Resonant Inc
Form 10-Q
May 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2015

or

o **Transition Report Pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to .

Commission file number 001-36467

RESONANT INC.

(Exact name of registrant as specified in its charter)

Delaware	**45-4320930**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)

110 Castilian Drive, Suite 100

Santa Barbara, California 93117

(Address of principal executive offices, zip code)

(805) 308-9803

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer	o		Accelerated filer o
Non-accelerated filer	o	(Do not check if smaller reporting company)	Smaller reporting company x

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

As of May 4, 2015, the issuer had 7,160,869 shares of common stock issued and outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

RESONANT INC.

Condensed Consolidated Balance Sheets

(Unaudited)

	December 31, 2014	March 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,803,000	$ 2,925,000
Prepaid expenses and other current assets	106,000	106,000
Investments held-to-maturity	7,999,000	8,994,000
TOTAL CURRENT ASSETS	13,908,000	12,025,000
PROPERTY AND EQUIPMENT		
Fixed assets	1,249,000	1,312,000
Less: Accumulated depreciation and amortization	(208,000)	(313,000)
PROPERTY AND EQUIPMENT, NET	1,041,000	999,000
NONCURRENT ASSETS		
Patents and domain names, net	500,000	616,000
Restricted cash		100,000
Other assets	15,000	15,000
TOTAL NONCURRENT ASSETS	515,000	731,000
TOTAL ASSETS	$ 15,464,000	$ 13,755,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 223,000	$ 408,000
Accrued expenses	146,000	21,000
Accrued salaries and payroll related expenses	315,000	374,000
Deferred rent, current portion	36,000	36,000
TOTAL CURRENT LIABILITIES	720,000	839,000
LONG-TERM LIABILITIES		
Deferred rent	54,000	45,000
TOTAL LIABILITIES	774,000	884,000
Commitments and contingencies (Note 7)		
STOCKHOLDERS EQUITY		

Common stock, $0.001 par value, 47,000,000 authorized and 6,931,984 outstanding as of December 31, 2014, and 7,158,276 outstanding as of March 31, 2015		7,000		7,000
Preferred stock, $0.001 par value, 3,000,000 authorized and none outstanding as of December 31, 2014 and March 31, 2015				
Additional paid-in capital		35,880,000		36,289,000
Accumulated deficit		(21,197,000)		(23,425,000)
TOTAL STOCKHOLDERS EQUITY		14,690,000		12,871,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	15,464,000	$	13,755,000

See Accompanying Notes to Condensed Consolidated Financial Statements

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RESONANT INC.

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2015
REVENUES	$	$
OPERATING EXPENSES		
Research and development expenses	435,000	997,000
General and administrative expenses	522,000	1,127,000
Depreciation and amortization	13,000	111,000
TOTAL OPERATING EXPENSES	970,000	2,235,000
OPERATING LOSS	(970,000)	(2,235,000)
OTHER INCOME (EXPENSE)		
Interest and investment income		8,000
Interest expense	(709,000)	
Fair value adjustments to warrant and derivative liabilities	(2,267,000)	
TOTAL OTHER INCOME (EXPENSE)	(2,976,000)	8,000
LOSS BEFORE INCOME TAXES	(3,946,000)	(2,227,000)
Provision for income taxes	(1,000)	(1,000)
NET LOSS	$ (3,947,000)	$ (2,228,000)
NET LOSS PER SHARE - BASIC AND DILUTED	$ (3.95)	$ (0.31)
Weighted average shares outstanding basic and diluted	**999,999**	**7,077,789**

See Accompanying Notes to Condensed Consolidated Financial Statements

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RESONANT INC.

Condensed Consolidated Statements of Stockholders Equity

For The Three Months Ended March 31, 2015

(Unaudited)

	Common Stock				Additional Paid-in		Accumulated		Total Stockholders
	Shares		Amount		Capital		Deficit		Equity
Balance, December 31, 2014	6,931,984	$	7,000	$	35,880,000	$	(21,197,000)	$	14,690,000
Issuance of common stock for compensation	18,108								
Stock-based compensation					440,000				440,000
Exercise of warrants, cashless	208,184								
Tax withholding on net issuance of common stock for-compensation					(31,000)				(31,000)
Net loss							(2,228,000)		(2,228,000)
Balance, March 31, 2015	7,158,276	$	7,000	$	36,289,000	$	(23,425,000)	$	12,871,000

See Accompanying Notes to Condensed Consolidated Financial Statements

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RESONANT INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2015	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Loss	$	(3,947,000)	$	(2,228,000)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		13,000		111,000
Amortization of deferred finance costs		709,000		
Stock-based compensation				440,000
Non-cash investment income				(6,000)
Fair value adjustments to warrant and derivative liabilities		2,267,000		
Changes in assets and liabilities:				
Prepaids and other current assets		45,000		
Accounts payable		99,000		185,000
Accrued expenses		(57,000)		(125,000)
Accrued compensation		62,000		59,000
Deferred rent				(9,000)
Net cash used in operating activities		(809,000)		(1,573,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures		(150,000)		(64,000)
Expenditures for patents and domain names		(47,000)		(121,000)
Purchase of restricted cash investment				(100,000)
Sale of investment held-to-maturity				8,000,000
Purchase of investments held-to-maturity				(8,989,000)
Net cash used in investing activities		(197,000)		(1,274,000)
CASH FLOWS FROM FINANCING ACTIVITIES				
Deferred IPO cost		(218,000)		
Payment of tax withholdings on net issuance of common stock for compensation				(31,000)
Net cash used in financing activities		(218,000)		(31,000)
NET DECREASE IN CASH		(1,224,000)		(2,878,000)
CASH Beginning of period		3,339,000		5,803,000
CASH End of period	$	2,115,000	$	2,925,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Taxes	$	1,000	$	

See Accompanying Notes to Condensed Consolidated Financial Statements

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RESONANT INC.

Notes to Condensed Consolidated Financial Statements

NOTE 1 ORGANIZATION AND DESCRIPTION OF BUSINESS

Overview

Resonant Inc. is a late-stage development company located in Santa Barbara, California. The condensed consolidated statements of operations presented in our condensed consolidated financial statements represent the activities of Resonant Inc. for the three months ended March 31, 2014 and March 31, 2015. The condensed consolidated balance sheets presented in the consolidated financial statements represent the activities of Resonant Inc. as of December 31, 2014 and March 31, 2015.

We are creating innovative filter designs for radio frequency, or RF, front-ends for the mobile device industry. The RF front-end is the circuitry in a mobile device responsible for analog signal processing and is located between the device s antenna and its digital baseband. We use a fundamentally new technology called Infinite Synthesized Networks®, or ISN®, to configure and connect resonators, the building blocks of RF filters. Filters are a critical component of the RF front-end used to select desired radio frequency signals and reject unwanted signals. We are using ISN to develop new classes of filter designs.

We believe licensing our designs is the most direct and effective means of delivering our solutions to the market. Our target customers make part or all of the RF front-end. We intend to retain ownership of our designs, and we expect to be compensated through license fees and royalties based on sales of RF front-end modules that incorporate our designs. We do not intend to manufacture or sell any physical products or operate as a contract design company developing designs for a fee.

We completed our first single-band filter design (a duplexer) in the first quarter of 2015. This project has been our principal focus since inception. We developed the duplexer using commercial product specifications provided under a development agreement with a prospective customer. The customer terminated the formal development agreement in the first quarter of 2015 and informed us that our design did not meet all the specifications. We are continuing work on this project, but the customer has advised us to work through the filter manufacturer. We are collaborating with the filter manufacturer to submit improved designs for consideration by this customer. We are also presenting our design to other prospective customers and providing them with manufactured parts for testing.

In the first quarter of 2015, we started a development project with a second customer for the design of our next single-band RF filter, another duplexer. This duplexer is for a different band than our first duplexer. The goal of the project is to develop a new duplexer design for our customer to market to RF front-end manufacturers and mobile device OEMs. The customer has not committed to use the resulting design and terms of a license have not been finalized.

We are developing a series of tunable filter designs that can be electronically programmed in real time for different RF frequency bands. We began development in the fourth quarter of 2014 of a prototype tunable filter to demonstrate our value proposition to prospective customers. We are in discussions with several prospective customers for the design of tunable filters with the goal of securing a lead customer.

We were founded as Resonant LLC on May 29, 2012 (our inception date). We commenced business on July 6, 2012 with initial contributions from our founders and Superconductor Technologies Inc., or STI. The founders contributed $200,000 and agreed to work full-time without pay until we secured adequate funding. STI contributed a patent portfolio, software, equipment, temporary office space and an early version of the development agreement with our first customer.

The founders loaned us an aggregate of $200,000 during the first quarter of 2013, and we issued a series of warrants to the founders in connection with these loans. We refer to the founder loans as Bridge Loans and the founder warrants as Bridge Loan Warrants. We repaid the Bridge Loans in the second quarter of 2013.

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We changed our form of ownership from a limited liability company to a corporation in an exchange transaction on June 17, 2013. The founders exchanged all of their units and warrants of Resonant LLC for common stock and warrants of Resonant Inc. STI exchanged all of its units of Resonant LLC for a $2.4 million subordinated convertible note of Resonant Inc., or Subordinated Convertible Note. The Subordinated Convertible Note was scheduled to mature on September 17, 2014, was interest free, was secured by all of our assets and was subordinated to our senior convertible notes. This note was converted into common stock in our initial public offering, or IPO.

We closed our first financing on June 17, 2013. We issued $7.0 million of Senior Convertible Notes in a private placement. The notes were to mature on September 17, 2014, bore interest at 6.0% per annum, were secured by all of our assets and would automatically convert into 2,087,667 shares of our common stock upon consummation of a qualified offering. Interest was payable in cash or shares of common stock. We paid a placement agent a commission of $700,000 and issued the agent warrants to purchase 208,763 shares of our common stock at an exercise price of $3.35 per share. We also issued the placement agent a warrant to purchase 222,222 shares of our common stock for business consulting services at an exercise price of $0.01 per share. These notes were converted into common stock in our IPO.

Initial Public Offering

We closed our IPO, of 3,105,000 shares of common stock (which includes the exercise in full by the underwriter of its over-allotment option) at a price of $6.00 per share on June 3, 2014. We received aggregate net proceeds, after deducting underwriting discounts and commissions and estimated offering expenses, of approximately $16.2 million. Our common stock commenced trading on the Nasdaq Capital Market under the symbol RESN on May 29, 2014, or IPO Date. The Securities and Exchange Commission declared effective a registration statement relating to these securities on May 28, 2014.

MDB Capital Group, LLC, or MDB, acted as the sole underwriter for our IPO. Simultaneous with the funding of the IPO, we issued the underwriter a 5-year warrant to purchase 310,500 shares of common stock at an exercise price of $7.50 per share, which we refer to as the Underwriting Warrant. The warrant was not exercisable until November 24, 2014 (180-days from the date of the underwriting agreement).

Our Senior Convertible Notes automatically converted into 2,087,667 shares of common stock effective upon the completion of the IPO. We paid in cash the accrued interest of $404,000. Similarly, our Subordinated Convertible Note automatically converted into 700,000 shares of common stock. There was no accrued interest on this note. The shares issued on conversion of the Senior Convertible Notes were subject to a 180-day lockup which expired November 24, 2014, and the shares issued on conversion of the Subordinated Convertible Note are subject to a 12-month lockup expiring May 28, 2015.

Capital Resources and Liquidity

We have earned no revenue since inception, and our operations have been funded with initial capital contributions, proceeds from the sale of equity securities and debt. We have incurred accumulated losses totaling $23.4 million through March 31, 2015. These losses are primarily the result of research and development costs associated with commercializing our technology, combined with start-up and financing costs. We expect to continue to incur substantial costs for commercialization of our technology on a continuous basis because our business model involves developing and licensing custom filter designs.

Our condensed consolidated financial statements contemplate the continuation of our business as a going concern. However, we are subject to the risks and uncertainties associated with a new business. We do not yet have the ability to earn revenue and have incurred significant losses from operations since inception. At December 31, 2014 and March 31, 2015, we had an accumulated deficit of $21.2 million and $23.4 million, respectively, and cash and cash equivalents of $5.8 million and $2.9 million, respectively. Additionally, as of December 31, 2014 and March 31, 2015, we had $8.0 million and $9.0 million in short-term investments, respectively.

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We completed an IPO in the second quarter of 2014 to raise additional capital. Our principal sources of liquidity consist of existing cash balances and investments of $11.9 million. We believe our current resources will provide sufficient funding for planned operations into the first half of 2016. If we do not generate adequate cash from revenues in 2016 in order to reach positive cash flows, we likely will be required to obtain additional financing to continue with our plan of commercialization. There is no assurance that additional financing will be available on acceptable terms or at all. If we issue additional equity securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise any needed funds, we might be forced to make substantial reductions in our operating expenses, which could adversely affect our ability to implement our business plan and ultimately our viability as a company.

The accompanying condensed consolidated financial statements at March 31, 2015 and for the three months ended March 31, 2014 and 2015 are unaudited, but include all adjustments, consisting of normal recurring entries, that management believes to be necessary for a fair presentation of the periods presented. Prior period figures have been reclassified, wherever necessary, to conform to current presentation. Interim results are not necessarily indicative of results for a full year. Balance sheet amounts as of December 31, 2014 have been derived from our audited consolidated financial statements as of that date.

The condensed consolidated financial statements included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, have been condensed or omitted pursuant to such rules and regulations. The financial statements should be read in conjunction with our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2014. Our operating results will fluctuate for the foreseeable future. Therefore, period-to-period comparisons should not be relied upon as predictive of the results in future periods.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates The accompanying financial statements have been prepared in accordance with U.S. GAAP. In the opinion of management, all adjustments (consisting of normal accruals) considered for a fair presentation have been included. Significant estimates made in preparing these financial statements include (a) assumptions to calculate the fair values of financial instruments, derivative, warrants and equity instruments and other liabilities and the deferred tax asset valuation allowance and (b) the useful lives for depreciable and amortizable assets. Actual results could differ from those estimates. In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair presentation, have been included.

Reclassifications Certain amounts in the condensed consolidated statement of operations for the three months ended March 31, 2014 have been reclassified to conform to the current year presentation.

Restricted Cash Restricted cash at March 31, 2015 represents cash held within a certificate of deposit with a financial institution which serves as collateral for our corporate credit cards. The restriction on the cash will lapse in conjunction with the expiration of the use of the corporate credit cards. There was no restricted cash as of December 31, 2014.

Investments Securities held-to-maturity: Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each statement of financial position date. Investment/Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in investment income. Interest on securities classified as held-to-maturity is included in investment income.

With respect to debt securities, when the fair value of a debt security classified as held-to-maturity or available for sale is less than its amortized cost, management assesses whether or not: (i) we have the intent to sell the security or (ii) it is more likely than not that we will be required to sell the security before its anticipated recovery. If either of these conditions is met, we must recognize an other-than-temporary impairment earnings for the difference between the debt security s amortized cost basis and its fair value, and includes such amounts in net securities gains (losses).

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For debt securities that do not meet the above criteria and are not expected to be recovered at the amortized cost basis, the security is considered other-than-temporarily impaired. For these debt securities, we separate the total impairment into the credit loss component and the amount of the loss related to other factors. In order to determine the amount of the credit loss for a debt security, we calculate the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows management expects to recover. The discount rate is the effective interest rate implicit in the underlying debt security. The amount of the total other-than-temporary impairment related to credit loss is recognized in earnings and is included in net securities gains (losses). The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income. For debt securities that have recognized as other-than-temporary impairment through earnings, if through subsequent evaluation there is a significant increase in the cash flow expected, the difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

During January and February 2015, we invested in debt securities and federally insured certificates of deposit that we have classified as held-to-maturity as we currently meet the criteria for this investment classification. As of March 31, 2015, the amortized cost value is $9.0 million with an unrealized loss of $4,000 and a fair value of $9.0 million. The investments mature in various increments beginning in May 5, 2015 through February 26, 2016. Investments representing $6 million are foreign debt securities of which $2 million each mature on May 5, 2015, August 3, 2015 and October 22, 2015, respectively. The remaining $3 million in held-to-maturity investments are in federally insured certificates of deposit that mature at various amounts from February 5, 2016 through February 25, 2016. We have not recognized an other-than-temporary impairment gain or loss or a comprehensive gain or loss to-date. We have recorded investment income of $6,000 for the three months ended March 31, 2015 associated with these investments. There were no investment securities as of March 31, 2014.

Fair Value of Financial Instruments We measure certain financial assets and liabilities at fair value based on the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The carrying amounts of our financial instruments, including cash equivalents, accounts payable, and accrued liabilities, approximate fair value due to their short maturities.

The carrying amount of our warrant liabilities and our derivative liability related to the Senior Convertible Notes were marked to market each reporting date until the warrants and derivative liability were settled. Prior to the IPO Date, the fair value of the financing warrant liability and derivative liability (*see Note 3 and Note 4*) were estimated using a Monte Carlo option-pricing model, which takes into consideration the market values of comparable public companies, considering among other factors, the use of multiples of earnings, and adjusted to reflect the restrictions on the ability of our securities to trade in an active market. As of the IPO Date, the fair value of the remaining warrants and the financing warrant liability and derivative liability, were estimated using a Black-Scholes option valuation technique as it embodies all of the requisite assumptions (including trading volatility, remaining term to maturity, market price, strike price, and risk free rates) necessary to fair value these instruments. Estimates of expected term were based on the estimated time to expiration. The risk-free interest rate was based on the U.S. Treasury yield for a term consistent with the estimated expected term. We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero. Our expected volatility was derived from the historical volatilities of several public companies in similar industries because we have limited information on the volatility of the price of our common stock because we have no trading history. When making the selections of our industry peer companies to be used in the volatility calculation, we consider operational area, size, business model, industry and the business of potential comparable companies. These historical volatilities are weighted based on certain qualitative factors and combined to produce a single volatility factor. All of the warrant liabilities and the derivative liability are valued using level 3 inputs (*see Note 6 for the range of assumptions used*).

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Prior to the IPO Date, the determination of the value of our common stock, and for purposes of establishing the value of the warrants and derivatives related to the bridge financing, the senior convertible notes, the subordinated convertible notes and the consulting warrants, management considered several factors and the probability of achieving each one of them. The significant factors were (1) securing adequate funding to complete the single-band commercial surface acoustic wave, or SAW, duplexer design under the terms of the development agreement with our first customer; (2) developing a working duplexer product that meets the specifications of our first customer; and (3) our first customer exercising its licensing option if the duplexer product met its specifications. The probabilities for achieving each of these factors changed during the periods from January 31, 2013 to June 16, 2013 and December 31, 2013. These probabilities were affected by our ability to hire technical personnel to develop the technology and design the product, establish a management team to develop a business plan, secure financing, execute the business plan, and interact with our first customer to achieve the milestones contained in the development agreement with them. As we made progress in each of these areas over the period from January 31, 2013 through December 31, 2013 the probability elements in each of these factors changed and increased. These increases resulted in higher valuations of our common stock and accordingly the values of the warrants and derivatives at each of these periods. Following the IPO Date, we used the current market value of our common stock to assist in determining the value of the warrants and stock options using the Black-Scholes option valuation model.

Cash and Cash Equivalents We consider all liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk We maintain checking accounts at one financial institution. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per account. Management believes we are not exposed to significant credit risk due to the financial position of the depository institution in which these deposits are held.

Property and Equipment Property and equipment consists of leasehold improvements associated with our new corporate office, software purchased during the normal course of business, computer equipment and office furniture and fixtures, all of which are recorded at cost. Depreciation and amortization is recorded using the straight-line method over the respective useful lives of the assets ranging from three to five years. Long-lived assets, including software are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable.

Intangible Assets Subject to Amortization At December 31, 2014 and March 31, 2015, intangible assets subject to amortization include patents and a domain name purchased for use in operations. Intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable.

Deferred Finance Costs Costs relating to our senior convertible note and subordinated convertible note financings were capitalized and amortized over the term of the related debt using the effective interest method. Due to the conversion of these notes to common stock in connection with the IPO, the unamortized deferred finance costs of $358,000 were fully expensed as of the IPO Date. Amortization of deferred financing costs, including the write-off due to the conversion, were charged to interest expense and totaled $51,000 for the three months ended March 31, 2014. There were no deferred financing costs for the three months ended March 31, 2015.

Research and Development Costs and expenses that can be clearly identified as research and development are charged to expense as incurred in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 730-10, *Research and Development*.

Stock-Based Compensation We account for employee stock options in accordance with ASC Topic 718, *Compensation-Stock Compensation*. For stock options issued to employees and directors we use the Black-Scholes option valuation model for estimating fair value at the date of grant. For stock options issued for services rendered by non-employees, we recognize compensation expense in accordance with the requirements of ASC 505-50*, Equity*, or ASC 505-50, as amended. Non-employee option grants that do not vest immediately upon grant are recorded as an expense over the vesting period. At the end of each financial reporting period prior to performance, the value of these options, as calculated using the Black-Scholes option valuation model, is determined, and compensation expense recognized or recovered during the period is adjusted accordingly. Since the fair market value of options granted to non-employees is subject to change in the future, the amount of the future compensation expense is subject to adjustment until the common stock options or warrants are fully vested.

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We account for restricted stock units issued to employees at fair value, based on the market price of our stock on the date of grant, net of estimated forfeitures. Compensation expense is recognized for the portion of the award that is ultimately expected to vest over the period during which the recipient renders the required services to the Company generally using the straight-line single option method. The fair value of non-employee restricted stock units awarded are remeasured as the awards vest, and the resulting increase in fair value, if any, is recognized as compensation expense in the period the related services are rendered.

Earnings Per Share, or EPS EPS is computed in accordance with ASC Topic 260, *Earnings per Share*, and is calculated using the weighted average number of common shares outstanding during each period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents unless the effect is to reduce a loss or increase the income per share. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options (using the treasury stock method), the exercise and/or conversion of our convertible notes and warrants (using the if-converted method).

The following table presents the number of anti-dilutive shares excluded from the calculation of diluted net loss per share attributable to common stockholders for the periods below:

	Three Months Ended March 31,	
	2014	**2015**
Common stock warrants	680,984	804,436
Common stock options		546,200
Convertible debt	2,787,667	
Total shares excluded from net loss per share attributable to common stockholders	3,468,651	1,350,636

Derivative Instruments We account for free-standing derivative instruments and hybrid instruments that contain embedded derivative features in accordance with ASC Topic 815, *Accounting for Derivative Instruments and Hedging Activities*, or ASC 815, as well as related interpretations of this topic. In accordance with this topic, derivative instruments and hybrid instruments are recognized as either assets or liabilities in the balance sheet and are measured at fair values with gains or losses recognized in earnings. Embedded derivatives that are not clearly and closely related to the host contract are bifurcated and are recognized at fair value with changes in fair value recognized as either a gain or loss in earnings. We determined the fair value of derivative instruments and hybrid instruments based on available market data using appropriate valuation models, giving consideration to all of the rights and obligations of each instrument.

We estimated the fair values of derivative instruments and hybrid instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective of measuring fair values. In selecting the appropriate technique, we considered, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex instruments, such as free-standing warrants, we generally used the Black-Scholes option valuation model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk free rates) necessary to fair value these instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. Under ASC 815, increases in the trading price of our common stock and increases in fair value during a given financial quarter result in the application of non-cash derivative expense. Conversely, decreases in the trading price of our common stock and decreases in fair value during a given financial quarter would result in the application of non-cash derivative income. In situations where the Black-Scholes option valuation model was not deemed appropriate, we used a Monte Carlo option-pricing model to determine the fair value of derivative instruments.

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Income Taxes We account for income taxes in accordance with ASC Topic 740, *Income Taxes*, or ASC 740, which requires the recognition of deferred tax assets and liabilities for the future consequences of events that have been recognized in our condensed consolidated financial statements or tax returns. The measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and the tax bases of our assets and liabilities result in a deferred tax asset, ASC 740 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or the entire deferred tax asset will not be realized. As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax expense in each of the jurisdictions in which we operate. We also assess temporary differences resulting from differing treatment of items for tax and accounting differences. We record a valuation allowance to reduce the deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. For the period when we were organized as a limited liability company, we were treated as a partnership for federal and state income tax purposes under the entity classification domestic default rules. As of December 31, 2014 and March 31, 2015, no liability for unrecognized tax benefits was required to be reported. We recognize interest and penalties related to income tax matters in income taxes, and there were none for the three months ended March 31, 2014 and March 31, 2015, respectively.

We have filed, or are in the process of filing, tax returns that are subject to audit by the respective tax authorities. Although the ultimate outcome would be unknown, we believe that any adjustments that may result from tax return audits are not likely to have a material, adverse effect on our consolidated results of operations, financial position or cash flows.

Recent Accounting Pronouncements

We have reviewed all of the recent accounting pronouncements and have determined that they have not or will not have a material impact on our condensed consolidated financial statements, or do not apply to our operations.

NOTE 3 BRIDGE LOANS, MEMBER LOAN AND CONVERTIBLE DEBT

Senior Convertible Note

We entered into a securities purchase agreement on June 17, 2013 for the sale to multiple investors of $7.0 million in principal amount of senior secured convertible promissory notes, which we refer to as Senior Convertible Notes. MDB served as placement agent in this financing. We closed the sale on the same day and issued $7.0 million in principal amount of Senior Convertible Notes. We also paid $700,000 to MDB as a placement agent fee. The net cash proceeds were $6.3 million. We also issued to MDB a warrant to purchase shares of our common stock as consideration for its financing services, and another warrant to purchase shares of our common stock as consideration for business consulting services. The Senior Convertible Notes bore interest at a 6% per annum and were scheduled to mature on September 17, 2014 unless earlier converted.

The conversion feature included in the terms of the Senior Convertible Notes was determined to be a derivative liability that we bifurcated for accounting purposes. We measured the derivative liability at fair value at the issue date of Senior Convertible Notes based on a Monte Carlo option-pricing model and determined the value to be $1.9 million. The derivative liability was recorded with a corresponding debit to debt discount that was amortized as interest expense using the effective interest method over the life of the instrument. At the time of issuance, the

Senior Convertible Notes and derivative liability were recorded on the balance sheet as a long-term note because the notes mature on September 17, 2014 (greater than one year). Upon a Qualified IPO, or other event that results in the conversion of the notes into common stock, a portion of the carrying value of the derivative liability would be accounted for as an extinguishment of debt and any remaining unamortized debt discount would be expensed at such date. At December 31, 2013, the Monte Carlo option-pricing model used the following assumptions to estimate fair value: equity value of $20.0 million, different conversion prices for different scenarios, time to maturity of 9-15 months under the scenarios based on the expected date of a Qualified IPO, volatility of 102.1% and risk free rate of 0.19%. As noted above, in connection with the Senior Convertible Notes and as a result of the warrants issued to MDB as consideration for its placement agent services, we determined that an additional discount to the debt should be recorded in the amount of $300,000, and we were amortizing this amount using the effective interest method over the life of the instrument. The Senior Convertible Notes did not include any financial covenants.

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Upon the completion of the IPO, which was considered a Qualified IPO under the Senior Convertible Note agreement, the Senior Convertible Notes were converted into 2,087,667 shares of common stock as of the date of the IPO and unpaid interest of $404,000 was paid from the proceeds of the IPO. Interest expense, excluding the unamortized debt discount write-off, was $377,000 for the three months ended March 31, 2014. Due to the completion of the IPO and no debt taken out by us, there was no interest expense for the three months ended March 31, 2015.

Subordinated Convertible Note

On June 17, 2013, we issued to STI a subordinated senior secured convertible note in the principal amount $2.4 million, which we refer to as the Subordinated Convertible Note, as consideration for our acquisition from STI of its 300,000 Class C units of Resonant LLC and 100 shares of our common stock. The Subordinated Convertible Note did not bear interest and was scheduled to mature on September 17, 2014 unless earlier converted.

The Subordinated Convertible Note was non-interest bearing. We considered the effective interest rate of the Subordinated Convertible Note to be at least 11.8% per annum as the Subordinated Convertible Note was subordinated to the Senior Convertible Notes and had greater inherent risk, and, therefore, it should carry a higher interest rate than that of the Senior Convertible Notes. We calculated a discount to the face value of the Subordinated Convertible Note of $300,000, which we recorded as debt discount and were amortizing as interest expense over the life of the Subordinated Convertible Note using the effective interest rate method. The Subordinated Convertible Note did not include any financial covenants.

Upon the completion of the IPO, which was considered a Qualified IPO under the Subordinated Convertible Note agreement, the Subordinated Convertible Note was converted into 700,000 shares of common stock as of the date of the IPO and there was no unpaid interest. Interest expense, excluding the unamortized debt discount write-off, was $53,000 for the three months ended March 31, 2014. Due to the completion of the IPO, there was no interest expense for the three months ended March 31, 2015.

NOTE 4   WARRANT LIABILITIES

From time to time, we and Resonant LLC have issued warrants to purchase shares of common stock and units of membership interest, respectively. These warrants have been issued in connection with the financing transactions and consulting services. Our warrants are subject to standard anti-dilution provisions applicable to shares of our common stock.

Bridge Warrants

In connection with and as an inducement to make the bridge loans in January and March 2013, Resonant LLC issued to each of our three founders five-year warrants to purchase Class B units of Resonant LLC at an exercise price of $0.40 per unit, which we refer to as the Bridge Warrants. The Bridge Warrants were issued in two tranches, at the same time the bridge loan was funded, with each founder receiving warrants for 20,833 Class B units on each of January 31, 2013 (for a total of 62,499 Class B units) and March 19, 2013 (for a total of 62,499 Class B units). The founders paid an aggregate of $1,000 in cash for the Bridge Warrants.

We estimated the initial fair value of the Bridge Warrants issued in January 2013 to be $200,000 using the Black-Scholes option valuation model and the following assumptions: exercise price of $0.40 per unit; implied unit price of $3.75; expected volatility of 60%; expected dividend rate of 0%; risk free interest rate of 0.88%; and expiration date of 5 years. We estimated the initial fair value of the Bridge Warrants issued in March 2013 to be $200,000 using the Black-Scholes option valuation model and the following assumptions: exercise price of $0.40 per unit; implied unit price of $3.60; expected volatility of 60%; expected dividend rate of 0%; risk free interest rate of 0.80%; and expiration date of 5 years. (*See Note 2).*

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On June 17, 2013, in connection with our acquisition of all of the outstanding membership interests of Resonant LLC in an exchange transaction, the founders exchanged their Bridge Warrants to purchase an aggregate of 124,998 Class B units of Resonant LLC for Bridge Warrants to purchase an aggregate of 249,999 shares of our common stock at an exercise price of $0.20 per share. All other terms of the Bridge Warrants remained the same. We revalued the Bridge Warrants on June 17, 2013 to $400,000 using the Black-Scholes option valuation model with the following assumptions: exercise price of $0.20 per share; implied stock price of $3.23; expected volatility of 60%; expected dividend rate of 0%; risk free interest rate of 1.06%; and expiration date of 5 years. At each reporting period up through the IPO Date, any changes to the fair value of the Bridge Warrants were recorded in the condensed consolidated statements of operations.

Consulting Warrant, Financing Warrant and Underwriting Warrant

Upon consummation of our Senior Convertible Note financing, (*see Note 3*), for business consulting services provided by MDB, we issued to MDB a seven-year warrant to purchase 222,222 shares of our common stock at an exercise price of $0.01 per share, which we refer to as the Consulting Warrant. The Consulting Warrant is exercisable six months after the completion of our initial public offering and prior to June 15, 2020. We estimated the initial fair value of the Consulting Warrant to be $700,000 using the Black-Scholes option valuation model with the following assumptions: exercise price of $0.01 per share; implied stock price of $3.23; expected volatility of 68.8%; expected dividend rate of 0%; risk free interest rate of 1.57%; and expiration date of 7 years. (*See Note 2).*

In addition, for placement agent services provided by MDB in connection with our Senior Convertible Note financing, we issued to MDB a seven-year warrant to purchase shares of our common stock, which we refer to as the Financing Warrant. The Financing Warrant is exercisable six months after the completion of our IPO and prior to June 15, 2020. The Financing Warrant is exercisable for a number of shares of our common stock equal to $700,000 divided by the Financing Warrant s exercise price. Prior to consummation of our Qualified IPO, the exercise price is equal to $6,000,000 divided by the Fully Diluted Shares. Upon consummation of our Qualified IPO, the exercise price is adjusted to be equal to the conversion price of our Senior Convertible Notes. As the value of the Financing Warrant depended on future price movements of our equity, we estimated the fair value of the Financing Warrant at December 31, 2013 to be $700,000 using a Monte Carlo option-pricing model with the following assumptions: equity value of $20 million, different conversion prices for different scenarios, time to maturity of 6.5 years, volatility of 65.3% and risk free rate of 2.28%. (*See Note 2).*

In connection with the closing of our IPO, we also issued a third warrant to MDB related to their role as the sole underwriter for our IPO, we refer to this as the Underwriting Warrant. We issued them a 5-year warrant to purchase 310,500 shares of common stock at an exercise price of $7.50 per share. The warrant was not exercisable until November 24, 2014 (180-days from the date of the underwriting agreement) and expires May 28, 2019. We estimated the fair value of the Underwriting Warrant at issuance date to be $901,185 using the Black-Scholes option valuation model with the following assumptions: market price of the stock of $6.00 per share, time to maturity of 5 years, volatility of 63.1%, zero expected dividend rate and risk free rate of 1.5%. (*See Note 2).*

In August 2014 and October 2014, we entered into agreements with our investor relations firm, or IR Firm, and an IR consultant to provide us with investor relations services. Pursuant to the IR Firm agreement, in addition to monthly cash compensation of $8,500 per month, we issued to the IR Firm a 3-year consulting warrant, or IR Consulting Warrant, for the purchase of 42,000 shares of common stock. The IR Consulting Warrant has an exercise price of $8.31 and expires on July 17, 2017. We estimated the fair value of the IR Consulting Warrant at issuance date to be $119,000 using the Black-Scholes option valuation model with the following assumptions: market price of the stock of $6.91 per share, time to maturity of 3 years, volatility of 69.7%, zero expected dividend rate and risk free rate of 0.88%. Pursuant to the IR consultant agreement, in addition to monthly cash compensation of $5,000 per month, we issued to the IR consultant a 4-year consulting warrant, or IR Warrant, for the purchase of 6,000 shares of common stock that vests monthly over twelve months. The IR Warrant has an exercise price of $6.50 and expires on September 30, 2018. We estimated the fair value of the IR Warrant over the three monthly periods of vesting to be $9,000 using the Black-Scholes option valuation model with the following assumptions: market prices of the stock of $6.00 - $11.62 per share, time to maturity of

3.8 to 3.5 years, volatility of ranges of 60.0% to 81.8%, zero expected dividend rate and risk free rate range of 0.95% to 1.5%. We recorded $39,000 of stock-based compensation related to the IR warrants during the three months ended March 31, 2015 which was included in general and administration expense.

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A roll-forward of warrant share activity from January 1, 2014 to December 31, 2014 is shown in the following table:

	Issued and Outstanding Warrants as of January 1, 2014	Warrants Issued	Warrants Exercised/ Expired	Issued and Outstanding Warrants as of December 31, 2014
Bridge Warrants	249,999			249,999
Consulting Warrant	222,222			222,222
Financing Warrant(1)	208,763			208,763
Underwriting Warrant		310,500		310,500
IR consulting warrants		48,000		48,000
	680,984	358,500		1,039,484

A roll-forward of warrant share activity from January 1, 2015 to March 31, 2015 is shown in the following table:

	Issued and Outstanding Warrants as of January 1, 2015	Warrants Issued	Warrants Exercised/ Expired	Issued and Outstanding Warrants as of March 31, 2015
Bridge Warrants	249,999			249,999
Consulting Warrant	222,222		(104,444)(2)	117,778
Financing Warrant(1)	208,763		(130,604)(2)	78,159
Underwriting Warrant	310,500			310,500
IR consulting warrants	48,000			48,000
	1,039,484		(235,048)	804,436

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(1) The number of shares of common stock underlying the Financing Warrant was determined using an exercise price of $3.35 per share, assuming the IPO price of our common stock in a Qualified IPO would be at least $5.59 per share. Upon completion of the IPO with a price of $6.00 per share, the number of shares was considered unchanged and final.

(2) During the three months ended March 31, 2015, there were 235,048 common stock warrants were exercised through a cashless exercise which netted 208,184 shares being issued.

The fair value of the Bridge, Consulting, Financing and Underwriting warrant liabilities was $3.9 million at March 31, 2014. Due to the expiration of the redemption and put option features included in these warrants, the warrants are no longer included as liabilities after the IPO Date. During the three months ended March 31, 2014, we recorded a loss of $600,000 for the change in fair value of the warrants. There was no expense for the three months ended March 31, 2015.

For periods prior to the IPO Date, we used the Monte-Carlo option pricing model which takes into consideration the historical volatilities of comparable public companies using data from Capital IQ and implied volatiles from Bloomberg considering the differences in size among the public companies and us, and the warrant s time to expiration. Estimates of expected term were based on the estimated time to expiration. The risk-free interest rate was based on the U.S. Treasury yield for a term consistent with the estimated expected term. The Monte-Carlo model used daily steps, assuming 252 trading days per year, which was based on 52 weeks of 5 trading days less 8 holidays, a standard assumption in the industry.

NOTE 5 STOCK-BASED COMPENSATION

2014 Omnibus Incentive Plan

In January 2014, our board of directors approved the 2014 Omnibus Incentive Plan and amended and restated the plan in March 2014. Our stockholders approved the Amended and Restated 2014 Omnibus Incentive Plan, or the 2014 Plan, in March 2014. Our 2014 Plan permits for the issuance of equity based instruments covering up to an initial total of 1,400,000 shares of common stock.

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Option Valuation

We have computed the fair value of options granted to employees and non-employees using the Black-Scholes option valuation model. The compensation costs of non-employee arrangements are subject to re-measurement at each reporting period over the vesting terms as earned. Option forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate will be adjusted periodically based on the extent to which actual option forfeitures differ, or are expected to differ, from the previous estimate, when it is material. The expected term used for options issued to non-employees is the contractual life and the expected term used for options issued to employees is the estimated period of time that options granted are expected to be outstanding. We have estimated the expected life of our employee stock options using the simplified method, whereby, the expected life equals the arithmetic average of the vesting term and the original contractual term of the option due to our lack of sufficient historical data. Since our stock has not been publicly traded for a sufficiently long period of time, we are utilizing an expected volatility figure based on a review of the historical volatilities, over a period of time, equivalent to the expected life of the instrument being valued, of similarly positioned public companies within our industry. The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued.

Stock Options to Employees and Consultants

During the three months ended March 31, 2015, we granted incentive stock options for the purchase of 55,000 shares of our common stock to our employees. The options have an exercise price range of $7.54 per share to $12.98 per share with a term of ten years. The options vest quarterly over sixteen quarters. The options granted had an aggregate grant date fair value of $328,000 utilizing the Black-Scholes option valuation model.

We estimated the fair value of stock options awarded during the three months ended March 31, 2015 using the Black-Scholes option valuation model. There were no stock options granted as of March 31, 2014. The fair values of stock options granted for the period were estimated using the following assumptions:

	Option Grants Awarded During the Three Months Ended March 31, 2015
Stock Price	$7.54 to $12.98
Dividend Yield	0%
Expected Volatility	60%
Risk-free interest rate	1.44% - 1.77%
Expected Life	7 years

Stock-based compensation expense related to stock options for employees and consultants was $108,000 and $19,000, respectively, for the three months ended March 31, 2015 and there was no stock-based compensation expense for the three months ended March 31, 2014 since no stock options or restricted share units had been issued during the period. We are also required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from our estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. To the extent that actual forfeitures differ from our estimates, the difference is recorded as a cumulative adjustment in the period the estimates were revised. For the three months ended March 31, 2015, there was no forfeiture rate applied as there have not been any forfeitures since the grant of awards nor currently do we expect to incur any for those shares currently awarded.

For stock options paid in consideration of services rendered by non-employees, we recognize compensation expense in accordance with the requirements of ASC 505-50.

Non-employee option grants that do not vest immediately upon grant are recorded as an expense over the vesting period. At the end of each financial reporting period prior to performance, the value of these options, as calculated using the Black-Scholes option valuation model, is determined, and compensation expense recognized or recovered during the period is adjusted accordingly. Since the fair market value of options granted to non-employees is subject to change in the future, the amount of the future compensation expense is subject to adjustment until the common stock options are fully vested.

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Stock Option Award Activity

There were no stock options issued as of March 31, 2014. The following is a summary of our stock option activity during the three months ended March 31, 2015:

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Life In Years	Total Grant Date Fair Value
Outstanding, January 1, 2015	491,200	$ 6.29	$ 4.14	9.17	$ 2,034,000
Granted	55,000	10.10	5.97	10.00	328,000
Exercised					
Forfeited					