 will automatically convert into the number of shares of common stock into which such shares are convertible at the then applicable conversion ratio, within six years after the preferred stock original issuance date, which is December 18, 2019, upon (i) the closing of the sale of the Company's common stock in a public offering with aggregate gross proceeds of at least $100,000,000 and a price per share no less than $1.233, or (ii) the affirmative vote or consent of the holders of two-thirds of the outstanding shares of Series I-1.

8. Capital Stock (continued)

Convertible Preferred Stock: (continued)

Liquidation:

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, as adjusted for stock splits, combinations or the like, plus any declared but unpaid dividends on such shares, prior and in preference to any distribution to the holders of common stock. The holders of Series I-2 are first entitled to receive an amount equal to the pro rata portion of the Series I-2 Preference. The Series I-2 Preference is defined as a percentage (Full Percentage) multiplied by the consideration paid in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company or a deemed liquidation event (Equity Proceeds). The Full Percentage is the sum of the number of Series I-1 shares issued pursuant the Series I Preferred Stock Purchase Agreement multiplied by $0.6165, less $75,000,000 and multiplied by 15%. The adjusted Full Percentage will be ratably reduced by Equity Proceeds greater than $600,000,000 to $1,000,000,000. The percentage will be reduced to 0% with Equity Proceeds equal, or greater than $1,000,000,000. After the payment of the Series I-2 Preference in full the holders of Series I-1 shares are entitled to be paid out of the remaining assets at an amount equal to $0.6165 per share. If assets or funds are insufficient to pay the full preferential amount, funds will be distributed ratably to the holders of Series I-1 in proportion to the full preferential amount. Certain events, including the sale of substantially all of the Company's assets or the merger of the Company into another entity in which the Company's stockholders immediately prior to the merger do not control at least a majority of the surviving entity, are deemed to be liquidating events. Once the holders of Series I-1 have received their entire preferential liquidation amount, any remaining assets of the Company will be distributed ratably among the holders of common stock and Series I-1, on an as converted basis, provided, however, if a holder of Series I-1 has elected to receive dividends, the shares held by such holder will not be included in the calculation.

8. Capital Stock (continued)

Convertible Preferred Stock: (continued)

Voting Rights:

The holders of Series I-1 and common stock vote together, except as noted below. The holder of each share of Series I-1 is entitled to voting rights equal to the number of shares of common stock into which each share of Series I-1 could be converted. The holder of each share of common stock is entitled to one vote for each share held. Series I-2 does not have voting rights.

The holders of Series I-1, voting as a separate class, are entitled to elect seven members of the Board of Directors. The holders of Series I-1 and common stock, voting together as a single class, are entitled to elect one member of the Board of Directors. Any additional members of the Board of Directors are elected by the holders of common stock and Series I-1, voting together as a single class. If a vacancy on the Board of Directors is to be filled, only directors elected by the same class of stockholders as those who would be entitled to vote to fill such vacancy will vote to fill such vacancy.

Protection Provisions:

As long as the Series I-1 remains outstanding, the vote of the holders of the majority of the outstanding shares of Series I-1 is necessary for consummation of certain transactions, including but not limited to: increasing or decreasing the authorized capital stock; creating any senior or pari passu security, privileges, preferences or voting rights senior to or on parity with those granted to Series I-1; altering or changing the rights of Series I-1; redeeming or repurchasing the Company's equity securities; issuing any debt security; investing in any subsidiary that is not wholly owned; changing the authorized number of members on the Board of Directors, or entering into any transaction deemed to be a liquidation or dissolution of the Company.

8. Capital Stock (continued)

Convertible Preferred Stock: (continued)

Protective Provisions: (continued)

As long as a certain investor holds at least 50% of the shares of their of Series I-1 originally acquired, affirmative vote of this investor is necessary for consummation of certain transactions, including but not limited to: issuing any debt security exceeding certain thresholds; entering into any customer guarantees of $5,000,000 or more; making, entering into, amending, waiving or terminating any contract, commitment, agreement or arrangement with an estimated value of $1,000,000 or more; creating any additional class of capital stock with an original issuance price less than that of Series I-1; purchasing, paying or declaring any dividend or making any distribution; increasing by more than 10% the number of shares available for issuance under any equity incentive plan; entering into a line of business unrelated to the core business of the Company; acquiring or disposing of an material business or material assets; adopting or approving a budget with an increase of more than 10% in the aggregate in budgeted costs from the most recent budget; or entering into any transaction deemed to be a liquidation or dissolution of the Company.

As long as the Series I-2 stock remains outstanding, the vote of the holders of the majority of the outstanding shares of Series I-2 is necessary for consummation of certain transactions, including but not limited to: increasing or decreasing the authorized capital stock; creating any senior or pari passu security, privileges, preferences or voting rights senior to or on parity with those granted to Series I-2; altering or changing the rights of Series I-2; redeeming or repurchasing the Company's equity securities; issuing any debt security; investing in any subsidiary that is not wholly owned; changing the authorized number of members on the Board of Directors, or entering into any transaction deemed to be a liquidation or dissolution of the Company.

Redemption:

Shares of preferred stock are not redeemable by the holders.

Common Stock:

As of December 31, 2020, the Company is authorized to issue 580,000,000 shares of common stock with a par value of $0.00001 per share. At December 31, 2020, the Company had 35,234,928 shares of common stock issued and outstanding.

8. Capital Stock (continued)

Preferred Stock Warrants:

From 2013 through 2018, the Company issued warrants to purchase 1,269,484 shares of Series B-1 convertible preferred stock, warrants to purchase 3,106,487 shares of Series B-2 convertible preferred stock, warrants to purchase 15,237,807 shares of Series D-1. The Company adjusted the preferred stock warrant liability for changes in the fair value prior to the recapitalization and record a revaluation loss of $796,276 to the consolidated statement of operations. In connection with the recapitalization, the convertible preferred stock warrants were cancelled and a gain of $4,779,943 was recorded to the consolidated statement of operations. Refer to Note 2 for changes in fair value.

Common Stock Warrant:

In April 2014, in connection with consulting services, the Company issued a warrant to purchase 207,971 shares of common stock at $0.204 per share. The warrant was immediately exercisable and expires in April 2021. The warrant remains outstanding at December 31, 2020. As of the date of this report, the warrant holder did not exercise and the warrants were cancelled.

In February 2019, in connection with the Line Agreement (Note 6), the Company issued a detachable warrant to purchase 5,446,623 shares of common stock, with an exercise price of $0.01 per share. The warrant was immediately exercisable and expires in February 2029. The Company classified the warrant as equity warrants and determined the fair value of the warrant to be insignificant to the consolidated financial statements. The warrant remains outstanding at December 31, 2020.

9. Stock Option Plan

In April 2011, the Company adopted the 2011 Stock Option Plan (the Plan). The Plan was amended in September 2011. As of December 31, 2020, the Company has reserved 87,574,491 shares of common stock for issuance under the Plan. The Plan provides for the granting of stock options and restricted stock awards to employees, directors, and consultants of the Company. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options (ISO) may be granted only to Company employees. Nonqualified stock options (NSO) and restricted stock awards may be granted to Company employees, directors and consultants.

9. Stock Option Plan (continued)

Options under the Plan may be outstanding for periods of up to ten years following the grant date. If an ISO is granted to an optionee who, at the time of grant, owns more than 10% of the voting power of all classes of capital stock, the term of the ISO is five years. Options issued under the Plan must be priced at no less than the fair value of the shares on the date of the grant, provided; however, that the exercise price of an option granted to a 10% stockholder is not less than 110% of the fair value of the shares on the date of grant. Fair value is determined by the Board of Directors. The Plan allows for the early exercise of options. Options generally vest over four years. Occasionally, the Company will issue options to purchase stock to nonemployee vendors in exchange for services. Historically, the options issued and the related stock-based compensation are insignificant and the Company is electing to combine these option grants with employee grants as a practical expedient.

In 2020, the Company recognized $203,382 of employee and non-employee stock-based compensation, relating to stock options granted under the Plan ($84,586 in 2019). The compensation expense is allocated on a departmental basis, based on the classification of the option holder. No income tax benefits have been recognized in the consolidated statements of operations for stock-based compensation arrangements and no stock-based compensation costs have been capitalized as part of inventory or property and equipment at December 31, 2020.

The fair value of each award to employees is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions in 2020: expected life of 5.89 years, risk-free interest rate of 0.51%; expected volatility of 62.90% and no dividends during the expected life (expected life of 5.24 years; risk-free interest rate of 1.61%; expected volatility of 79.11% and no dividends in 2019). Expected volatility is based on historical volatilities of public companies operating in the Company's industry. The expected life of the options represents the period of time options are expected to be outstanding and is estimated considering vesting terms and employees' historical exercise and post-vesting employment termination behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company accounts for forfeitures of unvested options at an estimated rate of 10%.

At December 31, 2020, future stock-based compensation for unvested employee options granted and outstanding of $959,000 will be recognized over a remaining weighted-average requisite service period of 3.58 years.

9. Stock Option Plan (continued)

Stock option activity under the Plan is as follows:

		Options Outstanding	
	Options Available	Number Of Shares	Weighted-Average Exercise Price
Balances, December 31, 2018	7,987,830	30,650,230	$ 0.07
Restricted stock award granted	(2,597,050)	-	$ 0.01
Options granted	(8,055,000)	8,055,000	$ 0.01
Exercised	-	(20,476,182)	$ 0.01
Cancelled	6,102,969	(6,102,969)	$ 0.07
Balances, December 31, 2019	3,438,749	12,126,079	$ 0.12
Authorized	44,000,000	-	
Repurchases	1,590,105	-	$ 0.01
Options granted	(22,543,789)	22,543,789	$ 0.10
Exercised	-	(452,305)	$ 0.07
Cancelled	2,360,338	(2,360,338)	$ 0.15
Balances, December 31, 2020	28,845,403	31,857,225	$ 0.10

At December 31, 2020, there were 10,072,524 shares exercisable under the Plan with a weighted-average exercise price of $0.13 and a weighted-average remaining contractual life of 6.08 years (9,257,401 shares, $0.15 and 5.58 years at December 31, 2019). The weighted-average fair value of options granted in 2020 on the grant date was $0.06 ($0.01 in 2019). The options exercised had no intrinsic value in 2020 and 2019.

In August 2019, the Company issued 2,597,050 Restricted Stock Awards for the Company’s common stock (the 2019 RSAs). Upon issuance, the 2019 RSAs were fully vested and 2,597,050 shares of common stock were issued, the Company recognized $25,971 of stock-based compensation expense in 2019 upon issuance of the 2019 RSAs which is included the total stock-based compensation amount included above.

10. Restricted Stock Unit Plans

In September 2015, the Company adopted the 2015 Restricted Stock Unit Plan (the RSU Plan). The RSU Plan provided for the granting of RSU to employees, directors, and consultants of the Company.

In September 2015, the Company granted 427,194 RSU under the RSU Plan, of which 118,860 were outstanding at December 31, 2018. There were no RSU grants in 2019 or 2018. The Company recognized a net reduction of $8,798 to stock-based compensation for the RSU in 2019. The RSU are fully vested upon issuance, contain no voting rights and were provisioned to trigger a payout event upon the earlier of the following: termination or death of the holder; liquidation or change in control; or December 31, 2020. Upon a payout event, a holder of RSU has the option, unless terminated for cause, to receive either shares of preferred stock on a one-to-one basis for each RSU held, or a cash payment equal to the product of the number of RSU held on the date of termination multiplied by the per share fair value of preferred stock on the payout event date, as determined by the Board of Directors, less any income tax related costs.

In March 2018, the Company adopted the 2018 Restricted Stock Unit Plan (the 2018 RSU Plan). In March 2018, the Board granted 78,068 RSU to an officer of the Company. There were 78,068 RSU outstanding at December 31, 2018. Stock-based compensation is included in the RSU stock-based compensation above as it is not significant to the consolidated financial statements.

In March 2018 the Board granted 78,068 Series C RSU to an officer of the Company of which 78,068 were outstanding at December 31, 2018. Stock-based compensation for the Series C RSU is included in the RSU stock-based compensation above as it is not significant to the consolidated financial statements. The Series C RSU are fully vested upon issuance, contain no voting rights and were provisioned to trigger a payout event upon the earlier of the following: termination or death of the holder; liquidation or change in control; or December 31, 2020. Upon a payout event, a holder of Series C RSU has the option, unless terminated for cause, to receive either shares of Series C on a one-to-one basis for each Series C RSU held, or a cash payment equal to the product of the number of Series C RSU held on the date of termination multiplied by the per share fair value of Series C on the payout event date, as determined by the Board of Directors, less any income tax related costs.

10. Restricted Stock Unit Plans (continued)

In December 2019, in connection to the recapitalization (Note 8), all RSU from the RSU Plan and the 2018 RSU Plan were converted into rights to receive Series I-1 RSUs. In addition, the number of RSU outstanding from both plans was adjusted to equal the number of Series I-1 shares that would be issued if the underlying preferred stock of the outstanding RSUs under the RSU Plan and the 2018 RSU Plan were converted to Series I-1. The Company converted 196,928 restricted stock units for various types of its previous convertible preferred stock to 204,910 restricted stock units.

In December 2020, the Company converted 122,418 restricted stock units into 122,418 Series I-1 preferred shares. In February 2021, the Company converted the remaining 82,492 restricted stock units to 82,492 Series I-1 preferred shares.

Following is an activities summary of the restricted stock units from December 31, 2018:

	Restricted Stock Units Available
Balances, December 31, 2018	196,928
Series I recapitalization adjustment	7,982
Balances, December 31, 2019	204,910
Conversion to Series I-1	(122,418)
Balances, December 31, 2020	82,492

11. Related Party Transactions

A director of the Company provided consulting services to the Company and invoiced $149,000 and $139,000, in 2020 and 2019, respectively. In 2019, the Company also reimbursed $350,000 of costs incurred by a Series I-1 investor (Note 8). No amounts were due to the related parties at December 31, 2020 and 2019.

12. Employee Benefit Plan

The Company has a 401(k) plan to provide defined contribution retirement benefits to all employees. All employees are eligible to participate in the plan after meeting eligibility requirements. Participants may contribute a portion of their compensation to the plan, subject to limitations under the Internal Revenue Code. The Company's contributions to the plan are at the discretion of the Board of Directors. As a result of COVID-19 pandemic, the Company suspended its contribution to the 401(k) plan in May 2020. The Company contributed $153,000 to the plan in 2020 and $363,000 in 2019. In January 2021, contributions to the 401(k) plan was reinstated.

13. Subsequent Events

In January 2021, the Company notified a commercial vendor of a contract cancellation and paid a termination fee of $1,000,000 in March 2021. It was not accrued for at December 31, 2020 as the decision to cancel the contract was based on available information in January 2021.

In January 2021, the Company entered into convertible note payable agreements (the 2021 Convertible Notes) with existing investors in exchange for a total of $4,625,500 in cash. The 2021 Convertible Notes bear interest at the rate of 8% per annum, compounding monthly and mature on December 31, 2021.

In February 2021, the Company amended its Certificate of Incorporation to increase the total authorized shares of common stock to 680,000,000 and preferred stock to 761,250,497 comprised of 546,102,164 shares of Series I-1 and 215,148,333 shares of Series I-2.

In February 2021, the Company issued additional 12,837,446 shares of Series I-1 and 12,837,446 shares of Series I-2 for aggregate proceeds of $7,914,286. Following this equity issuance, the outstanding principal amount and the accrued interest of the 2020 Convertible Notes discussed in Notes 6 and the 2021 Convertible Notes discussed above were converted to 22,318,553 shares of Series I-1 and 22,318,553 shares of Series I-2.

In February 2021, the Company amended the 2020 Loan Agreement to add a delayed draw note of $25,000,000 which was funded in March 2021 (the 2021 Loan Agreement). The new gross credit facility is $50,000,000. The draw down debt has the same covenants and bears similar interest as the 2020 Loan Agreement at a rate of LIBOR plus 13% (with a floor of 1%) and matures in January 2023. There is no prepayment penalty if paid on or before June 22, 2021 and a prepayment penalty of 3.0% applies thereafter. In conjunction with the 2021 Loan Agreement, the Company paid an upfront commitment fee of $750,000 to the lender in February 2021. The 2021 Loan Agreement also bears an anniversary fee of 2.0% of the amount outstanding on June 22, 2021 and then 2% of the full facility amount at each annual date thereafter (with a maximum amount of $1,000,000). In addition, the Company issued $0.00001 warrants of 2.0% of the fully diluted shares of the Company to the lender or approximately 2,195,757 of common stock, 9,920,953 of Series I-1, and 3,301,877 of Series I-2 at the time of issuance. These warrants have anti-dilution protection rights and are subject to adjustment. As of the date of this report, the fair value of the warrants have not been determined. The warrant will terminate upon the earliest to occur of: a) the tenth anniversary of the issuance date, b) the closing of an acquisition, or c) initial public offering. As part of the 2021 Loan Agreement, the maturity date of the 2020 Loan Agreement was modified and extended from June 22, 2022 to January 22, 2023. Based on the terms of the delayed draw note, the Company concluded this amendment would be accounted for as a debt extinguishment and new issuance of debt.

13. Subsequent Events (continued)

Following is a summary of the future minimum principal payments due in 2021, 2022, and 2023:

	2021	2022	2023	Total
Principal payment due	$2,187,500	$2,500,000	$44,687,500	$49,375,000

Subsequent events have been evaluated through May 12, 2021, which is the date the consolidated financial statements have been approved by management and available for issuance.