Scientific Learning®

Quarterly Report
March 31, 2018

www.scilearn.com

2018 Q1 Chairman Letter

Scientific Learning is off to a strong start in 2018. Total sales grew 43% for Q1 2018 as compared to Q1 2017. All four of our sales channels, including K-12, Consumer, International, and Private Provider realized growth in Q1 2018. Although Q1 continues to be our smallest sales quarter, it remains an important time period for K-12 marketing as K-12 budgets are finalized around the United States and Canada. We attribute this growth to a variety of factors, including broader understanding of our unique solutions, decision makers placing greater importance on evidence-based solutions, as well as continued growth from Fast ForWord® Home (consumer channel).

We continue to concentrate our strategic focus on learners with the most urgent needs (English Language Learners, Special Education, and students of poverty). This more segmented targeting allows us to better align with our audiences and decision makers. We hosted four successful conferences: an in-person brain seminar with Eric Jensen, a conference for our International Value Added Partners, and, our annual user conferences targeting both our K-12 customers and our clinical partners combined. We also continue to generate momentum through our free trial program, which we revamped last year.

BrainMaps Acquisition

Our licensee in China, BrainMaps, continues to grow at a rapid pace. At yearend 2017, BrainMaps had 69 centers under contract. At the end of Q1 2018, BrainMaps added another 13 centers, for a total of 82 centers under contract, and a solid pipeline of an additional 9 centers under LOI that are expected to close in the next quarter. During the first quarter of 2018, BrainMaps achieved 100% growth in revenue over the first quarter of 2017. BrainMaps uses a unique online to offline (O2O) model to deliver English language instruction to the world's largest English Language Learning market, which is growing at over 10% per year.

As released previously, Scientific Learning has a definitive agreement in place to acquire BrainMaps. This strategic acquisition will add another growth engine to our company and provide BrainMaps with more capital and development expertise.

The acquisition of BrainMaps is contingent upon obtaining the necessary financing, board of directors' approval and shareholder approval, among other conditions. As with many strategic initiatives, the company is limited in its disclosure abilities. We continue to believe that we are making progress by working with potential investors and Tyton Partners, our exclusive financial advisor assisting us with the transaction.

By combining Scientific Learning's established intellectual property and BrainMap's O2O blended learning model, the Company will be able to help Chinese learners practice their English and receive digital, real-time corrective feedback, help with pronunciations, and word definitions. Our solutions are used in the home by Chinese learners to learn and acquire English language and cognitive skills, and in the centers one day a week where Chinese teachers deliver aligned lesson plans, lead project based learning activities, and build strong relationships with the learners and their families. BrainMaps is able to advance Chinese learners from no English to English proficiency in as little as three years. Our current target audience consists of learner's ages 5 to 12 years with plans to reach younger students as well as adolescents in the future.

Q1 2018 Results

In Q1, we experienced 43% sales growth compared to Q1 2017. We made progress in executing important elements of our strategic and operating plan, in particular accelerated investment in our products critical to both our China and domestic plans. Our subscription revenue grew 6% for the quarter compared to 2017, led by growth in K-12 and Consumer subscription sales. In addition, our other business segments experienced 20% sales growth, driven by 34% sales growth in our Fast ForWord Home (Consumer) business segment.

The first quarter sales increase is attributed to K-12 with both new business and renewal sales showing significant growth with total K-12 sales up 51% and Fast ForWord Home's rapid growth with sales up 34% compared to Q1 2017. K-12 new business sales increased 36% from Q1 2017, with over 50% increase in Free Trial conversions, demonstrating success in marketing and selling to new districts. Renewal sales increase of 75% was driven by a large 2-year early renewal and a few delays from Q4 2017. Our lead generation engine showed continued demand in K-12 with a 30% increase in priority leads in the first quarter compared to the same quarter last year. In the Consumer channel, new leads increased 88% compared to the first quarter of 2017, while the cost per lead improved 67%.

New Fast ForWord Will Be a Catalyst for Growth

Our Development and Product Management teams are working fervently towards a much anticipated release of the first new Fast ForWord products this summer. Working with our founding neuroscientists and partnering with Dr. Derek Lomas, CEO & Chief Learning Scientist of Playpower Labs, we used learner data and customer feedback to create an intervention that is more engaging for students, and easier for educators. The new Fast ForWord includes Smart Learning Technology, which is a highly adaptive, always improving intelligence that knows when a student is struggling, provides real-time instruction right when the student needs it, and allows us to continuously improve the program for educators and their students. Preliminary demonstrations at our two user conferences in the spring were extremely well received and have caused a buzz around the anticipated release. We expect the vastly improved New Fast ForWord to be the catalyst for growth needed to fulfill our long-term strategic plan, attracting new customers and sustaining existing users for longer periods.

K-12 Free Trial Program Continues to Succeed

Since starting our first ever free trial program in September 2015, we have seen tremendous response in registrations from new districts and schools with over 6,000 requests. This well executed marketing program is allowing additional K-12 educators to observe the power of Fast ForWord firsthand to quickly impact students' academic performance as well as their behavior. This innovative program generated $1.3 million in new sales in 2017 and $0.2 million in Q1 2018. We expect these trials to continue to play a major role in attracting new districts and schools to our remarkable and unique learning innovations and contribute to K-12 new sales in 2018.

New Co-CEO Jeff Thomas

During the quarter, Jeff Thomas joined Scientific Learning as Co-CEO. Jeff is a 10-year Scientific Learning Board member and has served as Lead Independent Director since 2010. He is an accomplished CEO with experience in China, education, and growth companies, amongst other things. Jeff continues to lead the China Team initiative and is increasingly becoming engaged in the day-to-day operations of our domestic business with Bob Bowen and our senior Leadership Team.

K-12 Funding Environment Continues to be Stable and Anticipate Increases in 2018-2019 School Year

The U.S. K-12 funding environment continues to be positive for most states and federal funding in core programs like Title I and IDEA will increase in the 2018-19 school year. We are pleased that the Every Student Succeeds Act (ESSA) was re-authorized and maintains its concentration on subgroups that include our focus areas of Special Education, ELL and students of poverty. As ESSA moves to the implementation phase over the next two years, School Districts will need to begin to address subgroup accountability and underperforming schools will be required to implement evidence-based interventions like Fast ForWord. This generally improved environment is evident in our pipelines, which continue to be solid with improving quality as our sales organization matures and our marketing programs continue to be focused in English Language Learning, Special Education, and students of poverty. Additionally, our message of FAST and ENDURING results is gaining traction because of its uniqueness and the exceptional research that allows us to make this claim. We are also gaining traction with our messaging on poverty and the dramatic results our district partners are producing over numerous years. Our message is supported by a tremendous number of independent neuroscience research studies as well as more research gaining national attention on the impact of poverty on the brain. We are finding that educational leaders and teachers are very interested in examining our solution in the context of poverty and exploring how cognitive interventions help these students close the achievement gap rapidly by quickly improving foundational skills. Additionally, Dr. Eric Jensen's advocacy is also bringing attention and credibility to our unique and innovative solutions.

Consumer Segment Achieves Double Digit Growth

We are extremely pleased that our consumer segment (Fast ForWord Home), which is focused on selling directly to parents, continues to outperform expectations and has now demonstrated consistent growth over many years. These parents have children who are struggling in school and typically have some form of a learning disability. We provide these parents with a service that includes Fast ForWord and an experienced educational consultant to work online with parents in understanding the learning issues and most importantly, the appropriate and consistent use of Fast ForWord. This segment continues to attain double digit sales growth and achieved record sales for a first quarter with 34% growth over last year. We are very pleased with these exceptional sales results and expect the segment to continue on a similar trajectory for the full year. The rapid growth in the segment is demonstrating the unmet need and frustration among these parents. We invested in a new ecommerce system that now allows us the capacity to offer more flexible pricing, expanding the market as well as providing lower cost follow-on subscriptions after the initial four to six months of intense intervention. These follow-on subscriptions will provide the families and learners with full access to the entire libraries of Reading Assistant, allowing the students to continue to build their cognitive capacity and resilience as academic rigor grows across grades.

As previously mentioned, both our domestic strategic and operating plans continue to focus on the students who are not prepared to fully participate in a rigorous academic environment. These are primarily students with specific learning disabilities, autism, dyslexia, students of poverty, and/or English Language Learners. Our solutions produce fast and enduring results among these students who are most in need of help. Additionally, our non-K-12 segments (Consumer/Fast ForWord Home, International, and Private Provider) are focused on these same students, producing important alignment across each of our targeted market segments. We are working hard to execute our plan, and have demonstrated progress in many areas in the first quarter, and due to the seasonal nature of our business we still have our most significant quarters ahead. In the K-12 segment, our plan continues to be concentrated on entering new districts, aided by our free trial initiative, targeting students with the greatest need, proving the efficacy of our solutions, and then expanding. We believe this focus will keep our K-12 business on a growth path for the 2018 fiscal year. As always, Q2 results will very much depend on the amount of year-end money available to districts. We continue to be positive about the year and our pipelines, expecting to realize the majority of our growth in Q3, which is consistent with our history. Of course, our cash generation also occurs in the back half of the year. Meanwhile, we continue to work diligently on raising the capital to complete the acquisition of BrainMap's, aiding in the acceleration of their rapid growth in the World's largest English Language Learning market.

Financial Highlights:

- Booked sales for the first quarter of 2018 were $2.6 million compared to $1.8 million in the first quarter of 2017.

    - K-12 booked sales were $2.0 million for the first quarter of 2018, an increase of 51% as compared to the first quarter of 2017. The overall increase in sales is mostly attributable to increasing new sales activity and the renewal of a few delayed transactions from Q4 2017 and a large 2-year renewal pulled forward from Q2. We are anticipating a return to growth in K-12 in 2018.

    - Non-K-12 booked sales increased 20% for the first quarter of 2018 compared to the first quarter of 2017. This increase was due predominantly to continued growth in the Consumer business. We are expecting this segment to continue double digit growth throughout 2018.

- Revenue decreased for the first quarter by 1% compared to the first quarter of 2017, driven by lower corresponding support revenue for perpetual licenses as we continue to shift our to recurring revenue, and slightly lower on-site service deliverables. Subscription revenues were up 6% and now account for 50% of total revenue as of March 31, 2018 compared to 47% in the first quarter of 2017.

- Operating loss in the first quarter was $0.2 million compared to operating income of $0.1 million in the first quarter of 2017, driven by decrease in revenue, increased depreciation and continued investment in research and development in 2018. Also, the first quarter of 2018 included over $0.1 million in transaction expenses related to the acquisition of BrainMaps. Operating loss without these expenses would have been $0.1 million for the first quarter. We expect to incur acquisition related transaction expenses during the first six months of 2018.

- Net loss in the first quarter of 2018 was $0.7 million compared to a net loss of $0.2 million in the first quarter of 2017. The increase in the loss is primarily due to a higher valuation charge related to the outstanding commons stock warrants, which was charged to interest expense during the quarter.

- We finished the quarter with $2.6 million in cash compared to $1.0 M at the end of the first quarter in 2017. Also, in January 2018 we sold 2.9 million shares of common stock in a private transaction for aggregate proceeds of $1.8 million. We anticipate that this equity raise will be sufficient to cover future transaction expenses related to the China transaction.

- During January 2018, the company implemented the new revenue recognition guidance ASC 606. The majority of the impact of this new standard was on the accounting of our perpetual license sales. Under the previous accounting standard, the company recognized perpetual license sales up front as license revenue. The new standard requires that we recognize the perpetual sales over our average customer life, which is 43 months. In addition, the new standard requires that we capitalize commission costs associated with perpetual sales and amortize those costs over the average customer life. According to the standard, the company adjusted the full year 2017 results on a full retrospective basis. The results presented herein reflect the revenue as if it was accounted for using the new standard during 2017. The overall impact on the financials was an increase in 2017 revenue, offset by higher commission costs. See notes to our financial statements for further information.

We remain convinced that Scientific Learning has the necessary ingredients for success. While the transition of the business model to a more recurring revenue model had its bumps, we are persuaded we have taken the important actions required to establish a consistent and predictable growth path for the future. We have a suite of unique, patented learning innovations that produce fast and lasting results. These solutions are now delivered on our robust on-demand platform anytime, anywhere, and we continue to invest in the development of new, better, faster, and smarter generations of our products. We are serving markets with urgent need and growing accountability requirements while completing plans to acquire BrainMaps. We have talented, dedicated employees committed to our important work. We have significantly reduced and aligned our cost structures to fit our transformation of the business model. Customer satisfaction is up, and more students each day are accessing our solutions on mobile technology as well as using more flexible protocols. We have and continue to take the necessary action to strengthen our balance sheet. We must continue to improve sales productivity through the expansion of our existing customers; continuing to improve our renewal rate; and adding more new school districts. We are very optimistic about the future.

Attached to this letter are our financial statements for the period ending March 31, 2018, as well as the disclosures according to the OTC Disclosure guidelines.

Your continued interest and support is most appreciated.

Robert C. Bowen
Chairman and Co-Chief Executive Officer

Jeff D. Thomas
Co-Chief Executive Officer

Forward-Looking Statements

This letter contains forward-looking statements. Such statements are subject to substantial risks and uncertainties. Actual events or results may differ materially as a result of many factors, including but not limited to: anticipated future sales and financial results, general economic and financial conditions (including current adverse conditions in government budgets and the general economy); our ability to obtain funding to acquire and grow BrainMaps; anticipated business growth in China and in other segments of our business; availability of funding to purchase the Company's products and generally available to schools, including the amount and duration of federal and state funding; the acceptance of new products and product changes in existing and new markets; acceptance of subscription and other recurring offerings; seasonality and sales cycles in Scientific Learning's markets; competition; the extent to which the Company's development, marketing, sales and implementation strategies are successful; the results from the Company's free trial program; personnel changes; future product plans; and the Company's ability to continue to demonstrate the efficacy of its products. The Company disclaims any obligation to update information contained in these forward-looking statements, whether as a result of new information, future events, or otherwise.

SCIENTIFIC LEARNING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and par value data)

	March 31, 2018 (unaudited)	December 31, 2017 (as adjusted, unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 2,623	$ 2,846
Accounts receivable, net of allowance for doubtful accounts of $24 and $19, respectively	2,409	1,928
Prepaid expense and other current assets	670	716
Total current assets	5,702	5,490
Software development costs and equipment, net	2,640	2,466
Other assets	501	521
Total assets	$ 8,843	$ 8,477
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 393	$ 167
Accrued liabilities	1,636	1,328
Deferred revenue	8,653	10,096
Total current liabilities	10,682	11,591
Deferred revenue, net of current	2,605	2,816
Subordinated debt	5,997	5,955
Warrant liability	1,506	1,257
Other liabilities	160	172
Total liabilities	20,950	21,792
Commitments and contingencies (see Note 11)		
Stockholders' deficit:		
Common stock, $0.001 par value, 40,000,000 authorized, 27,621,149 and 24,670,904 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively, and additional paid-in capital	99,587	97,710
Accumulated deficit	(111,688)	(111,015)
Accumulated other comprehensive loss	(6)	(11)
Total stockholders' deficit	(12,107)	(13,316)
Total liabilities and stockholders' deficit	$ 8,843	$ 8,477

See accompanying notes to consolidated financial statements

SCIENTIFIC LEARNING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Three Months Ended March 31,	
	2018	**2017**
	(unaudited)	**(as adjusted, unaudited)**
Revenues:		
Subscription	$ 2,119	$ 1,996
License	681	693
Service and support	1,417	1,561
Total revenues	4,217	4,250
Cost of revenues:		
Cost of subscription	251	214
Cost of license	3	1
Cost of service and support	746	726
Total cost of revenues	1,000	941
Gross profit	3,217	3,309
Operating expenses:		
Sales and marketing	1,654	1,723
Research and development	731	691
General and administrative	1,025	819
Total operating expenses	3,410	3,233
Operating income (loss)	(193)	76
Other income (expense):		
Interest and other expense, net	(228)	(174)
Change in the fair value of warrants	(249)	(90)
Total other income and (expense)	(477)	(264)
Net loss before provision for income tax	(670)	(188)
Provision for (benefit from) income taxes	3	3
Net loss	$ (673)	$ (191)
Net loss per share:		
Basic	$ (0.02)	$ (0.01)
Diluted	$ (0.02)	$ (0.01)
Weighted average shares used in computing net income (loss) per share:		
Basic weighted average shares outstanding	27,224	24,515
Diluted weighted average shares outstanding	27,224	24,515

See accompanying notes to consolidated financial statements

SCIENTIFIC LEARNING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Three Months Ended March 31,	
	2018	**2017**
	(unaudited)	**(as adjusted, unaudited)**
Net loss	$ (673)	$ (191)
Other comprehensive loss:		
Foreign currency translation adjustments, net of tax	5	-
Comprehensive net loss	$ (668)	$ (191)

See accompanying notes to consolidated financial statements.

SCIENTIFIC LEARNING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31, 2018 (unaudited)	2017 (as adjusted, unaudited)
Operating Activities:		
Net loss	$ (673)	$ (191)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	131	91
Stock based compensation expense	47	32
Amortization of debt discount and debt issuance cost	42	22
Change in fair value of warrant	249	90
Changes in operating assets and liabilities:		
Accounts receivable	(480)	635
Prepaid expenses and other current assets	46	12
Other assets	20	17
Accounts payable	226	134
Accrued liabilities	309	156
Deferred revenue	(1,656)	(2,443)
Other liabilities	(3)	1
Net cash used in operating activities	(1,742)	(1,445)
Investing Activities:		
Additions to software development costs and purchases of equipment	(306)	(318)
Net cash used in investing activities	(306)	(318)
Financing Activities:		
Payments under capital lease	(10)	(4)
Proceeds from issuance of common stock, net	1,840	-
Net cash provided by (used in) financing activities	1,830	(4)
Effect of exchange rate changes on cash and cash equivalents	(5)	-
Decrease in cash and cash equivalents	(223)	(1,769)
Cash and cash equivalents at beginning of period	2,846	2,725
Cash and cash equivalents at end of period	$ 2,623	$ 956
Supplemental disclosure of cash flow information		
Cash paid for income taxes	$ 3	$ 12
Cash paid for interest	$ 2	$ 1

See accompanying notes to consolidated financial statements.

Scientific Learning Reconciliation of Operating Results before China Transaction Expenses

	Three Months Ended March 31,	
	2018	**2017 (as adjusted, unaudited)**
Operating income (loss)	$ (193)	$ 76
China Transaction Expenses	80	-
Operating income (loss) before China expenses	(113)	76
Net cash used in operating activities	(1,742)	(1,445)
China Transaction Payments	150	-
Net cash used in operating activities, before China payments	$ (1,592)	$ (1,445)

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Description of Business

Scientific Learning Corporation (the "Company") develops, distributes and licenses technology that accelerates learning by improving the processing efficiency of the brain.

The Company's patented products build learning capacity by rigorously and systematically applying neuroscience-based learning principles to improve the fundamental cognitive skills required to read and learn. To facilitate the use of the Company's products, the Company offers a variety of on-site and remote professional and technical services, as well as phone, email and web-based support. The Company sells primarily to K-12 schools in the United States through a direct sales force.

All of the Company's activities are in one operating segment.

The Company was incorporated in 1995 in the State of California and was reincorporated in 1997 in the State of Delaware.

Liquidity

The Company's cash and cash equivalents were $2.6 million as of March 31, 2018, compared to cash and cash equivalents of $2.8 million at December 31, 2017. The Company's accounts receivable balance was $2.4 million at March 31, 2018, compared to the accounts receivable balance of $1.9 million at December 31, 2017. In the first three months of 2018 the company used $1.7 million in cash from operations. On January 12, 2018, the Company executed the sale of 2,944,000 shares of its common stock at a price of $0.625 per share, for aggregate proceeds of $1,840,000. Investors include a majority of the members of the Company's Board of Directors; members of the Company's management team; Rick Lee, founder and CEO of BrainMaps, China; the Company's international partners; and the Company's largest shareholder. Proceeds from the financing are expected to be used for expenses associated with the Company's previously announced plans to purchase BrainMaps and raise additional capital to accelerate the expansion of BrainMaps English language learning centers. In addition, the Company paid for transaction costs related to its China transaction in the amount of $150,000 during the three months ended March 31, 2018.

Historically, the Company has used more cash in its operations during the first half of the year and has improved cash from operations in the second half. This pattern results largely from its seasonally low sales in the first and fourth calendar quarters, which reflects the Company's industry pattern, and the time needed to collect on sales made towards the end of the second quarter. The Company expects that its cash balances, accounts receivable, common stock private financing and the use of its line of credit with Bridge Bank will be sufficient to fund the Company's operating requirements through the next twelve months.

The line of credit with Bridge Bank does not have a specific term, and the bank has the right to cancel the line, at any time, and require payment of the balance outstanding. Each year, in the second quarter, the bank conducts their annual review of the line of credit as part of their annual process to determine whether to renew the line of credit. There are no assurances that the bank will renew the Company's line of credit in 2018. If the line of credit is not renewed, the Company may be required to find an alternative line of credit, sell assets, issue additional equity securities or incur additional debt. The Company may not be able to accomplish any of these alternatives.

The Company's subordinated debt from April 2015 and July 2017 is due and payable on April 6, 2018, along with accrued interest for the period of December 2017 to April 6, 2018. The terms of the subordinated debt have two one-year options to extend the principal payment due date. On April 6, 2018, the Company exercised the first extension option to extend the principal payment due date to April 2019 and will likely exercise the second extension option in 2019. The interest rate increased to 15% upon extension.

Costs associated with the Conversion of Products from Flash to HTML5

Adobe has announced the end of 2020 as the end-of-life date for its Flash Player. Our two New Fast ForWord products planned for release this summer were transitioned off Flash to HTML5, but the remaining Fast ForWord products still use Flash. The Company's financial plan through the end of fiscal year 2019 includes development expenses to transition the remaining Fast ForWord products from Flash to HTML5 by the end of 2019. However, if the Company's transition efforts are delayed, we may have to incur significant additional expense in order to complete the transition prior to Flash's end-of-life. Additionally, if we fail to complete the transition before Flash's end-of-life, some of our Fast ForWord products may not be available to our customers until we are able to complete their transition to HTML5, which could negatively impact our sales.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary in Shanghai, China. This wholly-owned subsidiary is the company's former development center which was discontinued in 2013, and there was not material activity during the period. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"), requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent that there are material differences between these estimates and actual results, the Company's consolidated financial statements could be affected.

Interim Financial Information

The interim consolidated financial information as of March 31, 2018 and for the three months ended March 31, 2018 and 2017 is unaudited, and includes all necessary adjustments, which consisted only of normal recurring adjustments, for a fair presentation of the Company's financial position at such dates and the Company's results of operations and cash flows for those periods. The balance sheet as of December 31, 2017 has been derived from audited consolidated financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles ("GAAP") for annual financial statements. In addition, the results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results for the entire year ending December 31, 2018, or for any other period.

These unaudited, condensed consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Annual Report for the year ended December 31, 2017, filed with the OTC Markets.

Revenue

Revenue Recognition

The Company adopted ASU 2014-09 (also referred to as ASC 606 – "*Revenue from Contracts with Customers* "guidance) effective as of January 1, 2018 and has adjusted its prior period consolidated financial statements to reflect full retrospective adoption. Refer to New Accounting Pronouncements Adopted, to the Consolidated Financials Statements for a summary of the significant changes in accounting principles and the impact to the Company's previously reported consolidated financial statements.

Under ASU 2014-09, the Company recognizes revenue using a five-step model:

(i.) Identifying the contract(s) with a customer,
(ii.) Identifying the performance obligation,
(iii.) Determining the transaction price,
(iv.) Allocating the transaction price to the performance obligations in the contract, and
(v.) Recognizing revenue when, or as, the Company satisfies a performance obligation.

Nature of goods and services

The Company derives revenue from subscription fees for access to and use of its on-demand application services. Under the Company's subscription arrangements for its on-demand application services, the customer does not have the contractual right to take possession of the software at any time during the subscription period. Additionally, the Company derives revenue from the sale of perpetual licenses to its software and from professional service and support fees.

The application of the relevant accounting standards requires the Company to exercise significant judgment related to specific transactions and transaction types. Revenue may begin to be recognized when the Company finds that collectability of substantially all consideration to which the Company is entitled and after the exchange of goods or services transferred to the customer is probable. The Company contracts vary in combinations of products and services, which are generally capable of being separate distinct performance obligations.

The value of software licenses, subscriptions, professional services and support invoiced during a particular period is recorded as deferred revenue until recognized. Multiple contracts with the same customer are generally accounted for as separate arrangements, except in cases where the contracts are so closely related that they are effectively part of a single arrangement.

Subscription Revenue

Subscription revenue primarily includes revenue from annual or monthly customer subscriptions to our web based applications, including Fast ForWord, Reading Assistant, and Fast ForWord Home. Subscription revenue is recognized as follows:

- On-demand application services – revenue for subscription services is recognized ratably over the term of the subscription period.
- Per student per month – student usage of any of our products during a calendar month. Revenue is recognized monthly over the period of use.
- Individual participant subscriptions – software subscriptions for a single participant. Revenue is recognized ratably over the term of the subscription period.
- International customers are charged a non-refundable minimum annual fee for student usage which is recognized ratably over the term of the subscription. Overages are billed once the minimum has been met and are recognized in the period generated.

License revenue

License revenue primarily includes revenue from the sales of perpetual licenses to our software applications including Fast ForWord and Reading Assistant. License revenue is recognized as follows:

- Perpetual licenses – software licensed on a perpetual basis. A perpetual license cannot be distinctly separated from the support contract and therefore, revenue is recognized ratably over the expected customer life for perpetual customers, which is 43 months. The customer life is revaluated each year and the changes are applied prospectively.

Professional and support revenue

Professional service and support revenue is derived from a combination of training, implementation, technical and professional services, online services and customer support. Training, implementation, technical and other professional services are typically sold on a per day basis. Professional services revenue is recognized as performed. Online services and customer support are recognized ratably over the service period. Revenue from services sold alone or with support is recognized as performed. If standalone selling price ("SSP") does not exist for all the elements in a software arrangement other than software licenses, service revenue is recognized, after performance, over the longest contractual period in an arrangement.

Significant judgements

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples of estimates include: for revenue recognition, determining the nature and timing of satisfaction of performance obligations, and determining the standalone selling price ("SSP") of performance obligations, variable consideration, and other obligations such as incremental costs to obtain a contract and product warranties. Our customer contracts often include promises to deliver multiple performance obligations to a customer. Determining the distinct performance obligations and the grouping of such might require significant judgment.

Judgment is required to determine the SSP for distinct performance obligations identified in a customer contract. A single amount is used to estimate SSP for items that are not sold separately. The Company uses an estimated SSP when the Company sells each of the products and services separately.

Determining the Transaction Price

Booked sales of software to the Company's school customers typically include multiple distinct performance obligations (e.g., Fast ForWord, perpetual software licenses, support, training, implementation management, and other professional services). The Company recognizes the perpetual license using the residual approach, whereby the difference between the total transaction price and the total SSP of other distinct performance obligations included in the agreement is recognized as revenue relating to the perpetual license.

SSP, for each distinct performance obligation in an arrangement, is based upon the normal pricing and discounting practices for those products and services when sold separately and, for support services, is also measured by the renewal price. The Company's on-demand subscription services, support, training and implementation management services have standalone value as these services are sold separately by the Company, and the Company has established SSP for each distinct performance obligation. The Company recognizes the perpetual license using the residual approach, whereby the difference between the total transaction price and the total SSP other distinct performance obligations included in the agreement is recognized as revenue relating to the perpetual license. Discounts are allocated based on the relative SSP of the various products and services. The Company is required to exercise judgment in determining whether SSP exists based on whether the pricing for these elements is sufficiently consistent.

Contract Costs

Management expects internal sales commissions to be recoverable. Internal sales commissions are proportionally allocated based on contract booking credit defined in employee compensation agreement.

Capitalized costs attributed to a contract will be allocated between performance obligations within each contract proportional to the SSP and subsequently amortized using the pattern of revenue recognition for the underlying performance obligations. The amount of amortization was $0.03 million and $0.03 million for the three months ended March 31, 2018 and March 31, 2017, respectively. There was no impairment loss in relation to the costs capitalized.

The Company capitalized commission costs associated with perpetual sales. The costs are amortized over the customer life, consistent with the amortized deferred revenue related to perpetual sales. The Company applied a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. These costs include our commissions programs relating to subscription fees.

Significant Accounting Policies

In the ordinary course of business, the Company makes a number of estimates and assumptions relating to the reporting of the Company's results of operations and financial position in the preparation of our condensed consolidated financial statements in conformity with GAAP. The Company included in our 2017 Annual Report discussion of our significant accounting policies that are particularly important to the presentation of the Company's financial position and results of operations and that require the use of our management's judgment. The Company made changes to the way revenue is recognized following the ASC 606 "Revenue from Contracts with Customers" guidance. No other material changes were made to any of the significant accounting policies discussed in our 2017 Annual Report through March 31, 2018.

Net Income (Loss) per Share

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share reflects the potential dilution of securities by adding common stock equivalents (computed using the treasury stock method) to the weighted-average number of common shares outstanding during the period, if dilutive.

For the three months ended March 31, 2018 stock options exercisable for 2.7 million shares of common stock along with common stock warrants exercisable for 3 million shares of common stock were excluded from the calculation of diluted net loss per share because their effect is anti-dilutive.

Foreign Currency Translation

The functional currency of the Company's China subsidiary is the local currency, the Chinese Renminbi "RMB." Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as part of a separate component of stockholders' deficit. Foreign currency transaction gains and losses are included in interest and other expense, net in the consolidated statements of operations. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate as of the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates.

New Accounting Pronouncements Adopted

Except for the changes below, Scientific Learning has consistently applied the accounting policies to all periods presented in these financial statements.

Scientific Learning has adopted ASC 606, *Revenue from Contracts with Customers*, with a date of initial application of January 1, 2017. As a result, Scientific Learning has changed its accounting policy for revenue recognition as detailed below.

A. Perpetual license fees

Revenue for perpetual software licenses was previously recognized at a point in time upon delivery of the license. Under ASC 606, the revenue attributed to the perpetual license is recognized ratably over the expected customer life, which is 43 months as of March 31, 2018.

Contract consideration was previously allocated among deliverables using the Vendor Specific Object Evidence (VSOE) method with the residual allocated to the perpetual license. Under ASC 606, contract consideration will be similarly allocated using the residual process of the relative stand-alone selling price method.

B. Commissions

The Company previously recognized commissions payable related to obtaining contracts as selling expenses when incurred. Under ASC 606, The Company capitalizes these commission fees as costs of obtaining a contract and allocates between performance obligations within each contract proportional to the SSP. The capitalized costs are subsequently amortized using the expected customer life. The company is utilizing the practical expedient and expensing as incurred commissions for contracts of one year or less.

C. Impacts on financial statements

Scientific Learning applied ASC 606 using the full retrospective method. The details and quantitative impact of the changes in accounting policies are disclosed below.

The Company adjusted their condensed consolidated financial statements from amounts previously reported due to the adoption of ASU No. 2014-09. Select condensed consolidated balance sheet line items, which reflect the adoption of the new ASU's are as follows (in thousands):

	December 31, 2017					
	As peviously reported		Adjustments		As adjusted	
Assets						
Accounts receivable	$	1,928	$	-	$	1,928
Prepaid expenses and other current assets		610		106		716
Other assets, noncurrent		420		101		521
Liabilities						
Deferred revenue		7,923		2,173		10,096
Deferred revenue, noncurrent		707		2,109		2,816
Equity	$	(9,239)	$	(4,077)	$	(13,316)

Select unaudited condensed consolidated statement of operations line items, which reflect the adoption of the new ASUs are as follows (in thousands):

	Three months ended March 31, 2017					
	As peviously reported		Adjustments		As adjusted	
Revenues:						
Subscription	$	1,996	$	-	$	1,996
License		188		504		693
Service and Support		1,561		-		1,561
Cost and expenses:						
Sales and Marketing		1,705		18		1,723
Operating income (loss)		(410)		486		76
Net loss		(677)		486		(191)
Net loss per share, basic and diluted	$	(0.03)	$	0.02	$	(0.01)

Select unaudited condensed consolidated statement of cash flows line items, which reflect the adoption of the new ASUs are as follows (in thousands):

	Three months ended March 31, 2017		
	As peviously reported	Adjustments	As adjusted
Cash flows from operating activities			
Net loss	$ (677)	$ 486	$ (191)
Adjustments to reconcile net loss to net cash provided by (used in)			
Changes in operating assets and liabilities:			
Accounts receivable	635	-	635
Prepaid expenses and other assets	6	6	12
Other assets	-	18	18
Deferred revenue	$ (1,939)	$ (504)	$ (2,443)

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as finance or operating lease. ASU 2016-02 is effective for the Company on December 15, 2018. The Company is currently assessing the impact of the adoption of this new accounting standard on the consolidated financial statements.

2. Warrant Liability

In connection with the Company's private common stock offering that closed on March 28, 2012, the Company issued warrants ("PIPE warrants") to purchase an aggregate of 2,505,852 shares of common stock. As of December 31, 2016, the estimated fair value of the PIPE warrants was approximately zero. The warrants had an exercise price of $1.82 per share and expired on March 28, 2017.

Additionally, in connection with the Company's subordinated debt financing completed on April 5, 2013, the Company issued warrants ("2013 Sub-debt warrants") to purchase an aggregate of 1,846,940 shares of common stock. The warrants had an exercise price of $1.03 per share and expired on April 5, 2016.

On April 6, 2015, in connection with the Company's re-financing of its subordinated debt, the Company issued warrants ("2015 Sub-debt warrants") to purchase an aggregate of 3,000,000 shares of the Company's common stock at an initial exercise price of $0.14 per share. The warrants expire on April 6, 2020. The warrants contain a cash settlement provision that may be triggered upon request by the warrant holders if the Company is acquired or in the event of a merger, as defined by the warrant agreement. As of March 31, 2018, these warrants are outstanding.

Under the FASB ASC Topic 815, *Derivatives and Hedging,* an equity contract that can be settled in cash at the request of the holder must be classified as an asset or a liability. The accounting guidance also requires that the warrants be re-measured at fair value at each reporting date, with the change in fair value recorded in the Company's consolidated statements of operations. See Note 3. The fair value was estimated using the Black-Scholes-Merton option pricing model, which requires the input of highly subjective assumptions as determined by management. To the extent these assumptions change in future periods, the fair value of the common stock warrants may increase or decrease and the change in fair value will be recorded in the Company's results of operations.

3. Fair Value Measurements of Financial Instruments

The Company generally invests its excess cash in money market funds. Cash and cash equivalents represents highly liquid instruments with insignificant interest rate risk and original maturities of three months or less.

The Company has established a three-tier fair value hierarchy, categorizing the inputs used to measure fair value. The hierarchy can be described as follows: Level 1- observable inputs such as quoted prices in active markets; Level 2- inputs other than the quoted prices in active markets that are observable either directly or indirectly; and Level 3- unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

Cash equivalents consist of money market funds that have original maturities of 90 days or less. These instruments are valued using quoted prices in active markets and are classified in Level 1 of the fair value hierarchy. At March 31, 2018 and 2017, the fair value of the money market instruments was $2.1 million and $0.46 million, respectively, accounted for at fair value on a recurring basis by level in accordance with the fair value hierarchy described above.

At March 31, 2018 and 2017, the Company had no borrowings outstanding under its credit line with Bridge Bank. The line of credit is measured at the carrying value at each reporting period and is classified as a current liability, as loan payable. The line of credit is classified in Level 1 in the Company's fair value hierarchy. The fair value of the line of credit approximates the carrying value.

The Company has no Level 2 financial assets or liabilities as of March 31, 2018 and 2017.

At March 31, 2018 and 2017, the Company had outstanding warrants to purchase shares of its common stock. The warrants are measured at fair value each reporting period and are classified as liabilities with a fair value of $1.5 million and $1.5 million at March 31, 2018 and 2017, respectively. The warrants are valued using the Black-Scholes-Merton option pricing model using valuation assumptions determined by management and are classified in Level 3 in the Company's fair value hierarchy.

The Company used the following assumptions when determining the fair value of the 2015 Sub-debt warrants:

	March 31, 2018	March 31, 2017
Expected life (in years)	2.00	3.00
Risk-free interest rate	2.27 %	1.5 %
Dividend yield	0 %	0 %
Expected volatility	100 %	100 %

The following table summarizes the changes in fair value for the outstanding common stock warrants (*in thousands*):

	Three Months Ended March 31, 2018
Balance at December 31, 2017	$ 1,257
Total change in fair value	249
Balance at March 31, 2018	$ 1,506

4. Warranties and Indemnification

The Company generally provides a warranty that the Company's software products substantially operate as described in the manuals and guides that accompany the software for a period of 90 days. The warranty does not apply in the event of misuse, accident, and certain other circumstances. To date, the Company has not incurred any material costs associated with these warranties and has no accrual for such items as of March 31, 2018 and 2017.

From time to time, the Company enters into contracts that require the Company, upon the occurrence of certain contingencies, to indemnify parties against third party claims. These contingent obligations primarily relate to (i) claims against the Company's customers for violation of third party intellectual property rights caused by the Company's products; (ii) claims resulting from personal injury or property damage resulting from the Company's activities or products; (iii) claims by the Company's office Lessor arising out of the use of the premises; and (iv) agreements with the Company's officers and directors under which the Company may be required to indemnify such persons for liabilities arising out of their activities on behalf of the Company. No liabilities have been recorded for these obligations as of March 31, 2018 and 2017.

5. Subordinated Debt

On April 6, 2015, the Company re-financed its subordinated debt and issued $5.0 million of subordinated debt securities ("2015 sub-debt") and warrants to purchase an aggregate of 3,000,000 shares of the Company's common stock at an initial exercise price of $0.14 per share to a group of its current investors and one new investor. The new subordinated debt proceeds were used for the repayment of outstanding subordinated debt, working capital and general corporate purposes. The notes issued pursuant to the subordinated note and warrant purchase agreement bear simple interest at a rate of 12% per annum. The full principal is due on maturity on April 6, 2018 with the option of two one-year extensions. On April 6, 2018, the Company exercised a one year extension of the 2015 sub-debt, along with the New Notes as disclosed below. The Company has classified the 2015 sub-debt as long-term liabilities in the consolidated balance sheets, since the debt was extended. The interest rate increased to 15% per annum when extended. The Company will pay accrued interest in arrears on August 31 and November 30 and the final payment date. The Note and Warrant Purchase Agreement ("2015 Agreement") contains customary affirmative and negative covenants, including notification and information covenants and covenants restricting the Company's ability to merge or liquidate, incur debt, dispose of assets, incur liens, declare dividends or enter into transactions with affiliates. During the three months ended March 31, 2018 and 2017, the Company was in compliance with all covenants related to the sub-debt. The 2015 Agreement also requires the Company to repay the notes upon the occurrence of a change of control (as defined in the 2015 Agreement) at 101% of the principal amount thereof plus accrued and unpaid interest.

The total value allocated to the 2015 sub-debt warrants was approximately $261,000 and was recorded as a debt discount against the proceeds of the notes and is being amortized to interest expense over the three year term of the notes. See Note 2. The aggregate debt issuance costs associated with the 2015 subordinated debt financing were $47,000, which are comprised of outside legal costs. These costs were recorded as a reduction to the sub-debt and are being amortized as interest expense over the life of the notes. For the three months ended March31, 2018 and 2017, the Company recorded amortization expense related to the debt discount and issuance costs of $22,000 and $22,000, respectively.

On July 13, 2017, the Company entered into the First Omnibus Amendment (the "Amendment") between the Company and the 2015 sub-debt holders. The Amendment allowed the Company to issue an additional $1,000,000 in Promissory Notes ("New Notes") to existing investors. The New Notes are subject to the same terms and conditions as the 2015 sub-debt, except as otherwise set forth in the Amendment as follows: (1) no additional warrants were issued in respect of the New Notes; (2) the New Notes were issued at 98%, with original issue discount of 2%; and (3) as long as the Company is not in default, the Amendment enables the Company to pay the New Notes early without making pro rata payments on the 2015 sub-debt. The loan proceeds were used for working capital and general corporate purposes. The New Notes bear simple interest at a rate of 12% per annum with full maturity due on April 6, 2018, with the option of two one-year extensions. If extended, the interest rate increases to 15% per annum. On April 6, 2018, the Company exercised a one year extension of the New Notes, along with the 2015 sub-debt as disclosed above. The aggregate debt issuance costs associated with completing the New Notes and related amendments were approximately $44,000, which are comprised of outside legal costs. These costs were recorded as a reduction of the New Notes and are being amortized as interest expense over the original nine-month term of the New Notes. For the three months ended March 31, 2018, the Company recorded amortization expense related to the debt discount and issuance costs of $20,000.

At March31, the Company's Subordinated debt is made up of the following (*in thousands*):

	March 31, 2018		December 31, 2017	
2015 Sub-debt	$	5,000	$	5,000
New Notes		1,000		1,000
Debt discount		(3)		(26)
Debt issuance costs		-		(19)
Total subordinated debt	$	5,997	$	5,955

6. Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

Contract balances	January 1, 2017		December 31, 2017		March 31, 2018	
Receivables	$	2,671	$	1,928	$	2,409
Prepaid commissions, current		112		106		112
Prepaid commissions, non current		122		101		76
Deferred revenue, current		10,418		10,096		8,653
Deferred revenue, non current	$	3,556	$	2,816	$	2,605

The amount of revenue recognized in the current period that was included in the opening deferred revenue balance is $3.9 million and $3.8 million as of March 31, 2018 and December 31, 2017, respectively.

The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advance consideration received from customers, for which revenue is subsequently recognized ratably.

Significant changes in the contract asset balances (*in thousands*) during the period are as follows:

	March 31, 2017		December 31, 2017		March 31, 2018	
Balances as of January 1	$	233	$	233	$	207
Commission recognized that was included in the contract asset balance at the beginning of the period		(31)		(112)		(30)
Increases due to commissions capitalized, excluding amounts recognized as expense during the period		9		85		11
Impairment of contract assets		-		-		-
Other		-		-		-
Ending Balance	$	211	$	207	$	188

Significant changes in the contract liabilities balances (*in thousands*) during the period are as follows:

	March 31, 2017		December 31, 2017		March 31, 2018	
Balances as of January 1	$	(13,974)	$	(13,974)	$	(12,912)
Revenue recognized that was included in the contract liability balance at the beginning of the period		3,866		10,903		3,927
Increases due to book sales, excluding amounts recognized as revenue during the period		(1,424)		(9,841)		(2,271)
Other		-		-		-
Ending Balance	$	(11,532)	$	(12,912)	$	(11,258)

Transaction price allocated to the remaining performance obligations

Revenue allocated to remaining performance obligations is contracted revenue that has not yet been recognized. These amounts include unearned revenue. Revenue allocated to remaining performance obligations was $11.2 million as of March 31, 2018, of which the Company expects to recognize approximately 77% of the revenue over the next 12 months and the remainder thereafter.

Significant Financing Component

Payment terms and conditions vary by contract type. Our contracts generally do not include a significant financing component, whereby customers most often are issued an invoice for the full fee promptly upon receipt of signed final proposal. The primary purpose of our invoicing terms is not to receive financing from our customers, or to provide customers with financing.

7. Loan Payable

On June 23, 2014, the Company executed a Business Financing Agreement ("line of credit") with Bridge Bank. This agreement provides the Company a line of credit of $2 million secured by the Company's personal property and related assets. Advances on the line of credit are permitted up to 80% of eligible accounts receivable. The line of credit bears an interest rate of prime plus 3% per annum. The line of credit is a senior credit facility to the Subordinated Debt and terminated on April 5, 2015. Borrowings under the line of credit are subject to reporting covenants requiring the remittance of financial statements and supporting working capital reports to Bridge Bank.

On April 6, 2015, the Company extended the line of credit with Bridge Bank in conjunction with the refinance efforts as disclosed in Note 5. The line of credit is a senior credit facility to the Subordinated Debt and New Notes.

As of March 31, 2018 and 2017, the Company had a zero balance in borrowings under its line of credit and was in compliance with all financial reporting covenants.

8. Income Taxes

Substantially all income (loss) before income taxes is derived from the United States.

In the three months ended March 31, 2018, the Company recorded income tax of $2,800. The tax expense for the three months ended March 31, 2018 consists of state tax expense. In the three months ended March 31, 2017, the Company recorded income tax expense of $2,800. The tax expense for the three months ended March 31, 2017 consists of current state tax expense.

The Company has established and continues to maintain a full valuation allowance against its deferred tax assets as the Company does not believe that realization of those assets is more likely than not.

At March 31, 2018, the Company has unrecognized tax benefits of approximately $1.7 million. The Company does not have unrecognized tax benefits that, if recognized, would affect the effective tax rate. The Company does not believe there will be any material changes in the unrecognized tax positions over the next twelve months. Interest and penalty costs related to unrecognized tax benefits are insignificant and classified as a component of "Provision for Income Taxes" in the accompanying statement of operations.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Tax returns remain open to examination by the appropriate governmental agencies for tax years 1999 to 2017. The federal and state taxing authorities may choose to audit tax returns for tax years beyond the statute of limitation period due to significant tax attribute carryforwards from prior years, making adjustments only to carryforward attributes. The Company is not currently under audit in any major tax jurisdictions.

9. Stock-Based Compensation

The Company granted 129,390 options to purchase shares of common stock and granted restricted stock units for 9,375 shares of common stock during the three months ended March 31, 2018. The Company granted 353,750 options to purchase shares of common stock and granted restricted stock units for 9,375 shares of common stock during the three months ended March 31, 2017.

The fair value of each option award is estimated on the date of grant using the Black-Sholes Merton option pricing model with subjective assumptions, including expected stock price volatility, the expected life of each award and estimated pre-vesting forfeitures noted in the table below:

10. Commitments and Contingencies

On September 1, 2015, the Company entered into an agreement to lease approximately 7,226 square feet in Oakland, California for its new corporate headquarters. The term of the lease agreement is for 63 months from the lease commencement, which began in December 2015 and expires in March 2021. The Company also has a lease agreement for its Tucson, Arizona office, which was renewed in May 2017 and now expires in August 2022. In addition, the Company leases certain equipment under capital lease arrangements that extend through 2021.

At March 31, 2018, the Company's future minimum lease payments are as follows (*in thousands*):

	Remaining 2018	2019	2020	2021	2022 Thereafter	Total
Total lease obligations	$ 366	$ 494	$ 488	$ 267	$ 143	$ 1,758

11. Disaggregation of Revenue

In the following tables, revenue is disaggregated by revenue channel, major products and services and duration of contract:

Revenue channel	Three months ended March 31, 2018	2017
K-12 School Districts	$ 3,438	$ 3,544
Fast ForWord Home	251	188
International	267	223
Private Provider	217	254
Other	44	41
Total	$ 4,217	$ 4,250

Major products and services	Three months ended March 31,			
	2018		2017	
Subscription revenue	$	2,119	$	1,996
License revenue		681		693
Support		984		1,074
Professional services		433		487
Total	$	4,217	$	4,250

Contract duration	Three months ended March 31,			
	2018		2017	
One year or less	$	3,185	$	3,272
Multiple year		360		308
Perpetual		633		639
Other		39		31
Total	$	4,217	$	4,250

12. Subsequent Events

Management has evaluated subsequent events through May 8, 2018, the date the consolidated financial statements were available for issuance. No events have occurred that would have a material impact on the consolidated financial statements.

OTC Disclosures

Section 1: Name of Issuer

Scientific Learning Corporation

Section 2: Address of the issuer's principal executive offices

Company Headquarters
1956 Webster Street, Suite 200
Oakland, CA 94612-2943

888-665-9707
www.scilearn.com

IR Contact
No investor relations firm is currently engaged

Section 3: Security Information

Trading Symbol: **SCIL**
Exact title and class of securities outstanding: **Common Stock**
CUSIP: **808760102**

Par or Stated Value: **$0.001**		
Total shares authorized:	**40,000,000**	as of: **3/31/2018**
Total shares outstanding:	**27,621,149**	as of: **3/31/2018**

Transfer Agent
Continental Stock Transfer & Trust Company
17 Battery Place
New York, NY 10004
212-509-4000

Is the Transfer Agent registered under the Exchange Act?* Yes: ☒ No: ☐

List any restrictions on the transfer of security:

None

Describe any trading suspension orders issued by the SEC in the past 12 months.

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

See Footnote 1 for disclosure regarding agreement to acquire BrainMaps

Section 4: Issuance History

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.)

B. Any jurisdictions where the offering was registered or qualified;

C. The number of shares offered;

D. The number of shares sold;

E. The price at which the shares were offered, and the amount actually paid to the issuer;

F. The trading status of the shares; and

G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

For history before January 1, 2017, please refer to the Company's Annual Report for the fiscal year ended 2016, filed on and located at www.otcmarkets.com

The following table represents the Issuance History for the three months ended March31, 2018 and 2017:

		A	B	C	D	E	E		F	G
Date	Entity	Nature of Offering	Juris.	Shares Offered	Shares Sold	Price Offered	Price Sold	Warrants	Trading Status	Legend
		Balance at December 31, 2016		**24,508,505**	**24,508,505**			**5,505,852**		
3/10/2017	Blanchard, Jr., Edward Vermont	Director's RSU Vested	DE	1,250	1,250				Restricted	Rule 144
3/10/2017	Moorhead III, Rodman W.	Director's RSU Vested	DE	1,250	1,250				Restricted	Rule 144
3/10/2017	Moses, Michael A.	Director's RSU Vested	DE	1,250	1,250				Restricted	Rule 144
3/10/2017	Tallal, Paula A.	Director's RSU Vested	DE	1,250	1,250				Restricted	Rule 144
3/10/2017	Thomas, Jeffrey D.	Director's RSU Vested	DE	1,250	1,250				Restricted	Rule 144
3/31/2017	Pipe Warrants	Warrants expired with 2012 Pipe Offering						(2,505,852)	Restricted	Rule 144
5/10/2017	Employees/Consultants	Employee's/Consultants RSU Vested	DE	1,578	1,578				Restricted	Rule 144
7/1/2017	Blanchard, Jr., Edward Vermont	Director's RSU Vested	DE	54,054	54,054				Restricted	Rule 144
7/1/2017	Tallal, Paula A.	Director's RSU Vested	DE	20,833	20,833				Restricted	Rule 144
7/1/2017	Moorhead III, Rodman W.	Director's RSU Vested	DE	76,554	76,554				Restricted	Rule 144
9/10/2017	Blanchard, Jr., Edward Vermont	Director's RSU Vested	DE	626	626				Restricted	Rule 144
9/10/2017	Moorhead III, Rodman W.	Director's RSU Vested	DE	626	626				Restricted	Rule 144
9/10/2017	Moses, Michael A.	Director's RSU Vested	DE	626	626				Restricted	Rule 144
9/10/2017	Tallal, Paula A.	Director's RSU Vested	DE	626	626				Restricted	Rule 144
9/10/2017	Thomas, Jeffrey D.	Director's RSU Vested	DE	626	626				Restricted	Rule 144
		Balance at December 31, 2017		**24,670,904**	**24,670,904**			**3,000,000**		
1/12/2018	Bowen, Robert C.	Director's Private Equity Raise	DE	320,000	320,000				Restricted	Rule 144
1/12/2018	Moorhead III, Rodman W.	Director's Private Equity Raise	DE	320,000	320,000				Restricted	Rule 144
1/12/2018	Thomas, Jeffery D.	Director's Private Equity Raise	DE	16,000	16,000				Restricted	Rule 144
1/12/2018	Moses, Michael A.	Director's Private Equity Raise	DE	16,000	16,000				Restricted	Rule 144
1/12/2018	Nathan, Steven R.	Director's Private Equity Raise	DE	8,000	8,000				Restricted	Rule 144
1/12/2018	Private Equity Raise Others	Private Equity Raise	DE	2,264,000	2,264,000				Restricted	Rule 144
3/10/2018	Blanchard, Jr., Edward Vermont	Director's RSU Vested	DE	1,249	1,249				Restricted	Rule 144
3/10/2018	Moorhead III, Rodman W.	Director's RSU Vested	DE	1,249	1,249				Restricted	Rule 144
3/10/2018	Moses, Michael A.	Director's RSU Vested	DE	1,249	1,249				Restricted	Rule 144
3/10/2018	Tallal, Paula A.	Director's RSU Vested	DE	1,249	1,249				Restricted	Rule 144
3/10/2018	Thomas, Jeffrey D.	Director's RSU Vested	DE	1,249	1,249				Restricted	Rule 144
		Balance at March 31, 2018		**27,621,149**	**27,621,149**			**3,000,000**		

Section 5: Financial Statements

See above

Section 6: Issuer's Business, Products and Services

A. Description of the issuer's business operations;

We are an education company that accelerates learning by applying proven research on how the brain learns in online and on premise software solutions. Our results show that learners who use our products can realize achievement gains of up to 2 years in as little as 3 months and maintain an accelerated rate of learning even after product use ends. We provide our learning solutions primarily to U.S. K-12 schools in traditional brick-and-mortar, virtual or blended learning settings and also to parents and learning centers, in approximately fifty-five countries around the world.

We are highly differentiated because of our focus on the "science of learning" - combining advances in the field of brain research with standards-based learning objectives to achieve dramatic student gains. At December 31, 2013, proof that our products produce substantial academic gains was demonstrated in 282 efficacy studies, including randomized controlled trials and longitudinal studies, representing results from approximately 130,000 aggregate participants. These studies show gains for students at all K-12 grade levels, for at-risk, special education, English language, Title I (low income, under achieving), and a variety of other students. Gains have been demonstrated throughout the United States and in ten other countries. The studies show that these gains endure over time.

In 2011, we began implementing a software as a service (SaaS) model. Our easy-to-use and easy-to-access web-based platforms are able to effectively deliver individualized learning opportunities to a large number of students simultaneously. Our Fast ForWord and Reading Assistant educational software products are now available on our browser-based SciLEARN Enterprise software platform, which can be hosted on the customer's servers, and our on-demand platform MySciLEARN On Demand, which we host. The SciLEARN Enterprise and MySciLEARN platforms meet the needs of institution and district-wide installations by providing scalability, remote access, centralized reporting, asynchronous online professional development, and ease of administration for multiple campuses.

B. Date and State (or Jurisdiction) of Incorporation:

The Company was incorporated in 1995 in the State of California and was reincorporated in 1997 in the State of Delaware.

C. Issuer's primary and secondary SIC Codes:

Primary SIC Code: 73729903 Educational Computer Software
Secondary SIC Code: 8299, Schools and Educational Services

D. Issuer's fiscal year end date;

December 31, Calendar year

E. Principal products or services, and their markets;

Our principal products include: Fast ForWord, Fast ForWord Language and Literacy, Fast ForWord Reading, Reading Assistant, Results Now!, and Fast ForWord Home.

We sell to our principal market, K-12 schools and districts throughout the US and Canada, using a diversified direct sales channel, including both inside and field sales personnel. In addition to selling to K-12 schools, we also sell to and through private practice professionals and learning centers, international value-added resellers (VARs) and directly to consumers.

Section 7: Describe the Issuer's Facilities

We currently have the following leased properties:

1. **A lease for approximately 7,200 square feet of office space in Oakland, California for our headquarters, which expires in February 2021.**

2. **A lease for approximately 10,800 square feet of office space in Tucson, Arizona for our sales and support center, which expires in August 2022.**

Section 8: Officers, Directors, and Control Persons

Robert C. Bowen – Chairman and Co-Chief Executive Officer
Edward V. Blanchard Jr. – Director
Christopher Brookhart - General Counsel, Secretary and Sr. Vice President
Rodman W. Moorhead III - Director
Michael A. Moses – Director
Steve Nathan - Chief Financial Officer and Treasurer
Paula A. Tallal - Director
Jeffrey D. Thomas – Co-Chief Executive Officer

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

   None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

   None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

   None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

   None

C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

Below is a list of Beneficial Owners as of January 31, 2018. This is most recent information that is available.

As of 1/31/2018	Shares Beneficially Owned (1) (2)	
Beneficial Owner	**Number**	**Percent**
Nantahala Capital Management, LLC Daniel Mack 100 First Stamford Place, 2nd floor Stamford, CT 06902	9,834,084	36%

(1) This table is based upon information supplied by the shareholders. Applicable percentages are based on 27,614,904 shares outstanding as of January 31, 2018.
(2) The number of shares outstanding as of December 31, 2017 was 24,670,904. For purposes of this disclosure, the company has added 2,944,000 shares that were issued as part of a private financing completed in January 2018 in which Nantahala Capital Management purchased an additional 1,600,000 shares.

Section 9: Third Party Providers

Below is the name, address, and telephone number of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure

External Legal Counsel:
Wilson, Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, CA 94304
650.493.9300

Auditor:
Armanino LLP
12657 Alcosta Blvd.
Suite 500
San Ramon, CA 94583
925.790.2755

Investor Relations Consultant
No investor relations firm is currently engaged

Section 10: Issuer Certification

I, Jeffrey D. Thomas certify that:

1. I have reviewed this annual disclosure statement of Scientific Learning Corporation for the three months ended March 31, 2018 and March 31, 2017;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

_____ May 8, 2018

_____ /s/Jeffrey D. Thomas

_____ Co-Chief Executive Officer

I, Robert C. Bowen certify that:

1. I have reviewed this annual disclosure statement of Scientific Learning Corporation for the three months ended March 31, 2018 and March 31, 2017;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

_____ May 8, 2018

_____ /s/Robert C. Bowen

_____ Chairman and Co-Chief Executive Officer

I, Steve Nathan certify that:

1. I have reviewed this annual disclosure statement of Scientific Learning Corporation for the three months ended March 31, 2018 and March 31, 2017;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

_____ May 8, 2018

_____ /s/Steve Nathan

_____ Chief Financial Officer