Ubiquiti Networks, Inc.
Form 10-Q
February 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015
OR

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

For the transition period from to
Commission File No. 001-35300

UBIQUITI NETWORKS, INC.
(Exact name of registrant as specified in its charter)

Delaware	32-0097377
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2580 Orchard Parkway, San Jose, CA 95131
(Address of principal executive offices, Zip Code)
(408) 942-3085
(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 ¨

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 definition of "accelerated filer, large accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of February 2, 2016, 82,955,912 shares of Common Stock, par value $0.001, were issued and outstanding.

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QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2015

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements
UBIQUITI NETWORKS, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	December 31, 2015	June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$496,672	$446,401
Accounts receivable, net of allowance for doubtful accounts of $1,244 and $1,071 at December 31, 2015 and June 30, 2015 respectively	64,568	66,104
Inventories	33,105	37,031
Vendor deposits	15,620	19,998
Current deferred tax asset	1,535	1,535
Prepaid income taxes	—	2,566
Prepaid expenses and other current assets	8,440	7,711
Total current assets	619,940	581,346
Property and equipment, net	13,359	15,602
Long-term deferred tax asset	1,538	1,515
Other long-term assets	1,918	2,109
Total assets	$636,755	$600,572
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$42,600	$43,856
Income taxes payable	1,739	1,108
Debt - short-term	10,000	10,000
Other current liabilities	16,217	15,170
Total current liabilities	70,556	70,134
Long-term taxes payable	22,129	19,810
Debt - long-term	115,500	87,500
Deferred revenues - long-term	1,003	974
Total liabilities	209,188	178,418
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock—$0.001 par value; 500,000,000 shares authorized: 84,610,812 and 87,413,777 outstanding at December 31, 2015 and June 30, 2015, respectively	85	87
Additional paid–in capital	—	—
Retained earnings	427,482	422,067
Total stockholders' equity	427,567	422,154
Total liabilities and stockholders' equity	$636,755	$600,572

See notes to condensed consolidated financial statements.

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UBIQUITI NETWORKS, INC.
Condensed Consolidated Statements of Operations and Comprehensive Income
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Revenues	$161,871	$153,137	$313,286	$303,224
Cost of revenues	82,830	84,116	160,741	173,152
Gross profit	79,041	69,021	152,545	130,072
Operating expenses:				
Research and development	15,429	12,936	28,990	24,657
Sales, general and administrative	7,433	5,362	15,575	11,058
Business e-mail compromise (“BEC”) fraud loss/(recovery)	(257)	—	(8,291)	—
Total operating expenses	22,605	18,298	36,274	35,715
Income from operations	56,436	50,723	116,271	94,357
Interest expense and other, net	(651)	17	(767)	(41)
Income before provision for income taxes	55,785	50,740	115,504	94,316
Provision for income taxes	6,333	4,475	12,293	10,308
Net income and comprehensive income	$49,452	$46,265	$103,211	$84,008
Net income per share of common stock:				
Basic	$0.58	$0.52	$1.20	$0.95
Diluted	$0.57	$0.52	$1.18	$0.94
Weighted average shares used in computing net income per share of common stock:				
Basic	84,724	88,196	85,893	88,218
Diluted	86,091	89,737	87,285	89,838

See notes to condensed consolidated financial statements.

UBIQUITI NETWORKS, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended December 31,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	$103,211	$84,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,126	1,912
Provision for inventory obsolescence	719	695
Provision for loss on vendor deposits	(16)	—
Write off of software development costs	2,505	—
Excess tax benefit from employee stock-based awards	(432)	(787)
Stock-based compensation	1,984	2,803
Deferred Taxes	(23)	106
Other Adjustments	219	—
Changes in operating assets and liabilities:		
Accounts receivable	1,326	(17,804)
Inventories	3,357	8,145
Vendor deposits	4,393	(17,676)
Deferred cost of revenues	—	976
Prepaid income taxes	2,566	(1,256)
Prepaid expenses and other assets	(775)	(2,513)
Accounts payable	(1,384)	21,068
Income taxes payable	3,383	1,381
Deferred revenues	212	(1,234)
Accrued liabilities and other current liabilities	703	(206)
Net cash provided by operating activities	125,074	79,618
Cash Flows from Investing Activities:		
Purchase of property and equipment and other long-term assets	(3,022)	(8,391)
Net cash used in investing activities	(3,022)	(8,391)
Cash Flows from Financing Activities:		
Proceeds from revolver loan	33,000	—
Repayment of debt	(5,000)	—
Repurchases of common stock	(100,000)	(15,000)
Payment of common stock dividend	—	(15,020)
Proceeds from exercise of stock options	484	497
Excess tax benefit from employee stock-based awards	432	787
Tax withholdings related to net share settlements of restricted stock units	(697)	(985)
Net cash used in financing activities	(71,781)	(29,721)
Net increase in cash and cash equivalents	50,271	41,506
Cash and cash equivalents at beginning of period	446,401	347,097
Cash and cash equivalents at end of period	$496,672	$388,603

See notes to condensed consolidated financial statements.

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UBIQUITI NETWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1—BUSINESS AND BASIS OF PRESENTATION

Business— Ubiquiti Networks, Inc. was incorporated in the State of California in 2003 as Pera Networks, Inc. In 2005 Pera Networks, Inc. changed its name to Ubiquiti Networks, Inc. and commenced its current operations. In June 2010, Ubiquiti Networks, Inc. was re-incorporated in Delaware.

Ubiquiti Networks, Inc. and its wholly owned subsidiaries (collectively, "Ubiquiti" or the "Company") develop high performance networking technology for service providers and enterprises.

The Company operates on a fiscal year ending June 30. In this Quarterly Report, the fiscal year ending June 30, 2016 is referred to as "fiscal 2016" and the fiscal year ended June 30, 2015 is referred to as "fiscal 2015."

Basis of Presentation— The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") related to interim financial statements based on applicable Securities and Exchange Commission ("SEC") rules and regulations. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. This information reflects all adjustments, which are, in the opinion of the Company, of a normal and recurring nature and necessary to state fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The June 30, 2015 balance sheet was derived from the audited financial statements as of that date. All significant intercompany transactions and balances have been eliminated. The Company has reclassified certain amounts reported in the previous period to conform to the current period presentation.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended June 30, 2015, included in its Annual Report on Form 10-K, as filed with the SEC on August 21, 2015 (the "Annual Report"). The results of operations for the three and six months ended December 31, 2015 are not necessarily indicative of the results to be expected for any future periods.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in its audited consolidated financial statements for the year ended June 30, 2015 included in the Annual Report. Except as noted below, there have been no changes to the Company's significant accounting policies as discussed in the Annual Report.

Capitalized Manufacturing Overhead Costs

In fiscal 2016, the Company began capitalizing manufacturing overhead expenditures as part of inventory costs. Capitalized costs primarily include management's best estimate of the direct labor and materials costs related to inventory produced but not sold during the period. As of December 31, 2015, the Company capitalized $994 thousand of manufacturing overhead costs, which are included in inventory on the Company's condensed consolidated balance sheet as of December 31, 2015. These capitalized amounts are recognized as cost of revenues in the following quarter, consistent with the Company's historical inventory turnover.

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board, or FASB, issued a new accounting standard update on revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative

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information is required about contracts with customers, significant judgments and any assets recognized from the costs to obtain or fulfill a contract. The guidance was initially effective for annual and interim reporting periods beginning after December 15, 2016. However, in July 2015, the FASB voted to defer the effective date by one year, to December 15, 2017, to provide adequate time to effectively implement the new standard. The Company does not anticipate that the new guidance will have a material impact on its consolidated financial statements.

In April 2015, the FASB issued an accounting standard update on simplifying the presentation of debt issuance costs. The updated guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The guidance will be effective for the Company beginning July 1, 2016. The guidance will result only in a reclassification on the Company's balance sheet and will not have any effect on the Company's results of operations or cash flows.

In July 2015, the FASB issued Accounting Standards Update (ASU) 2015-11 which explains how the Accounting Standards Codification will be updated to simplify the measurement of inventory costs. The updated guidance requires that inventory be valued at the lower of cost or net realizable value. This differs from current guidance which requires that inventory be valued at the lower of cost or market, where market can be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. The guidance will be effective for the Company beginning July 1, 2017. We do not anticipate that this guidance will have a material impact on the presentation of the Company's consolidated financial statements.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. We are currently evaluating ASU 2015-17 to determine if this guidance will have a material impact on our consolidated financial statements.

NOTE 3—FAIR VALUE OF FINANCIAL INSTRUMENTS

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The accounting guidance establishes a three-tier fair value hierarchy that requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The fair value hierarchy prioritizes the inputs into three levels that may be used in measuring fair value as follows:

Level 1—observable inputs which include quoted prices in active markets for identical assets or liabilities.

Level 2—inputs which include observable inputs other than Level 1, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3—inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

For certain of the Company's financial instruments, including accounts receivable and accounts payable, the carrying amounts approximate fair value due to their short maturities. Additionally, as of December 31, 2015, we held $476.9 million of our $496.7 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States and we would incur significant tax liabilities if we were to repatriate those amounts.

At December 31, 2015 and June 30, 2015 the Company had debt associated with its Amended Credit Agreement with Wells Fargo Bank (See Note 7). The fair value of the Company's debt was estimated based on the current rates offered to the Company for debt with similar terms and remaining maturities and was Level 2 measurement.

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As of December 31, 2015 and June 30, 2015, the fair value hierarchy of the Company's debt carried at historical cost was as follows (in thousands):

	December 31, 2015				June 30, 2015			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Debt	$125,500	$—	$125,500	$—	$97,500	$—	$97,500	$—

NOTE 4—EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (in thousands, except per share data):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Numerator:				
Net income and comprehensive income	$49,452	$46,265	$103,211	$84,008
Denominator:				
Weighted-average shares used in computing basic net income per share	84,724	88,196	85,893	88,218
Add—dilutive potential common shares:				
Stock options	1,281	1,398	1,291	1,442
Restricted stock units	86	143	101	178
Weighted-average shares used in computing diluted net income per share	86,091	89,737	87,285	89,838
Net income per share of common stock:				
Basic	$0.58	$0.52	$1.20	$0.95
Diluted	$0.57	$0.52	$1.18	$0.94

The Company excludes potentially dilutive securities from its diluted net income per share calculation when their effect would be antidilutive to net income per share amounts. The following table summarizes the total potential shares of common stock that were excluded from the diluted per share calculation as including them would have been antidilutive for the period (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Restricted stock units	22	117	1	6
	22	117	1	6

NOTE 5—BALANCE SHEET COMPONENTS

Inventories

Inventories consisted of the following (in thousands):

	December 31, 2015	June 30, 2015
Finished goods	$31,724	$35,848
Raw materials	1,381	1,183
	$33,105	$37,031

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Prepaid Expenses and Other Current Assets

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

	December 31, 2015	June 30, 2015
BEC recovery receivable	$—	$1,376
Other current assets	8,440	6,335
	$8,440	$7,711

Property and Equipment, Net

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

	December 31, 2015	June 30, 2015
Testing equipment	$5,378	$4,816
Computer and other equipment	4,577	4,458
Tooling equipment	4,849	4,073
Furniture and fixtures	1,325	1,239
Leasehold improvements	4,931	4,789
Software (1)	2,333	3,268
Software in development (1),(2)	2,567	2,700
	25,960	25,343
Less: Accumulated depreciation and amortization (3)	(12,601)	(9,741)
	$13,359	$15,602

(1) - In the three months ended December 31, 2015, the Company recorded a $2.5 million impairment charge for capitalized software development costs due to the cancellation of the commercial launch of certain software in development.

(2) - We capitalized $323 thousand and $1.2 million for software development for the three and six months ended December 31, 2015, respectively.

(3) - Depreciation expense was $1.4 million and $2.9 million for the three and six months ended December 31, 2015, respectively.

Other Long-term Assets

Other long-term assets consisted of the following (in thousands):

	December 31, 2015	June 30, 2015
Intangible assets, net (1)	$466	$575
Debt issuance costs, net (2)	814	943
Other long-term assets	638	591
	$1,918	$2,109

(1) - Accumulated amortization was $820 thousand and $690 thousand as of December 31, 2015 and June 30, 2015, respectively.

(2) - Accumulated amortization was $213 thousand and $84 thousand as of December 31, 2015 and June 30, 2015, respectively.

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Other Current Liabilities

Other current liabilities consisted of the following (in thousands):

	December 31, 2015	June 30, 2015
Accrued expenses	$6,011	$5,540
Accrued compensation and benefits	1,637	2,142
Warranty accrual	2,205	2,750
Deferred revenue - short term	2,720	2,538
Customer deposits	572	63
Reserve for sales returns	1,389	1,227
Other payables	1,683	910
	$16,217	$15,170

NOTE 6—ACCRUED WARRANTY

The Company offers warranties on certain products, generally for a period of one year, and records a liability for the estimated future costs associated with potential warranty claims. The warranty costs are reflected in the Company's consolidated statement of operations and comprehensive income within cost of revenues. The warranties are typically in effect for twelve months from the distributor's purchase date of the product. The Company's estimate of future warranty costs is largely based on historical factors including product failure rates, material usage, and service delivery cost incurred in replacing products. In certain circumstances, the Company may have recourse from its contract manufacturers for replacement cost of defective products, which it also factors into its warranty liability assessment.

Warranty obligations, included in other current liabilities, were as follows (in thousands):

	Six Months Ended December 31,	
	2015	2014
Beginning balance	$2,750	$2,850
Accruals for warranties issued during the period	1,027	1,718
Settlements made during the period	(1,572)	(1,818)
	$2,205	$2,750

NOTE 7—DEBT

On August 7, 2012, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with U.S. Bank, as syndication agent, and East West Bank, as administrative agent for the lenders party to the Loan Agreement. The Loan Agreement provided for (i) a $50.0 million revolving credit facility, with a $5.0 million sublimit for the issuance of letters of credit and a $5.0 million sublimit for the making of swingline loan advances, and (ii) a $50.0 million term loan facility.

On May 5, 2014, Ubiquiti Networks, Inc. and certain of its subsidiaries entered into a credit agreement (the "Original Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), the financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders, that provided for a $150.0 million senior secured revolving credit facility, with an option to request an increase in the amount of the credit facility by up to an additional $50.0 million (any such increase to be in each lender's sole discretion). Proceeds from borrowings under the Original Credit Agreement were used to repay the Loan Agreement in full.

On March 3, 2015, Ubiquiti Networks, Inc. and Ubiquiti International Holding Company Limited (the "Cayman Borrower") amended and restated the Original Credit Agreement (the "Amended Credit Agreement") with Wells Fargo, the other financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders. The Amended Credit Agreement provides for a $200.0 million senior secured revolving credit facility and a $100.0 million senior secured term loan facility (collectively, the "Facilities"), with an option to request increases in the amounts of such credit facilities by up to an additional $50.0 million in the aggregate (any such increase to be in each lender's sole discretion), and matures on March 3, 2020. The $100.0 million term loan facility of the Amended Credit Agreement was fully drawn at closing, and $72.3 million was used to repay the outstanding balance under the Original Credit Agreement. During the three months ended December 31, 2015, the Company drew $15 million and $18 million against the revolving credit facility. These balances are not due until March 2020, and accordingly are classified as long-term debt. As of December 31, 2015, $92.5 million was outstanding on the term loan and $33 million on the revolver. As of December 31, 2015, the interest rate on the term loan was 2.10%. As of December 31, 2015, the interest rate for the $15 million revolver draw was 1.85% and will reset on February 8, 2016. Additionally, the interest rate for the $18 million revolver draw was 1.91% and will reset on February 16, 2016. The interest rates on the revolving and term loans fluctuate as described below. Subsequent to December 31, 2015, the Company drew an additional $33 million on the revolver.

The revolving credit facility includes a sub-limit of $10.0 million for letters of credit and a sub-limit of $25.0 million for swingline loans. The Facilities replaced the Company's $150.0 million senior secured revolving credit facility under the Original Credit Agreement. The Facilities are available for working capital and general corporate purposes that comply with the terms of the Amended Credit Agreement. Under the Amended Credit Agreement, revolving loans and swingline loans may be borrowed, repaid and reborrowed until March 3, 2020, at which time all amounts borrowed must be repaid. The term loan is payable in quarterly installments of 2.50% of the original principal amount of the term loan until March 31, 2017, thereafter increasing to 3.75% of the original principal amount of the term loan, in each case plus accrued and unpaid interest. Revolving, swingline and term loans may be prepaid at any time without penalty.

Revolving and term loans bear interest, at the Company's option, at either (i) a floating rate per annum equal to the base rate plus a margin of between 0.50% and 1.25%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter or (ii) a floating per annum rate equal to the applicable LIBOR rate for a specified period, plus a margin of between 1.50% and 2.25%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. Swingline loans bear interest at a floating rate per annum equal to the base rate plus a margin of between 0.50% and 1.25%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. Base rate is defined as the greatest of (A) Wells Fargo's prime rate, (B) the federal funds rate plus 0.50% or (C) the applicable LIBOR rate for a period of one month plus 1.00%. A default interest rate shall apply on all obligations during certain events of default under the Amended Credit Agreement at a rate per annum equal to 2.00% above the applicable interest rate. The Company will pay to each lender a facility fee on a quarterly basis based on the unused amount of each lender's commitment to make revolving loans, of between 0.20% and 0.35%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. The Company will also pay to the applicable lenders on a quarterly basis certain fees based on the daily amount available to be drawn under each outstanding letter of credit, including aggregate letter of credit commissions of the LIBOR rate plus a margin of between 1.50% and 2.25%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter, and issuance fees of 0.125% per annum. The Company is also obligated to pay Wells Fargo, as agent, fees customary for a credit facility of this size and type.

The Amended Credit Agreement requires the Company to maintain during the term of the Facilities (i) a maximum leverage ratio of 2.50 to 1.00 and (ii) minimum liquidity of $225.0 million, increasing to $250.0 million in the event of an incremental increase in the size of the Facilities, which can be satisfied with unrestricted cash and cash equivalents and up to $50.0 million of availability under the revolving credit facility. In addition, the Amended Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the ability of the Company and its subsidiaries to, among other things, grant liens or enter into agreements restricting their ability to grant liens on property, enter into mergers, dispose of assets, change their accounting or reporting policies, change their business and incur indebtedness, in each case subject to customary exceptions for a credit facility of this size and type. The Amended Credit Agreement includes customary events of default that include, among other things, non-payment of principal, interest or fees, inaccuracy of representations and warranties, violation of covenants, cross default to certain other indebtedness, bankruptcy and insolvency events, material judgments, change of control and certain ERISA events. The occurrence of an event of default could result in the acceleration of the obligations under the Amended Credit Agreement.

The obligations of Ubiquiti Networks, Inc. and certain domestic subsidiaries, if any, under the Amended Credit Agreement are required to be guaranteed by such domestic subsidiaries (the "Domestic Guarantors") and are collateralized by substantially all assets (excluding intellectual property) of Ubiquiti Networks, Inc. and the Domestic Guarantors. The obligations of the Cayman Borrower and certain foreign subsidiaries under the Amended Credit Agreement are required to be guaranteed by certain domestic and material foreign subsidiaries (the "Guarantors") and are collateralized by substantially all assets (excluding intellectual property) of the Cayman Borrower and the Guarantors.

During the three months ended December 31, 2015, the Company made a payment of $2.9 million against the term loan facility balance under the Amended Credit Agreement, of which $2.5 million was a repayment of principal and $439 thousand was payment of interest. During the six months ended December 31, 2015, the Company made aggregate payments of $5.9 million against the term loan facility balance under the Amended Credit Agreement, of which $5.0 million was a repayment of principal and $883 thousand was payment of interest. During the three and six months ended December 31, 2015, the Company made aggregate payments of $99 thousand against the revolving loan facility under the Amended Credit Agreement. As of December 31, 2015, the Company classified $10.0 million as short-term and $115.5 million as long-term debt on its consolidated balance sheet related to the Facilities under the Amended Credit Agreement.

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On September 2, 2015, the Company accessed a letter of credit under its revolving credit facility in the amount of $237 thousand for the benefit of the landlord pursuant to a new lease of office space. The landlord can draw against the letter of credit in the event of default by the Company. The letter of credit expires on September 2, 2016, subject to automatic renewal for additional one-year periods.

The following table summarizes our estimated debt and interest payment obligations as of December 31, 2015, for the remainder of fiscal 2016 and future fiscal years (in thousands):

	2016 (remainder)	2017	2018	2019	2020	Thereafter	Total
Debt payment obligations	$ 5,000	$ 11,250	$ 15,000	$ 15,000	$ 79,250	$—	$ 125,500
Interest and other payments on debt	1,439	2,718	2,442	2,127	1,313	—	10,039
Total	$ 6,439	$ 13,968	$ 17,442	$ 17,127	$ 80,563	$—	$ 135,539

NOTE 8—COMMITMENTS AND CONTINGENCIES

Operating Leases

Certain facilities and equipment are leased under non-cancelable operating leases. The Company generally pays taxes, insurance and maintenance costs on leased facilities and equipment. The Company leases office space in San Jose, California and other locations under various non-cancelable operating leases that expire at various dates through 2021. At December 31, 2015, future minimum annual payments under operating leases for the remainder of fiscal 2016 and future fiscal years are as follows (in thousands):

	2016 (remainder)	2017	2018	2019	2020	Thereafter	Total
Operating leases	$ 2,297	$ 3,629	$ 2,082	$ 978	$ 668	$ 276	$ 9,930

Purchase Obligations

The Company primarily subcontracts with other companies to manufacture its products. During the normal course of business, the Company's contract manufacturers procure components based upon orders placed by the Company. If the Company cancels all or part of the orders, it may still be liable to the contract manufacturers for the cost of the components purchased by them to manufacture the Company's products. The Company periodically reviews the potential liability, and to date, no significant accruals have been recorded. The Company had inventory purchase obligations of $21.6 million as of December 31, 2015.

Other Obligations

The Company had other obligations of $6.2 million as of December 31, 2015, which consisted primarily of commitments related to research and development projects.

Indemnification Obligations

The Company enters into standard indemnification agreements with many of its business partners in the ordinary course of business. These agreements include provisions for indemnifying the business partner against any claim brought by a third-party to the extent any such claim alleges that a Company product infringes a patent, copyright or trademark, or violates any other proprietary rights of that third-party. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is not estimable and the Company has not incurred any material costs to defend lawsuits or settle claims related to these indemnification agreements to date.

Legal Matters

The Company may be involved, from time to time, in a variety of claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters and other litigation matters relating to various claims that arise in the normal course of business. The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using available information. The Company develops its views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Taking all of the above factors into account, the Company records an amount where it is probable that the Company

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will incur a loss and where that loss can be reasonably estimated. However, the Company's estimates may be incorrect and the Company could ultimately incur more or less than the amounts initially recorded. The Company may also incur significant legal fees, which are expensed as incurred, in defending against these claims.

Shareholder Class Action Lawsuits

Beginning on September 7, 2012, two class action lawsuits were filed in the United States District Court for the Northern District of California against Ubiquiti Networks, Inc., certain of its officers and directors, and the underwriters of its initial public offering, alleging claims under U.S. securities laws. On January 30, 2013, the plaintiffs filed an amended consolidated complaint. On March 26, 2014, the court issued an order granting a motion to dismiss the complaint with leave to amend. Following the plaintiffs' decision not to file an amended complaint, on April 16, 2014, the court ordered the dismissal of the lawsuit with prejudice, and entered judgment in favor of the Company and the other defendants, and against the plaintiffs. On May 15, 2014, the plaintiffs filed a notice of appeal from the judgment of the court. The appeal is ongoing before the U.S. Court of Appeals for the Ninth Circuit. There can be no assurance that the Company will prevail in the appeal proceeding. The Company cannot currently estimate the possible loss, if any, that it may experience in connection with this litigation.

NOTE 9—COMMON STOCK AND TREASURY STOCK

As of December 31, 2015 and June 30, 2015, the authorized capital of the Company included 500,000,000 shares of common stock. As of December 31, 2015 and June 30, 2015, there were 84,610,812 and 87,413,777 shares of common stock outstanding, respectively.

Common Stock Repurchases

Effective August 7, 2015, the Board of Directors approved a $100 million stock repurchase program. Under the stock repurchase program, the Company was authorized to repurchase up to $100 million of its common stock. All common stock repurchased by the Company is immediately retired. Upon retirement, the excess over par value is recorded as a reduction in Additional Paid-in Capital until the balance is reduced to zero, with any additional excess recorded to Retained Earnings. The share repurchase program is funded from existing domestic cash on hand in addition to draws on the revolving credit facility of the Amended Credit Agreement. In the first quarter of fiscal 2016, the Company repurchased 1,872,469 shares of its common stock at an average price per share of $33.79 for an aggregate amount of $63.3 million. Of the $63.3 million of repurchases and retirements, $1.1 million was recorded against Additional Paid-in Capital and $62.2 million to Retained Earnings. In the second fiscal quarter of 2016, the Company repurchased 1,074,749 shares of its common stock at an average price per share of $34.12 for an aggregate amount of $36.7 million, extinguishing the full $100 million of availability under this stock repurchase program. Of the $36.7 million of repurchases and retirements, $1.1 million was recorded against Additional Paid-in Capital and $35.6 million to Retained Earnings.

Effective November 6, 2015, the Board of Directors of the Company approved a new stock repurchase program where the Company may repurchase up to $50 million of its common stock. The plan expires on September 30, 2016. As of December 31, 2015, the Company had the full $50 million remaining for common stock repurchases under the repurchase plan. Subsequent to December 31, 2015, the Company repurchased an additional 1,765,523 shares of its common stock at an average price per share of $28.30 for an aggregate amount of $50.0 million, extinguishing the full $50.0 million available under this stock repurchase program.

NOTE 10—STOCK BASED COMPENSATION

Stock-Based Compensation Plans

The Company's 2010 Equity Incentive Plan and 2005 Equity Incentive Plan are described in its Annual Report. As of December 31, 2015, the Company had 10,030,685 authorized shares available for future issuance under all of its stock incentive plans.

Stock-Based Compensation

The following table shows total stock-based compensation expense included in the Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2015 and 2014 (in thousands):

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Cost of sales	$114	$150	$227	$299
Research and development	580	864	1,204	1,689
Sales, general and administrative	263	417	553	815
	$957	$1,431	$1,984	$2,803

Stock Options

The following is a summary of option activity for the Company's stock incentive plans for the six months ended December 31, 2015:

	Common Stock Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Balance, June 30, 2015	2,301,144	$2.38		
Exercised	(78,863)	6.17		
Forfeitures and cancellations	(927)	20.10		
Balance, December 31, 2015	2,221,354	2.24	3.23	$65,417
Vested and expected to vest as of December 31, 2015	2,218,887	$2.23	3.22	$65,367
Vested and exercisable as of December 31, 2015	2,140,364	$1.90	3.10	$63,769

During the three months ended December 31, 2015 and December 31, 2014, the aggregate intrinsic value of options exercised under the Company's stock incentive plans was $738 thousand and $140 thousand, respectively, as determined as of the date of option exercise. During the six months ended December 31, 2015 and 2014, the aggregate intrinsic value of options exercised under the Company's stock incentive plans was $2.2 million and $5 million, respectively, as determined as of the date of option exercise.

As of December 31, 2015, the Company had unrecognized compensation costs of $421 thousand related to stock options which the Company expects to recognize over a weighted-average period of 1.0 year. Future option grants will increase the amount of compensation expense to be recorded in these periods.

The Company estimates the fair value of employee stock options using the Black-Scholes option pricing model. The fair value of employee stock options is amortized on a straight-line basis over the requisite service period of the awards. The Company did not grant any employee stock options during the three and six months ended December 31, 2015 and 2014.

Restricted Stock Units ("RSUs")

The following table summarizes the activity of the RSUs made by the Company:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Non-vested RSUs, June 30, 2015	400,635	$26.95
RSUs granted	48,051	32.93
RSUs vested	(86,592)	24.11
RSUs cancelled	(63,184)	34.28
Non-vested RSUs, December 31, 2015	298,910	$27.18

The intrinsic value of RSUs vested in the three months ended December 31, 2015 and 2014 was $941 thousand and $1.1 million, respectively. The intrinsic value of RSUs vested in the six months ended December 31, 2015 and 2014 was $2.8 million and $3.8 million, respectively.

As of December 31, 2015, there were unrecognized compensation costs related to RSUs of $5.9 million which the Company expects to recognize over a weighted average period of 2.9 years.

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NOTE 11—INCOME TAXES

As of December 31, 2015, the Company had approximately $21.9 million of unrecognized tax benefits, substantially all of which would, if recognized, affect its tax expense. The Company has elected to include interest and penalties related to uncertain tax positions as a component of tax expense. At December 31, 2015, an insignificant amount of interest and penalties are included in long-term income tax payable. The Company recorded a net increase of its unrecognized tax benefits of $1.2 million for the three months ended December 31, 2015. The Company does not expect any significant increases or decreases to its unrecognized tax benefits in the next twelve months.

The Company recorded a tax provision of $6.3 million and $12.3 million for the three and six months ended December 31, 2015. The Company's estimated fiscal 2016 effective tax rate differs from the U.S. statutory rate primarily due to profits earned in jurisdictions where the tax rate is lower than the U.S. tax rate.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company's tax filings from fiscal 2010 and onwards could be subject to examinations by tax authorities.

On July 27, 2015, in Altera Corp. v. Commissioner, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision has yet to be issued by the Tax Court due to other outstanding issues related to the case. At this time, the U.S. Department of the Treasury has not withdrawn the requirement to include stock-based compensation from its regulations. We have reviewed this case and its potential impact on Ubiquiti and concluded that no adjustment to the condensed consolidated financial statements is appropriate at this time. We will continue to monitor ongoing developments and potential impacts to our consolidated financial statements.

As discussed in Note 2, in November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. We are currently evaluating ASU 2015-17 to determine if this guidance will have a material impact on our consolidated financial statements.

NOTE 12—SEGMENT INFORMATION, REVENUES BY GEOGRAPHY AND SIGNIFICANT CUSTOMERS

Management has determined that the Company operates as one reportable and operating segment as it only reports financial information on an aggregate and consolidated basis to its chief executive officer, who is the Company's chief operating decision maker. Furthermore, the Company does not organize or report its costs on a segment basis. The Company presents its revenues by product type in two primary categories, including Service Provider Technology and Enterprise Technology.

- Service Provider Technology includes the Company's airMAX, EdgeMAX and airFiber platforms, as well as embedded radio products and other 802.11 standard products including base stations, radios, backhaul equipment and Customer Premise Equipment ("CPE"). Additionally, Service Provider Technology includes antennas and other products in the 0.9 to 6.0 GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters. Service Provider Technology also includes solar products (sales of which have not been material to date) and revenues that are attributable to post-contract customer support ("PCS").

- Enterprise Technology includes the Company's UniFi and mFi platforms, including UniFi Access Point ("UAP") products, UniFi Video products, UniFi Voice Over IP ("VOIP") phones and UniFi switch products. Enterprise Technology also includes revenues that are attributable to PCS.

Revenues by product type are as follows (in thousands, except percentages):

	Three Months Ended December 31,						Six Months Ended December 31,					
	2015			2014			2015			2014		
Service Provider Technology	$109,616	68	%	$99,720	65	%	$213,015	68	%	$206,991	68	%
Enterprise Technology	52,255	32	%	53,417	35	%	100,271	32	%	96,233	32	%
Total revenues	$161,871	100	%	$153,137	100	%	$313,286	100	%	$303,224	100	%

Revenues by geography based on customer's ship-to destinations were as follows (in thousands, except percentages):

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	Three Months Ended December 31,				Six Months Ended December 31,			
	2015		2014		2015		2014	
North America (1)	$57,133	35 %	$54,127	35 %	$110,367	35 %	$107,708	36 %
South America	23,795	15 %	22,241	15 %	45,943	15 %	53,376	18 %
Europe, the Middle East and Africa	60,973	38 %	60,097	39 %	121,476	39 %	110,704	36 %
Asia Pacific	19,970	12 %	16,672	11 %	35,500	11 %	31,436	10 %
Total revenues	$161,871	100 %	$153,137	100 %	$313,286	100 %	$303,224	100 %

(1) Revenue for the United States was $53.6 million and $50.5 million for the three months ended December 31, 2015 and 2014, respectively. Revenue for the United States was $104.2 million and $102.2 million for the six months ended December 31, 2015 and 2014, respectively.

Customers with an accounts receivable balance of 10% or greater of total accounts receivable and customers with net revenues of 10% or greater of total revenues are presented below for the periods indicated:

	Percentage of Revenues				Percentage of Accounts Receivable	
	Three Months Ended December 31,		Six Months Ended December 31,		December 31,	June 30,
	2015	2014	2015	2014	2015	2015
Customer A	13%	12%	11%	11%	*	*
Customer B	*	13%	*	11%	*	13%
Customer C	*	*	*	*	14%	12%
Customer D	*	*	*	*	15%	*

* denotes less than 10%

NOTE 13—RELATED PARTY TRANSACTIONS AND CERTAIN OTHER TRANSACTIONS

Aircraft Lease Agreement

On November 13, 2013, the Company entered into an aircraft lease agreement (the “Aircraft Lease Agreement”) with RJP Manageco LLC (the “Lessor”), a limited liability company owned by the Company’s CEO, Robert J. Pera. Pursuant to the Aircraft Lease Agreement, the Company may lease an aircraft owned by the Lessor for Company business purposes. Under the Aircraft Lease Agreement, the aircraft may be leased at a rate of $5,000 per flight hour. This hourly rate does not include the cost of flight crew or on-board services, which the Company purchases from a third-party provider. The Company recognized a total of approximately $394 thousand and $607 thousand in expenses pursuant to the Aircraft Lease Agreement during the three and six months ended December 31, 2015, respectively. In comparison, the Company recognized a total of approximately $29 thousand and $180 thousand in expenses pursuant to the Aircraft Lease Agreement during the three and six months ended December 31, 2014, respectively. All expenses pursuant to the Aircraft Lease Agreement have been included in the Company’s sales, general and administrative expenses in the Condensed Consolidated Statements of Operations.

NOTE 14—BUSINESS EMAIL COMPROMISE FRAUD LOSS

As disclosed in Note 14 of the Annual Report, in June 2015 the Company determined that it was the victim of a criminal fraud known to law enforcement authorities as business e-mail compromise fraud which involved employee impersonation and fraudulent requests targeting our finance department. The fraud resulted in transfers of funds aggregating $46.7 million held by a Company subsidiary incorporated in Hong Kong to other overseas accounts held by third parties. As of June 30, 2015, the Company recovered $8.1 million. As a result, the Company recorded a charge of $39.1 million in the fourth quarter of fiscal 2015, including additional expenses consisting of professional service fees associated with the fraud loss. During the three months ended September 30, 2015, the Company secured a court order for an additional recovery of $8.6 million. As a result, the Company recorded a net recovery of $8.0

million in the first quarter of fiscal 2016, comprised of the $8.6 million recovery less $564 thousand of professional service fees associated with the recovery. As of September 30, 2015, $6.0 million of the $8.6 million was recorded as receivable. During the three months ended December 31, 2015, the Company collected the $6.0 million, receiving $5.6 million in cash net of $400 thousand in foreign exchange loss and transaction fees. Additionally, the Company recorded a net recovery of $257 thousand as a result of incurring $344 thousand less in BEC legal expenses than previously accrued at September 30, 2015 offset by $87 thousand in transaction fees.

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The Company is continuing to pursue the recovery of the remaining $30.0 million and is cooperating with U.S. federal and numerous overseas law enforcement authorities who are actively pursuing a multi-agency criminal investigation. Any additional recoveries are likely remote and therefore cannot be assured.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read together with the financial statements and related notes that are included elsewhere in this quarterly report. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this quarterly report, particularly in Part II, Item 1, Legal Proceedings and 1A, Risk Factors, in this report.

Overview

Ubiquiti Networks, Inc. develops high performance networking technology for service providers and enterprises. Our technology platforms focus on delivering highly-advanced and easily deployable solutions that appeal to a global customer base in underserved and underpenetrated markets. Our differentiated business model has enabled us to break down traditional barriers, such as high product and network deployment costs, and offer solutions with disruptive price-performance characteristics. This differentiated business model, combined with our innovative proprietary technologies, has resulted in an attractive alternative to traditional high touch, high cost providers, allowing us to advance the market adoption of our platforms for ubiquitous connectivity.

We offer a broad and expanding portfolio of networking products and solutions for service providers and enterprises. Our service provider product platforms provide carrier-class network infrastructure for fixed wireless broadband, wireless backhaul systems and routing. Our enterprise product platforms provide wireless LAN infrastructure, video surveillance products, UniFi VOIP phones, UniFi switches and machine-to-machine communication components. We believe that our products are highly differentiated due to our proprietary software protocol innovation, firmware expertise, and hardware design capabilities. This differentiation allows our portfolio to meet the demanding performance requirements of video, voice and data applications at prices that are a fraction of those offered by our competitors.

As a core part of our strategy, we have developed a differentiated business model for marketing and selling high volumes of carrier and enterprise-class communications platforms. Our business model is driven by a large, growing and highly engaged community of service providers, distributors, value added resellers, systems integrators and corporate IT professionals, which we refer to as the Ubiquiti Community. The Ubiquiti Community is a critical element of our business strategy as it enables us to drive:

- Rapid customer and community driven product development. We have an active, loyal community built by our customers that we believe is a sustainable competitive advantage. Our solutions benefit from the active engagement between the Ubiquiti Community and our development engineers throughout the product development cycle, which eliminates long and expensive multistep internal processes and results in rapid introduction and adoption of our products. This approach significantly reduces our development costs and time to market.

- Scalable sales and marketing model. We do not currently have, nor do we plan to hire, a direct sales force, but instead utilize the Ubiquiti Community to drive market awareness and demand for our products and solutions. This community-propagated, viral marketing enables us to reach underserved and underpenetrated markets far more efficiently and cost-effectively than is possible through traditional sales models. Leveraging the information transparency of the Internet allows customers to research, evaluate and validate our solutions with the Ubiquiti Community and via third-party web sites. This allows us to operate a scalable sales and marketing model and effectively create awareness for our brand and products. Word-of-mouth referrals from the Ubiquiti Community generate high quality leads for our distributors at relatively little cost.

- Self-sustaining product support. The engaged members of the Ubiquiti Community have enabled us to foster a large, cost efficient, highly-scalable and, we believe, self-sustaining mechanism for rapid product support and dissemination of information.

By reducing the cost of development, sales, marketing and support we are able to eliminate traditional business model inefficiencies and offer innovative solutions with disruptive price performance characteristics to our customers.

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Key Components of Our Results of Operations and Financial Condition

Revenues

Our revenues are derived principally from the sale of networking hardware and management tools. In addition, while we do not sell maintenance and support separately, because we have historically included it free of charge in many of our arrangements, we attribute a portion of our systems revenues to this implied post-contract customer support ("PCS").

We classify our revenues into two primary product categories: Service Provider Technology and Enterprise Technology.

- Service Provider Technology includes our airMAX, EdgeMAX and airFiber platforms, as well as embedded radio products and other 802.11 standard products including base stations, radios, backhaul equipment and CPE. Additionally, Service Provider Technology includes antennas and other products in the 0.9 to 6.0 GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters. Service Provider Technology also includes solar products (sales of which have not been material to date) and revenues that are attributable to PCS.

- Enterprise Technology includes our UniFi and mFi platforms, including UAP products, UniFi Video Products, UniFi VOIP phones and UniFi switch products. Enterprise Technology also includes revenues that are attributable to PCS.

We sell substantially all of our products through a limited number of distributors and other channel partners, such as resellers and Original Equipment Manufacturers ("OEMs"). Sales to distributors accounted for 98% of our revenues in the three and six months ended December 31, 2015.

Cost of Revenues

Our cost of revenues is comprised primarily of the costs of procuring finished goods from our contract manufacturers and chipsets that we consign to certain of our contract manufacturers. In addition, cost of revenues includes labor and other costs associated with engineering, including salary, benefits and stock-based compensation in addition to costs associated with tooling, testing and quality assurance, warranty fees, logistics fees and excess and obsolete inventory. In addition to utilizing contract manufacturers, we outsource our logistics warehousing and order fulfillment functions, which are located primarily in China, and to a lesser extent, Taiwan. We also evaluate and utilize other vendors for various portions of our supply chain from time to time. Our operations organization consists of employees and consultants engaged in the management of our contract manufacturers, new product introduction activities, logistical support and engineering.

Gross Profit

Our gross profit has been, and may, in the future, be influenced by several factors, including changes in product mix, target end markets for our products, pricing due to competitive pressure, production costs and global demand for electronic components. Although we procure and sell our products in U.S. dollars, our contract manufacturers incur many costs, including labor costs, in other currencies. To the extent that the exchange rates move unfavorably for our contract manufacturers, they may try to pass these additional costs to us, which could have a material impact on our future average selling prices and unit costs.

Operating Expenses

We classify our operating expenses as research and development and sales, general and administrative expenses.

- Research and development expenses consist primarily of salary and benefit expenses, including stock-based compensation, for employees and costs for contractors engaged in research, design and development activities, as well as costs for prototypes, purchased Intellectual Property ("IP"), facilities and travel. Over time, we expect our research and development costs to increase as we continue making significant investments in developing new products and developing new versions of our existing products.

- Sales, general and administrative expenses include salary and benefit expenses, including stock-based compensation, for employees and costs for contractors engaged in sales, marketing and general and administrative activities, as well as the costs of legal expenses, trade shows, marketing programs, promotional materials, bad debt expense, professional services, facilities, general liability insurance and travel. As our product portfolio and targeted markets expand, we may need to employ different sales models, such as building a direct sales force. These sales models would likely increase our costs. Over time, we expect our sales, general and administrative expenses to increase in absolute dollars due to

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continued growth in headcount, expansion of our efforts to register and defend trademarks and patents and to support our business and operations.

Deferred Revenues and Costs

We recognize revenues when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and the collectability of the resulting receivable is reasonably assured. In cases where we lack evidence that all of these criteria have been met, we defer recognition of revenue. We classify the cost of products associated with these deferred revenues as deferred costs of revenues.

Included in our deferred revenues is a portion related to PCS obligations that we estimate we will fulfill in the future. As of December 31, 2015 and June 30, 2015, we had deferred revenues of $3.6 million and $3.5 million, respectively, related to these obligations.

Critical Accounting Policies

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. In other cases, management’s judgment is required in selecting among available alternative accounting standards that provide for different accounting treatment for similar transactions. The preparation of condensed consolidated financial statements also requires us to make estimates and assumptions that affect the amounts we report as assets, liabilities, revenues, costs and expenses and affect the related disclosures. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. In many instances, we could reasonably use different accounting estimates, and in some instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, our actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. Our critical accounting policies are discussed in our Annual Report, and there have been no material changes that have not been disclosed in Note 2 herein.

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Results of Operations
Comparison of Three and Six Months Ended December 31, 2015 and 2014

	Three Months Ended December 31,				Six Months Ended December 31,			
	2015		2014		2015		2014	
	(In thousands, except percentages)							
Revenues	$161,871	100 %	$153,137	100 %	$313,286	100 %	$303,224	100 %
Cost of revenues (1)(2)(3)	82,830	51 %	84,116	55 %	160,741	51 %	173,152	57 %
Gross profit	79,041	49 %	69,021	45 %	152,545	49 %	130,072	43 %
Operating expenses:								
Research and development (1)	15,429	10 %	12,936	8 %	28,990	9 %	24,657	8 %
Sales, general and administrative (1)	7,433	5 %	5,362	4 %	15,575	5 %	11,058	4 %
Business e-mail compromise (“BEC”) fraud loss/(recovery)	(257)	*	—	*	(8,291)	(3)%	—	*
Total operating expenses	22,605	14 %	18,298	12 %	36,274	12 %	35,715	12 %
Income from operations	56,436	35 %	50,723	33 %	116,271	37 %	94,357	31 %
Interest expense and other, net	(651)	*	17	*	(767)	*	(41)	*
Income before provision for income taxes	55,785	34 %	50,740	33 %	115,504	37 %	94,316	31 %
Provision for income taxes	6,333	4 %	4,475	3 %	12,293	4 %	10,308	3 %
Net income and comprehensive income	$49,452	31 %	$46,265	30 %	$103,211	33 %	$84,008	28 %

* Less than 1%

(1) Includes stock-based compensation as follows:				
Cost of revenues	$114	$150	$227	$299
Research and development	580	864	1,204	1,689
Sales, general and administrative	263	417	553	815
Total stock-based compensation	$957	$1,431	$1,984	$2,803
(2) Includes purchase commitment termination fee	$—	$—	$—	$5,500
(3) Includes benefit of implementing overhead capitalization	$(50)	$—	$(994)	$—

Revenues

Total revenues increased 8.8 million, or 6%, from $153.1 million in the three months ended December 31, 2014 to $161.9 million in the three months ended December 31, 2015. Revenues increased $10.1 million, or 3% from $303.2 million in the six months ended December 31, 2014 to $313.3 million in the six months ended December 31, 2015. The drivers of both increases are discussed in further detail below. During the three and six months ended December 31, 2015, there were no material price changes in the Company's products sold. During these periods there were changes in product mix, including a higher mix of Service Provider Technology products sold during the three months ended December 31, 2015 as compared to the three months ended December 31, 2014 and a slightly higher mix of Enterprise Technology products sold during the six months ended December 31, 2015 as compared to the six months ended December 31, 2014.

Revenues by Product Type

	Three Months Ended December 31,						Six Months Ended December 31,					
	2015			2014			2015			2014		
	(in thousands, except percentages)											
Service Provider Technology	$109,616	68	%	$99,720	65	%	$213,015	68	%	$206,991	68	%
Enterprise Technology	52,255	32	%	53,417	35	%	100,271	32	%	96,233	32	%
Total revenues	$161,871	100	%	$153,137	100	%	$313,286	100	%	$303,224	100	%

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Service Provider Technology revenue increased $9.9 million, or 10%, from $99.7 million in the three months ended December 31, 2014 to $109.6 million in the three months ended December 31, 2015. Revenues increased $6.0 million, or 3%, from $207.0 million in the six months ended December 31, 2014 to $213.0 million in the six months ended December 31, 2015. The increase in Service Provider Technology revenue during the three months ended December 31, 2015 as compared to the same period in the prior year was primarily due to increased revenues for Service Provider Technology products outside of North America. The increase in Service Provider Technology revenue during the six months ended December 31, 2015 as compared to the same period in the prior year was primarily due to increased revenues for Service Provider Technology products outside of South America.

Enterprise Technology revenue decreased $1.1 million, or 2%, from $53.4 million in the three months ended December 31, 2014 to $52.3 million in the three months ended December 31, 2015. Revenues increased $4.1 million, or 4%, from $96.2 million in the six months ended December 31, 2014 to $100.3 million in the six months ended December 31, 2015. The decrease in Enterprise Technology revenue during the three months ended December 31, 2015 as compared to the same period in the prior year was primarily due to decreased revenues in EMEA and South America, partially offset by increased revenues in North America. The increase in Enterprise Technology revenue during the six months ended December 31, 2015 as compared to the same period in the prior year was primarily due to increased revenues in EMEA, partially offset by decreased revenues South America.

Revenues by Geography

We have determined the geographical distribution of our product revenues based on our customers' ship-to destinations. A majority of our sales are to distributors who either sell to resellers or directly to end customers, who may be located in different countries than the initial ship-to destination. The following are our revenues by geography for the three and six months ended December 31, 2015 and 2014 (in thousands, except percentages):

	Three Months Ended December 31,						Six Months Ended December 31,					
	2015			2014			2015			2014		
North America (1)	$57,133	35	%	$54,127	35	%	$110,367	35	%	$107,708	36	%
South America	23,795	15	%	22,241	15	%	45,943	15	%	53,376	18	%
Europe, the Middle East and Africa	60,973	38	%	60,097	39	%	121,476	39	%	110,704	36	%
Asia Pacific	19,970	12	%	16,672	11	%	35,500	11	%	31,436	10	%
Total revenues	$161,871	100	%	$153,137	100	%	$313,286	100	%	$303,224	100	%

(1) Revenue for the United States was $53.6 million and $50.5 million for the three months ended December 31, 2015 and 2014, respectively. Revenue for the United States was $104.2 million and $102.2 million for the six months ended December 31, 2015 and 2014, respectively.

North America

Revenues in North America increased $3.0 million, or 6%, from $54.1 million in the three months ended December 31, 2014 to $57.1 million in the three months ended December 31, 2015. Revenues increased $2.7 million, or 3%, from $107.7 million in the six months ended December 31, 2014 to $110.4 million in the six months ended December 31, 2015. The increase in North American revenues during the three months ended December 31, 2015 as compared to the same period in the prior year was primarily due to increased Enterprise Technology revenue. The increase during the six months ended December 31, 2015 as compared to the same period in the prior year was primarily due to increased Service Provider Technology revenue.

South America

Revenues in South America increased $1.6 million, or 7%, from $22.2 million in the three months ended December 31, 2014 to $23.8 million in the three months ended December 31, 2015. Revenues decreased $7.5 million, or 14%, from $53.4 million in the six months ended December 31, 2014 to $45.9 million in the six months ended December 31, 2015. The increase in South American revenues during the three months ended December 31, 2015 as compared to the same period in the prior year was primarily due to increased revenues from Service Provider Technology products. The decrease in South American revenues during the six months ended December 31, 2015 as compared to the same period in the prior year was primarily due to decreased revenues from Service Provider Technology products. We believe that the large fluctuations in South American revenues are largely driven by a strong U.S. dollar and by general economic instability in the region.

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Europe, the Middle East, and Africa (EMEA)

Revenues in EMEA increased $0.9 million, or 1%, from $60.1 million in the three months ended December 31, 2014 to $61.0 million in the three months ended December 31, 2015. Revenues increased $10.8 million, or 10%, from $110.7 million in the six months ended December 31, 2014 to $121.5 million in the six months ended December 31, 2015. The increase in EMEA revenues during the three and six months ended December 31, 2015 as compared to the same periods in the prior year was primarily due to increased revenues from Service Provider Technology products.

Asia Pacific

Revenues in the Asia Pacific region increased $3.3 million, or 20%, from $16.7 million in the three months ended December 31, 2014 to $20.0 million in the three months ended December 31, 2015. Revenues increased $4.1 million, or 13%, from $31.4 million in the six months ended December 31, 2014 to $35.5 million in the six months ended December 31, 2015. The increase in Asia Pacific revenues during both the three and six months ended December 31, 2015 as compared to the same periods in the prior year was primarily due to increased Service Provider Technology revenue.

Cost of Revenues and Gross Profit

Cost of revenues decreased $1.3 million, or 2%, from $84.1 million in the three months ended December 31, 2014 to $82.8 million in the three months ended December 31, 2015. This reduction primarily relates to changes in product mix and improved gross margins in the Service Provider Technology product category.

Cost of revenues decreased $12.5 million, or 7%, from $173.2 million in the six month period ended December 31, 2014 to $160.7 million in the six months ended December 31, 2015. This reduction reflects a non-recurring termination fee of $5.5 million recognized in the prior six months ended December 31, 2014 related to the cancellation of a purchase commitment. Additionally, as discussed further in Note 2, in the six months ended December 31, 2015, the Company began capitalizing manufacturing overhead related to inventory produced but not sold during the period. Specifically, in the six months ended December 31, 2015, the impact of capitalization of manufacturing overhead was a net reduction of $994 thousand to cost of revenues. The remaining decrease in costs of revenues is attributable to improved margins for both Service Provider and Enterprise Technologies.

Gross profit margin increased to 49% in the three months ended December 31, 2015 compared to 45% in the three months ended December 31, 2014, and increased to 49% in the six months ended December 31, 2015 compared to 43% in the six months ended December 31, 2014. The increases for both periods are consistent with the cost of revenue fluctuations discussed above.

Operating Expenses

Research and Development

Research and development (“R&D”) expenses increased $2.5 million, or 19%, from $12.9 million in the three months ended December 31, 2014 to $15.4 million in the three months ended December 31, 2015. As a percentage of revenues, research and development expenses increased from 8% in the three months ended December 31, 2014 to 10% in the three months ended December 31, 2015. This increase is due to a $2.5 million impairment charge for capitalized software development costs recorded in the three months ended December 31, 2015 related to the cancellation of the commercial launch of certain software in development. Research and development costs increased $4.3 million, or 17%, from $24.7 million in the six months ended December 31, 2014 to $29.0 million in the six months ended December 31, 2015. As a percentage of revenues, research and development expenses increased from 8% in the six months ended December 31, 2014 to 9% in the six months ended December 31, 2015. This increase is driven by the $2.5 million impairment charge for capitalized software development costs recognized in the six months ended December 31, 2015, as discussed above. Additionally, this increase is driven by decreased levels of software capitalization in the six months ended December 31, 2015 as compared to the same period ended December 31, 2014. Over time, we expect our research and development costs to increase in absolute dollars as we continue making investments in developing new products and developing new versions of our existing products.

Sales, General and Administrative

Sales, general and administrative expenses increased $2.0 million, or 37%, from $5.4 million in the three months ended December 31, 2014 to $7.4 million in the three months ended December 31, 2015. As a percentage of revenues, sales, general and administrative expenses increased from 4% in the three months ended December 31, 2014 to 5% in the three months ended December 31, 2015. Of the $2.0 million increase, $700 thousand is attributable to increased sales and marketing expenses incurred related to increased hiring of sales personnel. The remaining $1.3 million increase is primarily attributable to general and administrative costs incurred for interim management and advisory services to remediate internal control weaknesses as disclosed in the Annual Report.

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Sales, general and administrative expenses increased $4.5 million, or 41%, from $11.1 million in the six months ended December 31, 2014 to $15.6 million in the six months ended December 31, 2015. As a percentage of revenues, sales, general and administrative expenses increased from 4% in the six months ended December 31, 2014 to 5% in the six months ended December 31, 2015. Of the $4.5 million increase, $700 thousand is attributable to sales and marking expenses and $3.8 million is attributable to general and administrative expenses. Both increases are consistent with the explanations discussed above.

Provision for Income Taxes

Our provision for income taxes increased $1.9 million or 42%, from $4.5 million for the three months ended December 31, 2014 to $6.3 million for the three months ended December 31, 2015. Our effective tax rate increased to 11% for the three months ended December 31, 2015 as compared to 9% for the three months ended December 31, 2014. The higher effective tax rate in the three months ended December 31, 2015 was primarily due to a reduced tax benefit from federal research credits as compared to the three months ended December 31, 2014, as well as a discrete one-time tax benefit recorded in a foreign jurisdiction in the three months ended December 31, 2014. Our provision for income taxes increased $2.0 million, or 19%, from $10.3 million for the six months ended December 31, 2014 to $12.3 million for the six months ended December 31, 2015. Our effective tax rate remained flat at 11% for the six months ended December 31, 2014 and December 31, 2015.

Liquidity and Capital Resources

Sources and Uses of Cash

Since inception, our operations primarily have been funded through cash generated by operations and proceeds from our various debt agreements. Cash and cash equivalents increased from $446.4 million at June 30, 2015 to $496.7 million at December 31, 2015.

Consolidated Cash Flow Data

The following table sets forth the major components of our condensed consolidated statements of cash flows data for the periods presented:

	Six Months Ended December 31,	
	2015	2014
	(In thousands)	
Net cash provided by operating activities	$125,074	$79,618
Net cash used in investing activities	(3,022)	(8,391)
Net cash used in financing activities	(71,781)	(29,721)
Net increase in cash and cash equivalents	$50,271	$41,506

Cash Flows from Operating Activities

Net cash provided by operating activities in the six months ended December 31, 2015 of $125.1 million consisted primarily of net income of $103.2 million and net changes in operating assets and liabilities that resulted in net cash inflows of $13.8 million. These changes consisted primarily of a $4.4 million decrease in vendor deposits due to timing of deposit payments with our suppliers, a $0.8 million increase in prepaid expenses and other current assets, a $1.3 million decrease in accounts receivable due to increased collections during the period, a $0.7 million decrease in accounts payable and accrued liabilities, a $0.2 million increase in deferred revenue due to additional PCS revenue deferrals during the period, a $2.6 million decrease in prepaid taxes due to the timing of federal tax payments, a $3.4 million decrease in inventory due to increased sales during the period and a $3.4 million increase in taxes payable. Additionally, our net income included non-cash adjustments due to stock-based compensation, depreciation and amortization, increases to our provision for inventory obsolescence, increases to our provision for sales returns, increases in deferred taxes, and a write off of software development costs. The net of these non-cash adjustments resulted in an increase of our net cash provided by operating activities of $8.1 million.

Net cash provided by operating activities in the six months ended December 31, 2014 of $79.6 million consisted primarily of net income of $84.0 million partially offset by net changes in operating assets and liabilities that resulted in net cash outflows of $9.1 million. These changes consisted primarily of a $20.9 million increase in accounts payable and accrued liabilities due primarily to our increase in cost of revenues, a $20.2 million increase in prepaid expenses and other current assets due to the timing of deposit payments with our suppliers, an $8.1 million increase in inventory due to our efforts to build warehouse stock levels and ultimately decrease lead times, a $1.4 million increase in taxes payable and a $1.3 million increase in prepaid taxes due to the timing of federal tax payments. Additionally, our net income included non-cash adjustments due to stock-based compensation, depreciation and amortization, increases to our provision for inventory obsolescence, decreases in our allowance for doubtful accounts, a write-off of our intangible assets and taxes. The net of these non-cash adjustments resulted in an increase of our net cash provided by operating activities of $4.7 million.

Cash Flows from Investing Activities

We used $3.0 million of cash in investing activities during the six months ended December 31, 2015. Our investing activities consist solely of capital expenditures and purchases of intangible assets. Capital expenditures for the six months ended December 31, 2015 and 2014 were $3.0 million and $8.4 million, respectively. Capital expenditures during the six months ended December 31, 2015 included machinery and equipment purchases for our product development and prototyping activities. Additionally, we had cash outflows related to the purchase of intangible assets of $20 thousand and $30 thousand during the six months ended December 31, 2015 and 2014, respectively, consisting primarily of legal costs associated with trademark applications.

Cash Flows from Financing Activities

We used $71.8 million of cash in financing activities during the six months ended December 31, 2015. During the six months ended December 31, 2015 we paid $100.0 million for repurchases of our common stock. We also made a $5.0 million repayment on our outstanding debt under the term loan portion of our Amended Credit Agreement. Additionally, we drew $33.0 million under the revolver of our Amended Credit Agreement that was used for the repurchases of our common stock. Cash inflows from financing activities included $0.5 million of cash proceeds received from the exercise of stock options in addition to $0.4 million of excess tax benefit from employee stock-based awards, partially offset by tax withholdings related to net share settlements of restricted stock units of $0.7 million.

We had $29.7 million of cash used by financing activities during the six months ended December 31, 2014, which consisted of cash paid for dividends on our common stock of $15.0 million, cash paid for repurchases of our common stock of $15.0 million and tax withholdings related to net share settlements of restricted stock units of $1.0 million, partially offset by cash received for stock option exercises of $497 thousand and an excess tax benefit from employee stock-based awards of $787 thousand.

Liquidity

We believe our existing cash and cash equivalents, cash provided by operations and the availability of additional funds under our Amended Credit Agreement will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support development efforts, the timing of new product introductions, market acceptance of our products and overall economic conditions. As of December 31, 2015, we held $476.9 million of our $496.7 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States and we will incur significant tax liabilities if we decide to repatriate those amounts.

Warranties and Indemnifications

Our products are generally accompanied by a twelve month warranty from date of purchase, which covers both parts and labor. Generally the distributor is responsible for the freight costs associated with warranty returns, and we absorb the freight costs of replacing items under warranty. In accordance with the Financial Accounting Standards Board’s (“FASB’s”), Accounting Standards Codification (“ASC”), 450-20, Loss Contingencies, we record an accrual when we believe it is reasonably estimable and probable based upon historical experience. We record a provision for estimated future warranty work in cost of goods sold upon recognition of revenues, and we review the resulting accrual regularly and periodically adjust it to reflect changes in warranty estimates.

We may in the future enter into standard indemnification agreements with many of our distributors and OEMs, as well as certain other business partners in the ordinary course of business. These agreements may include provisions for indemnifying the distributor, OEM or other business partner against any claim brought by a third-party to the extent any such claim alleges that a Ubiquiti product infringes a patent, copyright or trademark or violates any other proprietary rights of that third-party. The maximum amount of potential future indemnification is unlimited. The maximum potential amount of future payments we could be required to make under these indemnification agreements is not estimable.

We have agreed to indemnify our directors, officers and certain other employees for certain events or occurrences, subject to certain limits, while such persons are or were serving at our request in such capacity. We may terminate the indemnification agreements with these persons upon the termination of their services with us, but termination will not affect claims for indemnification related to events occurring prior to the effective date of termination. The maximum amount of potential future indemnification is unlimited. We have a Directors and Officers insurance policy that limits our potential exposure. We believe

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the fair value of these indemnification agreements is minimal. We have not recorded any liabilities for these agreements as of December 31, 2015.

Based upon our historical experience and information known as of the date of this report, we do not believe it is likely that we have a significant liability for the above indemnities at December 31, 2015.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes our contractual obligations as of December 31, 2015 for the remainder of fiscal 2016 and future fiscal years (in thousands):

	2016 (remainder)	2017	2018	2019	2020	Thereafter	Total
Operating leases	$2,297	$3,629	$2,082	$978	$668	$276	$9,930
Debt payment obligations	5,000	11,250	15,000	15,000	79,250	—	125,500
Interest and other payments on debt	1,439	2,718	2,442	2,127	1,313	—	10,039
Purchase obligations	21,646	—	—	—	—	—	21,646
Other obligations	6,157	32	3	—	—	—	6,192
Total	$36,539	$17,629	$19,527	$18,105	$81,231	$276	$173,307

Operating Leases

We lease our headquarters in San Jose, California in addition to other locations worldwide under non-cancelable operating leases that expire at various dates through 2021.

Principal, Interest and Other Debt Payment Obligations

On March 3, 2015, we entered into the Amended Credit Agreement, that provides for a $200.0 million senior secured revolving credit facility and a $100.0 million senior secured term loan facility, with an option to request increases in the amounts of such credit facilities by up to an additional $50.0 million in the aggregate (any such increase to be in each lender’s sole discretion). Please see Note 7 of the Notes to the Consolidated Financial Statements for more information. We have calculated estimated interest payments for our debt based on the applicable rates and payment dates. Although our interest rates on our debt obligations will likely vary over time, we have assumed our interest rates as of December 31, 2015 as the interest rates for all fiscal years presented. Furthermore, the interest payment intervals on our revolving debt are determined at the Company's election pursuant to the Amended Credit Agreement. For purposes of the table above, we have assumed two month payment intervals on our revolving debt consistent with our elections to date. Also included are estimated bank fees to be paid for unused portions of our revolving credit facility.

Purchase Obligations

We subcontract with third parties to manufacture our products. During the normal course of business, our contract manufacturers procure components and manufacture product based upon orders placed by us. Component and product inventory held by our manufacturers or our third-party logistics providers is not recorded on our balance sheet until legal title passes to the Company. If we cancel all or part of the orders, we may still be liable to the contract manufacturers for the cost of the components they purchased and for manufacturing and other costs related to these components. We periodically review the potential liability and to date no significant liabilities for cancellations have been recorded. Our consolidated financial position and results of operations could be negatively impacted if we were required to compensate the contract manufacturers for any unrecorded liabilities incurred. The Company had inventory purchase obligations of $21.6 million as of December 31, 2015.

Other Obligations

We had other obligations of $6.2 million as of December 31, 2015, which consisted primarily of commitments related to research and development projects.

Unrecognized Tax Benefits

As of December 31, 2015, we had $21.9 million of unrecognized tax benefits, substantially all of which would, if recognized, affect our tax expense. We have elected to include interest and penalties related to uncertain tax positions as a component of tax expense. We do not expect any significant increases or decreases to our unrecognized tax benefits in the next twelve months.

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Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, refer to Note 2 to the Condensed Consolidated Financial Statements.

Non-GAAP Financial Measures

Regulation G, conditions for use of Non-Generally Accepted Accounting Principles ("Non-GAAP") financial measures, and other SEC regulations define and prescribe the conditions for use of certain Non-GAAP financial information. To supplement our condensed consolidated financial results presented in accordance with GAAP, we use Non-GAAP financial measures which are adjusted from the most directly comparable GAAP financial measures to exclude certain items, as described below. Management believes that these Non-GAAP financial measures reflect an additional and useful way of viewing aspects of our operations that, when viewed in conjunction with our GAAP results, provide a more comprehensive understanding of the various factors and trends affecting our business and operations.

Non-GAAP financial measures used by us include net income or loss and diluted net income or loss per share. Other companies may calculate these measures differently than we do, limiting the usefulness of these items as comparative measures.

Our Non-GAAP measures primarily exclude stock-based compensation, net of taxes, and other special charges and credits. In fiscal 2016, our non-GAAP net income excluded a benefit of $8.3 million related to the BEC fraud loss, as described at Note 14 to the Condensed Consolidated Financial Statements. We use each of these Non-GAAP financial measures for internal managerial purposes when providing our financial results and business outlook to the public. Management believes that these Non-GAAP measures provide meaningful supplemental information regarding our operational and financial performance of current and historical results, facilitating period-to-period comparisons. Additionally, we believe these Non-GAAP financial measures provide meaningful information regarding our strategic and business decision making, internal budgeting, forecasting and resource allocation processes as well as supplement management's internal comparisons to our historical operating results and to our competitors' operating results.

The following table shows our Non-GAAP financial measures:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Non-GAAP net income and comprehensive income	$49,725	$47,124	$95,236	$90,530
Non-GAAP diluted net income per share of common stock	$0.58	$0.53	$1.09	$1.01

We believe that providing these Non-GAAP financial measures, in addition to the GAAP financial results, are useful to investors because they allow investors to see our results "through the eyes" of management as these Non-GAAP financial measures reflect our internal measurement processes. Management believes that these Non-GAAP financial measures enable investors to better assess changes in each key element of our operating results across different reporting periods on a consistent basis and provides investors with another method for assessing our operating results in a manner that is focused on the performance of our ongoing operations.

The following table shows a reconciliation of GAAP net income and comprehensive income to non-GAAP net income and comprehensive income:

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Net income and comprehensive income	$49,452	$46,265	$103,211	$84,008
Stock-based compensation:				
Cost of revenues	114	150	227	299
Research and development	580	864	1,204	1,689
Sales, general and administrative	263	417	553	815
Purchase commitment termination fee	—	—	—	5,500
Business e-mail compromise (“BEC”) fraud loss/(recovery)	(257)	—	(8,291)	—
Implementation of overhead capitalization (1)	(50)	—	(994)	—
Tax effect of non-GAAP adjustments	(377)	(572)	(674)	(1,781)
Non-GAAP net income and comprehensive income	$49,725	$47,124	$95,236	$90,530
Non-GAAP diluted net income per share of common stock	$0.58	$0.53	$1.09	$1.01
Weighted-average shares used in computing non-GAAP diluted net income per share of common stock	86,091	89,737	87,285	89,838

(1) - Overhead capitalization was implemented in the first quarter of fiscal 2016. As a result of implementing the policy, we recognized a one-time benefit in the first quarter of fiscal 2016.

Note About Forward-Looking Statements

When used in this Report, the words “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects,” “intends,” “may,” “pla “potential,” “predicts,” “projects,” “should,” “will,” “would” or similar expressions and negatives of those terms are intended t identify forward-looking statements. These are statements that relate to future periods and include statements about our future results, sources of revenue, our continued growth, our gross margins, market trends, our product development, technological developments, the features, benefits and performance of our current and future products, the ability of our products to address a variety of markets, the anticipated growth of demand for connectivity worldwide, our growth strategies, future price reductions, our competitive status, our dependence on our senior management and our ability to attract and retain key personnel, dependency on and concentration of our distributors, our employee relations, current and potential litigation, the effects of government regulations, our compliance with laws and regulations, our expected future operating costs and expenses and expenditure levels for research and development, selling, general and administrative expenses, fluctuations in operating results, fluctuations in our stock price, our payment of dividends, our future liquidity and cash needs, our credit facility, future acquisitions of and investments in complimentary businesses and the expected impact of various accounting policies and rules adopted by the Financial Accounting Standards Board. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, factors affecting our quarterly results, our ability to manage our growth, our ability to sustain or increase profitability, demand for our products, our ability to compete, our ability to rapidly develop new technology and introduce new products, our ability to safeguard our intellectual property, trends in the networking industry and fluctuations in general economic conditions, and the risks set forth throughout this Report, including under Item 1, “Business” and under Item 1A, “Risk Factors.” These forward-looking statements speak only as of the date hereof. Except as required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity

Our revolving and term loans bear interest, at our option, at either (i) a floating rate per annum equal to the base rate plus a margin of between 0.50% and 1.25%, depending on our leverage ratio as of the most recently ended fiscal quarter or (ii) a floating per annum rate equal to the applicable LIBOR rate for a specified period, plus a margin of between 1.50% and 2.25%, depending on our leverage ratio as of the most recently ended fiscal quarter. Swingline loans bear interest at a floating rate per annum equal to the base rate plus a margin of between 0.50% and 1.25%, depending on our leverage ratio as of the most recently ended fiscal quarter. Base rate is defined as the greatest of (A) Wells Fargo's prime rate, (B) the federal funds rate plus 0.50% or (C) the applicable LIBOR rate for a period of one month plus 1.00%. A default interest rate shall apply on all obligations during certain events of default under the Amended Credit Agreement at a rate per annum equal to 2.00% above the

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applicable interest rate. The Company will pay to each lender a facility fee on a quarterly basis based on the unused amount of each lender's commitment to make revolving loans, of between 0.20% and 0.35%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. The Company will also pay to the applicable lenders on a quarterly basis certain fees based on the daily amount available to be drawn under each outstanding letter of credit, including aggregate letter of credit commissions of the LIBOR rate plus a margin of between 1.50% and 2.25%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter, and issuance fees of 0.125% per annum. The Company is also obligated to pay Wells Fargo, as agent, fees customary for a credit facility of this size and type. Based on a sensitivity analysis, as of December 31, 2015, an instantaneous and sustained 200-basis-point increase in interest rates affecting our floating rate debt obligations, and assuming that we take no counteractive measures, would result in a charge to our income before income taxes of approximately $2.4 million over the next twelve months.

We had cash and cash equivalents of $496.7 million and $446.4 million as of December 31, 2015 and June 30, 2015, respectively. These amounts were held primarily in cash deposit accounts. The fair value of our cash and cash equivalents would not be significantly affected by either a 10% increase or decrease in interest rates due mainly to the short-term nature of these instruments.

Foreign Currency Risk

Our sales are denominated in U.S. dollars, and therefore, our revenues are not directly subject to foreign currency risk. Certain of our operating expenses are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Chinese Yuan, Euro, and Taiwan Dollar. Our financial position or results of operations would not be significantly affected by a 10% appreciation or depreciation in the value of the U.S. dollar relative to the other currencies in which our expenses are denominated.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Company's Chief Executive Officer and Interim Chief Accounting Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2015. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based on the evaluation of our disclosure controls and procedures as of December 31, 2015, our Chief Executive Officer and Interim Chief Accounting Officer concluded that, as of such date, due to the identification of material weaknesses in our internal control over financial reporting, as further described in Item 9A of our Annual Report, our disclosure controls and procedures were not effective.

Changes in Internal Control over Financial Reporting

Our remediation efforts were ongoing during the three months ended December 31, 2015, and, other than those remediation efforts described in "Remediation Plan and Other Information" in Item 9A of our Annual Report, there were no other changes in our internal control over financial reporting that occurred during the three months ended December 31, 2015 that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

The material weaknesses in our internal control over financial reporting, which are described more fully in our Annual Report, continued to exist as of the end of the period covered by this Quarterly Report on Form 10-Q. The Company is actively engaged in remediation efforts designed to address the material weaknesses, and subsequent to the filing of its Annual Report the Company has added additional full-time and consulting resources to its finance organization.

Additionally, management has reviewed and updated certain accounting policies and procedures, including its disbursement authorities, implemented new financial reporting control procedures and improved overall communication in the finance organization, including clarifying individual roles and responsibilities and documentation standards. The Company is committed to designing, implementing and operating effective internal controls, and management continues to regularly assess its progress. We continue to be materially dependent upon outside consultants to provide us with interim accounting resources while we continue to recruit full-time employees. Successful recruiting and integration of such personnel is a critical component of our remediation efforts designed to address the material weaknesses.

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Notwithstanding the ineffectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q and the material weakness in our internal control over financial reporting that existed as of that date, management believes that (i) this Quarterly Report on Form 10-Q 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 they were made, not misleading with respect to the period covered by this Quarterly Report on Form 10-Q and (ii) the unaudited consolidated financial statements, and other financial information, included in this Quarterly Report on Form 10-Q fairly present in all material respects in accordance with GAAP our financial condition, results of operations and cash flows as of, and for, the dates and periods presented.

Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

Please see Part I, Item 1, Note 8 of the Notes to Condensed Consolidated Financial Statements for a discussion of our legal proceedings.

Item 1A. Risk Factors

This Report contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risk factors set forth below. These risks and uncertainties are not the only ones we face. If any event related to these known or unknown risks or uncertainties actually occurs, our business prospects, results of operation, and financial condition could be materially adversely affected.

Risks Related to Our Business and Industry

Fluctuations in our operating results could cause the market price of our common stock to decline.

Our quarterly operating results fluctuate significantly due to a variety of factors, many of which are outside of our control and are difficult or impossible to predict. We expect our operating results will continue to fluctuate. You should not rely on our past results as an indication of our future performance. If our revenues or operating results fall below the expectations of investors or securities analysts, or below any estimates we may provide to the market, the price of our common shares would likely decline substantially, which could have a material adverse impact on investor confidence and employee retention. Our common stock has experienced substantial price volatility since our initial public offering. In addition, the stock market as a whole has experienced major price and volume fluctuations that have affected the stock price of many technology companies in ways that may have been unrelated to these companies' operating performance.

Factors that could cause our operating results and stock price to fluctuate include:

- varying demand for our products due to the financial and operating condition of our distributors and their customers, distributor inventory management practices and general economic conditions;
- shifts in our fulfillment practices including increasing inventory levels as part of efforts to decrease our delivery lead times;
- failure of our suppliers to provide chips or other components;
- failure of our contract manufacturers and suppliers to meet our demand;
- success and timing of new product introductions by us, and our competitors;
- increased warranty costs;

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- announcements by us or our competitors regarding products, promotions or other transactions;
- costs related to legal proceedings or responding to government inquiries;
- our ability to control and reduce product costs; and
- expenses of our entry into new markets.

In addition, our business may be subject to seasonality, although our recent growth rates and timing of product introductions may have masked seasonal changes in demand.

We have limited visibility into future sales, which makes it difficult to forecast our future operating results.

Because of our limited visibility into end customer demand and channel inventory levels, our ability to accurately forecast our future revenues is limited. We sell our products and solutions globally to network operators, service providers and others, primarily through our network of distributors. We do not employ a direct sales force. Sales to our distributors have accounted for nearly all of our revenues. Our distributors do not make long-term purchase commitments to us, and do not typically provide us with information about market demand for our products. We endeavor to obtain information on inventory levels and sales data from our distributors. This information has been generally difficult to obtain in a timely manner, and we cannot always be certain that the information is reliable. If we over forecast demand, we may not be able to decrease our expenses in time to offset any shortfall in revenues. If we under forecast demand, our ability to fulfill sales orders will be compromised and sales to distributors may be deferred or lost altogether.

We are subject to risks associated with our distributors' inventory management practices.

Our distributors purchase and maintain their own inventories of our products, and we do not control their inventory management. Distributors may manage their inventories in a manner that causes significant fluctuations in their purchases from quarter to quarter, and which may not be in alignment with the actual demand of end customers for our products. If some distributors decide to purchase more of our products than are required to satisfy their customers' demand in any particular quarter, because they do not accurately forecast demand or otherwise, they may reduce future orders until their inventory levels realign with their customers' demand. If some distributors decide to purchase less of our products than are required to satisfy their customers' demand in any particular quarter, because they do not accurately forecast demand or otherwise, sales of our products may be deferred or lost altogether.

If our forecasts of future sales are inaccurate, we may manufacture too many or not enough products.

We may over or under forecast our customers' actual demand for our products or the actual mix of our products that they will ultimately demand. If we over-forecast demand, we may build excess inventory which could materially adversely affect our operating results. If we under-forecast demand, we may miss opportunities for sales and may impair our customer relationships, which could materially adversely affect our operating results.

The lead times that we face for the procurement of components and subsequent manufacturing of our products are usually much longer than the lead time from our customers' orders to the expected delivery date. This increases the risk that we may manufacture too many or not enough products in any given period.

We may decide to increase or maintain higher levels of inventory.

With the use of third-party logistics and warehousing providers, we may decide to increase or maintain higher levels of inventory of finished products or components, which may expose us to a greater risk of carrying excess or obsolete inventory. Decisions to increase or maintain higher inventory levels are typically based upon uncertain forecasts or other assumptions. If the assumptions on which we base these decisions turn out to be incorrect, our financial performance could suffer and we could be required to write-off the value of excess products or components inventory.

We rely on a limited number of distributors, and changes in our relationships with our distributors or changes within our distributors may disrupt our sales.

Although we have a large number of distributors in numerous countries who sell our products, a limited number of these distributors represent a significant portion of our sales. One or more of our major distributors may suffer from a decline in their financial condition, decrease in demand from their customers, or a decline in other aspects of their business which could impair their ability to purchase and resell our products. Any distributor may also cease doing business with us at any time with little or no notice. The termination of a relationship with a major distributor, either by us or by the distributor, could result in a temporary or permanent loss of revenues. We may not be successful in finding other suitable distributors on satisfactory terms, or at all, and this could adversely affect our ability to sell in certain geographic markets or to certain network operators and service providers.

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We may not be able to enhance our products to keep pace with technological and market developments while offering competitive prices.

The market for our wireless broadband networking equipment is emerging and is characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. Our ability to keep pace in this market depends upon our ability to enhance our current products, and continue to develop and introduce new products rapidly and at competitive prices. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and engineering staff, to successfully innovate, and to adapt to technological changes and advances in the industry. Development and delivery schedules for our products are difficult to predict. We may fail to introduce new versions of our products in a timely fashion. If new releases of our products are delayed, our distributors may curtail their efforts to market and promote our products and our users may switch to competing products.

The markets in which we compete are highly competitive.

The networking, enterprise WLAN, solar, video surveillance, wireless backhaul and machine-to-machine communications markets in which we primarily compete are highly competitive and are influenced by competitive factors including:

- our ability to rapidly develop and introduce new high performance integrated solutions;
- the price and total cost of ownership and return on investment associated with the solutions;
- the simplicity of deployment and use of the solutions;
- the reliability and scalability of the solutions;
- the market awareness of a particular brand;
- our ability to provide secure access to wireless networks;
- our ability to offer a suite of products and solutions;
- our ability to allow centralized management of the solutions; and
- our ability to provide quality product support.

New entrants seeking to gain market share by introducing new technology and new products may also make it more difficult for us to sell our products, and could create increased pricing pressure. In addition, broadband equipment providers or system integrators may also offer wireless broadband infrastructure equipment for free or as part of a bundled offering, which could force us to reduce our prices or change our selling model to remain competitive.

If there is a shift in the market such that network operators and service providers begin to use closed network solutions that only operate with other equipment from the same vendor, we could experience a significant decline in sales because our products would not be interoperable.

We expect competition to continuously intensify as other established and new companies introduce new products in the same markets that we serve or intend to enter, as these markets consolidate. Our business will suffer if we do not maintain our competitiveness.

A number of our current or potential competitors have longer operating histories, greater brand recognition, larger customer bases and significantly greater resources than we do.

As we move into new markets for different types of equipment, our brand may not be as well-known as incumbents in those markets. Potential customers may prefer to purchase from their existing suppliers rather than a new supplier, regardless of product performance or features. We expect increased competition from other established and emerging companies if our market continues to develop and expand. As we enter new markets, we expect to face competition from incumbent and new market participants.

Many of these companies have significantly greater financial, technical and other resources than we do and are better positioned to acquire and offer complementary products and technologies.

Industry consolidation and other arrangements among competitors may adversely affect our competitiveness because it may be more difficult to compete with entities that have access to their combined resources. These combinations may also affect customers' perceptions regarding the viability of companies our size and, consequently, affect their willingness to purchase our products.

The complexity of our products could result in unforeseen delays or expenses caused by undetected defects or bugs.

Our products may contain defects and bugs when they are introduced, or as new versions are released. We have focused, and intend to focus in the future, on getting our new products to market quickly. Due to our rapid product introductions, defects and bugs that may be contained in our products may not yet have manifested. We have in the past experienced, and may in the future experience, defects and bugs. If any of our products contains material defects or bugs, or has reliability, quality or compatibility problems, we may not be able to promptly or successfully correct these problems. The existence of defects or bugs in our products may damage our reputation and disrupt our sales. If any of these problems are not found until after we have commenced commercial production and distribution of a new product, we may be required to incur additional development costs, repair or replacement costs and claims.

Security vulnerabilities in our products, services and systems could lead to reduced revenues and claims against us.

The quality and performance of some of our products and services may depend upon their ability to withstand cyber attacks. Third parties may develop and deploy viruses, worms and other malicious software programs, some of which may be designed to attack our products, systems, or networks. Some of our products and services also involve the storage and transmission of users' and customers' proprietary information which may be the target of cyber attacks. Hardware and software that we produce or procure from third parties also may contain defects in manufacture or design, including bugs and other problems, which could compromise their ability to withstand cyber attacks.

We may have experienced cyber attacks in the past, and may experience cyber attacks in the future. As a result, unauthorized parties may have obtained, and may in the future obtain, access to our systems, data or our users' or customers' data. Our security measures may also be breached due to employee error, malfeasance, or otherwise. Third parties may also attempt to induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our products and services. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

The costs to us to eliminate or alleviate security vulnerabilities can be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions, as well as potential liability to the Company. The risk that these types of events could seriously harm our business is likely to increase as we expand the web-based products and services that we offer.

We may be unable to anticipate or fail to adequately mitigate against increasingly sophisticated methods to engage in illegal or fraudulent activities against us.

Despite any defensive measures we take to manage threats to our business, our risk and exposure to these matters remain heightened because of, among other things, the evolving nature of such threats in light of advances in computer capabilities, new discoveries in the field of cryptography, new and sophisticated methods used by criminals including phishing, social engineering or other illicit acts, or other events or developments that we may be unable to anticipate or fail to adequately mitigate. In June 2015, we determined that we were the victim of a criminal fraud known to law enforcement authorities as business e-mail compromise fraud which involved employee impersonation and fraudulent requests targeting our finance department. The fraud resulted in transfers of funds aggregating $46.7 million held by a Company subsidiary incorporated in Hong Kong to other overseas accounts held by third parties. To date, the Company has recovered $16.7 million. As a result, the Company recorded a charge of $39.1 million in the fourth quarter of fiscal 2015, including professional service fees associated with the fraud loss. Additionally, the Company recorded a net recovery of $8.3 million for the six months ended December 31, 2015, bringing the net loss to $30.8 million to date. The ultimate amount of the loss will depend, in part, on the Company's success in recovering the funds. The Company may not be successful in obtaining any insurance coverage for this loss. While we do not expect the fraud to have a material impact on our business, we have borne, and will continue to bear additional expenses in connection with the remediation and investigation of the fraud.

Our business and prospects depend on the strength of our brand.

Maintaining and enhancing our brand is critical to expanding our base of distributors and end customers. Maintaining and enhancing our brand will depend largely on our ability to continue to develop and provide products and solutions that address the price-performance characteristics sought by end customers and the users of our products and services, particularly in developing markets which comprise a significant part of our business. If we fail to promote, maintain

and protect our brand successfully, our ability to sustain and expand our business and enter new markets will suffer.
We rely on the Ubiquiti Community to provide our engineers with valuable feedback that is important in our research and development processes.
We rely on the Ubiquiti Community to provide rapid and substantive feedback on the functionality and effectiveness of our products. The insights, problems and suggestions raised by the Ubiquiti Community enable our engineers to quickly resolve

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issues with our existing products and improve functionality in subsequent product releases. If the members of the Ubiquiti Community were to become less engaged or otherwise ceased providing valuable, timely feedback, our internal research and development costs and our time to market could increase, which could cause us to incur additional expenses or make our products less attractive to customers.

We rely on the Ubiquiti Community to generate awareness of, and demand for, our products.

We believe a significant portion of our growth to date has been driven by the diverse and actively engaged Ubiquiti Community, and our business model is predicated on the assumption that the Ubiquiti Community will continue to provide these benefits. We do not have a direct sales force and we engage in limited marketing expenditures. Although the Ubiquiti Community is central to the success of our business, the interactions within the Ubiquiti Community, and participation levels, are largely outside of our control. Any negative information about us or our products in the Ubiquiti Community, whether or not justified, could quickly and materially decrease the demand for our products.

We rely on the Ubiquiti Community to provide network operators and service providers with support to install, operate and maintain our products.

We rely on the Ubiquiti Community to provide assistance and other information to network operators and service providers for the installation, operation and maintenance of our products. Because we do not generate or control all of the information provided through the Ubiquiti Community, inaccurate information regarding the installation, operation and maintenance of our products could be promulgated through forum postings by members of the Ubiquiti Community.

Although we moderate and review many forum postings to learn of reported problems and assess the accuracy of advice provided by the Ubiquiti Community, we may not devote sufficient time or resources to adequately monitor the quality of Ubiquiti Community information.

Inaccurate information in the Ubiquiti Community could lead to poor customer experiences or dissatisfaction with our products, which could negatively impact our reputation and diminish our sales.

We may fail to effectively manage the challenges associated with our growth.

Over the past several years we have expanded, and continue to expand, our product offerings, the number of customers we sell to, our transaction volumes, the number of our facilities, and the number of contract manufacturers that we utilize to produce our products. Failure to effectively manage the increased complexity associated with this expansion, particularly in light of our lean management structure, would make it difficult to conduct our business, fulfill customer orders, and pursue our strategies. We may also need to increase costs to add personnel, upgrade or replace our existing reporting systems, as well as improve our business processes and controls as a result of these changes. If we fail to effectively manage any of these challenges we could suffer inefficiencies, errors and disruptions in our business, which in turn would adversely affect our operating results.

We rely on a limited number of contract manufacturers to produce our products.

We retain contract manufacturers, located primarily in China, to manufacture our products. Any significant change in our relationship with these manufacturers could have a material adverse effect on our business, operating results and financial condition. Our reliance on contract manufacturers for manufacturing our products can present significant risks to us because, among other things, we do not have direct control over their activities. We significantly depend upon our contract manufacturers to:

- assure the quality of our products;
- manage capacity during periods of volatile demand;
- qualify appropriate component suppliers;
- ensure adequate supplies of components and materials;
- deliver finished products at agreed upon prices and schedules; and
- safeguard materials and finished goods.

The ability and willingness of our contract manufacturers to perform is largely outside our control.

We believe that our orders may not represent a material portion of our contract manufacturers’ total orders and, as a result, fulfilling our orders may not be a priority in the event our contract manufacturers are constrained in their capacity. If any of our contract manufacturers experiences problems in its manufacturing operations, or if we have to change or add additional contract manufacturers, our ability to ship products to our customers would be impaired.

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We rely upon a limited number of suppliers, and it can be costly and time consuming to use components from other suppliers.

We purchase components, directly or through our contract manufacturers, from third parties that are necessary for the manufacture of our products. Shortages in the supply of components or other supply disruptions may not be predicted in time to design-in different components or qualify other suppliers. Shortages or supply disruptions may also increase the prices of components due to market conditions. While many components are generally available from a variety of sources, we and our contract manufacturers currently depend on a single or limited number of suppliers for several components for our products. For example, we currently rely upon Qualcomm Atheros as a single-source supplier of certain components for some of our products, and a disruption in the supply of those components would significantly disrupt our business.

We and our contract manufacturers generally rely on short-term purchase orders rather than long-term contracts with the suppliers of components for our products. As a result, even if components are available, we and our contract manufacturers may not be able to procure sufficient components at reasonable prices to build our products in a timely manner. We may, therefore, be unable to meet customer demand for our products, which would have a material adverse effect on our business, operating results and financial condition.

Not paying cash dividends to our stockholders, or repurchasing shares of our common stock pursuant to a stock repurchase program, could cause the market price for our common stock to decline.

The Company currently has no plans to pay a cash dividend at this time. Our payment of cash dividends will be subject to, among other things, our financial position and results of operations, available cash and cash flow, capital requirements, and other factors. These and other factors may also affect the continuation of, or activity under, our previously announced stock repurchase program. Failure to pay cash dividends could cause the market price of our common stock to decline. The discontinuance of, or lack of activity under, our previously announced stock repurchase program could also result in a lower market price of our common stock.

A general global economic downturn may negatively affect our customers and their ability to purchase our products. A downturn may decrease our revenues and increase our costs and may increase credit risk with our customers and impact our ability to collect account receivable and recognize revenue.

Since the middle of 2008, there has been global economic uncertainty, including reduced economic growth, reduced confidence in financial markets, bank failure and credit availability concerns. Disruptions in the financial markets have had and may continue to have an adverse effect on the U.S. and world economies, which could adversely and materially impact business spending patterns. Tightening of credit in financial markets could adversely affect the ability of our customers and suppliers to obtain financing for significant purchases and operations and could result in a decrease in or cancellation of orders for our products.

Economic downturns may exacerbate some of the other risks that affect our business, results of operations and financial condition. A tighter credit market for consumer, business, and service provider spending may have several adverse effects, including reduced demand for our products, increased price competition or deferment of purchases and orders by our customers. Additional effects may include increased demand for customer finance, difficulties in collection of accounts receivable and increased risk of counterparty failures.

Risks Related to Our International Operations

Our business is susceptible to risks associated with operations outside of the United States.

We have operations in China, Lithuania, Poland, Taiwan, United States and elsewhere. We also sell to distributors in numerous countries throughout the world. Our operations outside of the United States subject us to risks that we generally do not face in the United States. These include:

- the burdens of complying with a wide variety of foreign laws and regulations, and the risks of non-compliance;
- fluctuations in currency exchange rates;
- increasing labor costs, especially in China;
- difficulties in managing the geographically remote personnel;
- the complexities of foreign tax systems and changes in their tax rates and rules;
- limited protection and enforcement regimes for intellectual property rights in some countries;

- increased financial accounting and reporting burdens and complexity; and
- political, social and economic instability in some jurisdictions.

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If any of these risks were to come to fruition, it could negatively affect our business outside the United States and, consequently, our operating results. Additionally, operating in markets outside the United States requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to establish, acquire or integrate operations in other countries will produce desired levels of revenues or profitability.

Our third-party logistics and warehousing providers in China and elsewhere may fail to safeguard and accurately manage and report our inventory.

We use third-party logistics and warehousing providers located in China to fulfill the majority of our worldwide sales. We also rely on our third-party logistics and warehousing providers to safeguard, and manage and report on the status of our products at their warehouse and in transit. These service providers may fail to safeguard our products, fail to accurately segregate and report our inventory, or fail to manage and track the delivery of our products, which could have a material adverse effect on our operating results and financial condition.

To the extent that we develop some of our own manufacturing capacity, we will be subject to various risks associated with such activities.

We have begun to invest in developing some of our own manufacturing capacity, for example to support our product development and prototyping. To the extent that we may invest in and expand these manufacturing capabilities, and increasingly rely upon such activities, we will face increased risks associated with:

- bearing the fixed costs of these activities;
- directly procuring components and materials;
- regulatory and other compliance requirements;
- exposure to casualty loss and other disruptions;
- quality control;
- labor relations; and
- our limited experience in operating manufacturing facilities.

Since these activities would be conducted in China, some of these risks may be more significant due to the less predictable legal and political environment.

Our business may be negatively affected by political events and foreign policy responses.

Geopolitical uncertainties and events could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on us, our suppliers, logistics providers, manufacturing vendors and customers, including our channel partners. Changes in commodity prices may also cause political uncertainty, and increase currency volatility that can affect economic activity. The foreign policies of governments may be volatile, and may result in rapid changes to import and export requirements, customs classifications, tariffs, trade sanctions and embargoes that may prevent us from offering products or providing services to particular entities or markets or may create delays and inefficiencies in our supply chain. For example, political unrests and uncertainties in Eastern Europe and Middle East may lead to disruptions in commerce in those regions, which would in turn impact our sales to those regions. Furthermore, if the U.S. government imposes new sanctions against certain countries or entities, such sanctions could sufficiently restrict our ability to market and sell our products and may materially adversely affect our results of operations.

Our ability to introduce new products and support our existing products depends on our ability to manage geographically dispersed research and development teams.

Significant parts of our research and development operations are conducted in geographically dispersed localities. Our success depends on the effectiveness of our research and development activities. We must successfully manage these geographically dispersed teams in order to meet our objectives for new product introduction, product quality and product support. It can be difficult to effectively manage geographically dispersed research and development teams. If we fail to do so, we could incur unexpected costs or delays in product development.

Our contract manufacturers, logistics centers and certain administrative and research and development operations are located in areas likely to be subject to natural disasters.

The manufacturing or shipping of our products at one or more facilities may be disrupted because our manufacturing and logistics contractors are all located in southern China. Our principal executive offices are located in California. The risks of earthquakes, extreme storms and other natural disasters in these geographic areas are significant. Any disruption resulting from these events could cause significant delays in product development or shipments of our products until we are able to shift our development, manufacturing or logistics centers from the affected contractor to another vendor, or shift the affected administrative or research and development activities to another location.

Risks Related to Intellectual Property

We have limited ability to obtain and enforce intellectual property rights, and may fail to effectively obtain and enforce such rights.

Our success can depend significantly upon our intellectual property rights. We rely on a combination of patent, copyright, trademark, trade secret laws, and contractual rights to establish, maintain and protect these intellectual property rights, all of which afford only limited protection. Our patent rights, and the prospective rights sought in our pending patent applications, may not be meaningful or provide us with any commercial advantage and they could be opposed, contested, circumvented or designed around by our competitors or be declared invalid or unenforceable in legal proceedings. In addition, patents may not be issued from any of our current or future patent applications. Any failure of our patents or other intellectual property rights to adequately protect our technology might make it easier for our competitors to offer similar products or technologies.

Confidentiality agreements with our employees, licensees, independent contractors and others may not effectively prevent disclosure of our trade secrets, and may not provide an adequate remedy in the event of unauthorized use or disclosure of our trade secrets. We may also fail or have failed to obtain such agreements from such persons due to administrative oversights or other reasons.

Monitoring unauthorized use of our intellectual property is difficult and costly. Unauthorized use of our intellectual property, such as the production of counterfeits of our products, and unauthorized registration and use of our trademarks by third parties, is a matter of ongoing concern. The steps we have taken may not prevent unauthorized use of our intellectual property. We may fail to detect infringements of, or take appropriate steps to enforce, our intellectual property rights. Our competitors might independently develop similar technology without infringing our intellectual property rights. Our inability or failure to effectively protect our intellectual property could reduce the value of our technology and could impair our ability to compete. Any inability or failure by us to meaningfully protect our intellectual property could result in competitors offering products that incorporate our most technologically advanced features.

We have initiated and may continue to initiate legal proceedings to enforce our intellectual property rights. Litigation, whether we are a plaintiff or a defendant, can be expensive and time-consuming, may place our intellectual property at risk of being invalidated or narrowed in scope, and may divert the efforts of our technical staff and managerial personnel.

Enforcement of our intellectual property rights abroad, particularly in China and South America, is limited.

The intellectual property protection and enforcement regimes in certain countries outside the United States are generally not as comprehensive as in the United States, and may not adequately protect our intellectual property. The legal regimes relating to the recognition and enforcement of intellectual property rights in China and South America are particularly limited. Legal proceedings to enforce our intellectual property in these jurisdictions may progress slowly, during which time infringement may continue largely unimpeded. Countries that have relatively inefficient intellectual property protection and enforcement regimes represent a significant portion of the demand for our products. These factors may make it more challenging for us to enforce our intellectual property rights against infringement. The infringement of our intellectual property rights, particularly in these jurisdictions, may materially harm our business in these markets and elsewhere by reducing our sales, and diluting our brand or reputation.

Our contract manufacturers may not respect our intellectual property, and may produce products that compete with ours.

Our contract manufacturers operate in China, where the prosecution of intellectual property infringement and trade secret theft is more difficult than in the United States. In the past, our contract manufacturers, their affiliates, their other customers or their suppliers have attempted to participate in efforts to misappropriate our intellectual property and trade secrets to manufacture our products for themselves or others without our knowledge. Even if the agreements with our contract manufacturers, and applicable laws, prohibit them from misusing our intellectual property and trade secrets, we may be unsuccessful in monitoring and enforcing our intellectual property rights against them. We have in

the past, and may continue to discover, counterfeit goods being sold as our products or as other brands.
We operate in an industry with extensive intellectual property litigation.
Our commercial success depends in part upon us and our component suppliers not infringing intellectual property rights owned by others, and being able to resolve intellectual property claims without major financial expenditures. Our key component suppliers are often targets of intellectual property claims, and we are subject to claims as well.

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There are numerous patents and patent applications in the United States and other countries relating to communications technologies. It can be difficult or impossible to conduct meaningful searches for patents relating to our technologies, or to approach third parties to seek a license to their patents. Even extensive searches for patents that may be relevant to our products may not uncover all relevant patents and patent applications. We cannot determine with certainty whether any existing or future third-party intellectual property rights would require us to alter our technologies, obtain licenses or cease certain activities.
We have received, and may in the future receive, claims from third parties asserting intellectual property infringement and other related claims. As our revenues grow and our profile increases, the frequency and significance of these claims may increase. Whether or not there is merit to a given claim, it can be time consuming and costly to defend against, and could:

- adversely affect our relationships with our current or future users, customers and suppliers;
- cause delays or stoppages in the shipment of our products;
- cause us to modify or redesign our products;
- divert management’s attention and resources;
- subject us to significant damages or settlements;
- require us to enter into costly licensing agreements; or
- require us to cease offering certain of our products or services.

Some of our competitors may have substantially greater resources than we do and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, patent holding companies and other third-party non-practicing entities that focus on extracting royalties and settlements by enforcing patent rights may target our component suppliers, manufacturers, us, our distributors, members of our sales channels, our network operators and service providers, or other purchasers of our products. These companies typically have little or no product revenues and, therefore, our patents may provide little or no deterrence against such companies filing patent infringement lawsuits against our component suppliers, manufacturers, us, our distributors, members of our sales channels, network operators and service providers, or other purchasers of our products.

In addition to liability for monetary damages against us or, in certain circumstances, our network operators and service providers, we may be prohibited from developing, commercializing or continuing to provide certain of our products unless we obtain licenses from the holders of the patents or other intellectual property rights. We cannot assure you that we will be able to obtain any such licenses on commercially reasonable terms, or at all. If we do not obtain licenses, our business, operating results and financial condition could be materially affected and we could, for example, be required to cease offering our products or be required to materially alter our products, which could involve substantial costs and time to develop.
The production of counterfeit versions of our products may reduce our sales levels and damage our brand.
We have in the past and continue to discover counterfeit versions of our products. Although we have taken steps to combat counterfeiting, it is difficult or impossible to detect or prevent all instances of counterfeiting. Particularly if the quality of counterfeit products is poor, damage could be done to our brand. Combating counterfeiting is difficult and expensive, and may not be successful, especially in countries that have a relatively weak legal regime for the protection of intellectual property.
We use open source software in our products that may subject source code to public release or require us to re-engineer our products.
We use open source software in certain of our products, and may use more open source software in the future. There have been claims challenging the ownership of software against companies that use open source software in the development of their products. We could become subject to claims regarding the ownership of what we believe to be our proprietary software.
Usage of open source software can also lead to greater risks than the use of third-party commercial software, since open source licensors generally do not provide warranties or controls on origin of the software.

Some open source licenses contain requirements that users make available and license the source code for the modifications or derivative works that they create based upon the open source software. If we combine our proprietary software with open source software we could, in some circumstances, be required to release our proprietary source code publicly or license such source code on unfavorable terms or at no cost. That could significantly diminish the value of some of our products and negatively affect our business.

Risks Related to Our Management and Structure

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We may lose the services of our founder and chief executive officer, Robert J. Pera, or other key personnel.
Our success and future growth depend on the skills, working relationships and continued services of our management team, and in particular our founder and chief executive officer, Robert J. Pera. Our future performance may also depend on our ability to retain other key personnel. We do not maintain any significant key person insurance with regard to any of our personnel.
Our business model relies in part on leanly staffed, independent and efficient research and development teams. Our research and development teams are organized around small groups or individual contributors for a given platform, and there is little overlap in knowledge and responsibilities. In the event that we are unable to retain the services of any key contributors, we may be unable to bring our products or product improvements to market in a timely manner, if at all, due to disruption in our development activities.
Our future success also depends on our ability to attract, retain and motivate skilled personnel. All of our employees work for us on an at will basis. Competition for personnel is intense in the networking equipment industry, particularly for persons with specialized experience in areas such as antenna design and radio frequency equipment. If we are unable to attract and retain the necessary personnel our business could be materially adversely affected.
We may fail to manage our growth effectively and develop and implement appropriate control systems.
We have substantially expanded our business and operations in recent periods, including increases in the number of our distributors, contract manufacturers, headcount locations and facilities. This rapid expansion places a significant strain on our managerial, administrative, and operational resources. Our business model reflects our decision to operate with streamlined infrastructure, with lower support and administrative headcount. That may increase the risks associated with managing our growth, and we may not have sufficient internal resources to adapt or respond to unexpected challenges and compliance requirements.
Our profitability may decline as we expand into new product areas.
We receive a substantial majority of our revenues from the sale of outdoor wireless networking equipment. As we expand into other products and services, such as enterprise WLAN, video surveillance equipment, wireless backhaul, machine-to-machine communications and solar energy products, we may not be able to compete effectively with existing market participants and may not be able to realize a positive return on the investment we have made in these products or services. Entering these markets may result in increased product development costs, and our new products may have extended time to market relative to our current products. If our introduction of a new product is not successful, or if we are not able to achieve the revenues or margins we expect, our operating results may be harmed and we may not recover our product development and marketing expenditures.
We may also be required to add a direct sales force and customer support personnel to market and support new or existing products, which would cause us to experience substantially lower product margins or increase our operating expenses. Adding a direct sales force or customer support personnel could reduce our operating income and may not be successful.
Our operating expenses are increasing as we make expenditures to enhance and expand our operations.
Over the past several years, we have increased our expenditure on infrastructure to support our anticipated growth and as a result of our being a public company. We are continuing to expand our operations outside the United States, using more professional services and hiring more administrative personnel. We intend to make additional investments in systems and personnel and continue to expand our operations to support anticipated growth in our business. As a result, we expect our operating expenses to increase.
In addition, we may need in the future to build a direct sales force to market and sell our products or provide additional resources or cooperative funds to our distributors. Such changes to our existing sales model would likely result in higher selling, general and administrative expenses as a percentage of our revenues.
Compliance with conflict mineral disclosure requirements will create additional compliance cost and may create reputational challenges.
Pursuant to Section 1502 of the Dodd-Frank Act, United States publicly-traded companies are required to disclose use or potential use of certain minerals and their derivatives, including tantalum, tin, gold and tungsten, that are mined from the Democratic Republic of Congo and adjoining countries and deemed conflict minerals.

These requirements necessitate due diligence efforts to assess whether such minerals are used in our products in order to make the relevant required annual disclosures. There are, and will be, ongoing costs associated with complying with these recent disclosure requirements, including diligence to determine the sources of those minerals that may be used or necessary to the

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production of our products. We may face reputational challenges that could impact future sales if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to verify with sufficient accuracy the origins of all conflict minerals used in our products.

We rely on third-party software and services to conduct our enterprise resource planning, financial planning and analysis, and financial reporting.

We currently use NetSuite and other software and services to conduct our order management and financial processes. The availability of this service is essential to the management of our business. As we expand our operations, we expect to utilize additional systems and service providers that may also be essential to managing our business. Although the systems and services that we require are typically available from a number of providers, it is time consuming and costly to qualify and implement these relationships.

Our ability to manage our business would suffer if one or more of our providers suffer an interruption in their business, or experience delays, disruptions or quality control problems in their operations, or we have to change or add additional systems and services. We may not be able to control the quality of the systems and services we receive from third-party service providers, which could impair our financial reporting and may negatively impact our operating results and financial condition.

Our debt levels could adversely affect our ability to raise additional capital to fund our operations or limit our ability to react to changes in our industry or the economy.

As of December 31, 2015, our balance outstanding under our existing term loan and credit facility was $125.5 million. In the future we may need to raise additional capital to fund our growth and operational goals. If additional financing is not available when required or on acceptable terms, we may not be able to expand our business, develop or enhance our products, take advantage of business opportunities or respond to competitive pressures, which could result in lower revenues and reduce the competitiveness of our products.

In addition, any potential debt level increases could have important consequences, including:

- requiring a substantial portion of cash flows from operations to be dedicated to the payment of principal and interest on our indebtedness, thereby reducing our ability to use our cash flows to fund our operations and capital expenditures, and pursue business opportunities;
- increasing our vulnerability to general industry and economic conditions;
- limiting our ability to make strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to competitors who are less highly leveraged or have access to more capital.

If we are unable to integrate future acquisitions successfully, our operating results and prospects could be harmed.

We may make acquisitions to improve or expand our product offerings. Our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions. These transactions involve numerous risks, including:

- difficulties in integrating and managing the operations, technologies and products of the companies we acquire, particularly in light of our lean organizational structure;
- diversion of our management’s attention from normal daily operation of our business;
- our inability to maintain the key business relationships and the brand equity of the businesses we acquire;
- our inability to retain key personnel of the acquired business, particularly in light of the demands we place on individual contributors;
- uncertainty of entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- our dependence on unfamiliar affiliates and partners of the companies we acquire;
- insufficient revenues to offset our increased expenses associated with acquisitions;
- our responsibility for the liabilities of the businesses we acquire, including those which we may not anticipate; and
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our inability to maintain internal standards, controls, procedures and policies, particularly in light of our lean organizational structure.

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We may be unable to secure the equity or debt funding necessary to finance future acquisitions on terms that are acceptable to us. Completing acquisitions could consume significant amounts of cash. If we finance acquisitions by issuing equity or convertible debt securities, our existing stockholders will likely experience dilution, and if we finance future acquisitions with debt funding, we will incur interest expense and may have to comply with covenants and secure that debt obligation with our assets.

Our CEO has control over key decision making as a result of his control of a majority of our voting stock.

Robert J. Pera, our founder, Chairman, and CEO, is able to exercise voting rights with respect to a majority of the voting power of our outstanding stock and therefore has the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. This concentrated control could delay, defer, or prevent a change of control, merger, consolidation, or sale of all or substantially all of our assets that our other stockholders support, or conversely this concentrated control could result in the consummation of such a transaction that our other stockholders do not support. This concentrated control could also discourage certain potential investors from acquiring our common stock and might harm the trading price of our stock. In addition, Mr. Pera has the ability to control the management and major strategic investments of our Company as a result of his position as our CEO and his ability to control the election or replacement of our directors. In the event of his death, the shares of our stock that Mr. Pera owns will be transferred to his successors. As a board member and officer, Mr. Pera owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, even a controlling stockholder, Mr. Pera is entitled to vote his shares in his own interests, which may not always be in the interests of our stockholders generally.

Risks Related to Regulatory, Legal and Tax Matters

We are subject to export control and economic sanctions laws in the United States and elsewhere which could impair our ability to compete in international markets and subject us to liability if we do not comply with applicable laws.

A substantial majority of our sales are into countries outside of the United States. Sales of our products into certain countries are restricted or prohibited under U.S. export control and economic sanctions laws. In addition, certain of our products incorporate encryption components that are subject to export control regulations.

In May 2011, we filed a self-disclosure statement with the U.S. Commerce Department, Bureau of Industry and Security's ("BIS") Office of Export Enforcement ("OEE") relating a review conducted by us regarding certain export transactions from 2008 through March 2011 in which products may have been later sold into Iran by third parties. In June 2011, we also filed a self-disclosure statement with the U.S. Department of the Treasury's Office of Foreign Asset Control ("OFAC") regarding these compliance issues. We resolved the matters described in our self-disclosures with the BIS and OFAC, and have taken significant steps towards ensuring our compliance with export control regulations and embargoes. It is, however, possible that violations may occur in the future. If violations should occur in the future, the response of regulators may be more severe in light of prior compliance concerns.

In addition to U.S. export regulations, various other countries regulate the import of certain encryption technology and products, and these laws could limit our ability to distribute our products or our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in other countries, prevent our customers with international operations from deploying our products or, in some cases, prevent the transfer of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could negatively impact our ability to sell our products to existing customers or the ability of our current and potential distributors, network operators and service providers outside the United States.

New regulations or changes in existing regulations related to our products may result in unanticipated burdens, costs and liabilities.

Products that involve electromagnetic emissions are subject to regulation in the United States and the other countries in which we do business. In the United States, various federal agencies including the Center for Devices and Radiological Health of the Food and Drug Administration, the Federal Communications Commission, the Occupational Safety and Health Administration and various state agencies have promulgated regulations that concern the use of electromagnetic emissions standards. Member countries of the EU and other countries have enacted similar standards concerning electrical safety and electromagnetic compatibility and emissions standards. If any of our products becomes subject to new regulations or if any of our products becomes specifically regulated by additional government entities, compliance with such regulations could become more burdensome, and we may be unable to ship our products or they may cost substantially more to produce, which would reduce our revenues and increase our cost of revenues.

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Government regulations designed to protect personal privacy may make it difficult for us to sell our products.
Our products may transmit and store personal information. The handling of such information is increasingly subject to regulations in numerous jurisdictions around the world. These regulations are typically intended to protect the privacy and security of personal information that is collected, stored and transmitted in or from the governing jurisdiction. In addition, because various foreign jurisdictions have different regulations concerning the storage and transmission of personal information, we may face unknown requirements that pose compliance challenges in new geographic markets that we seek to enter. Our efforts to protect the privacy of information may also fail if our encryption and security technology is inadequate or fails to operate as expected. The difficulties in complying with privacy and data protection regulations could subject us to costs, delayed product launches, liabilities or negative publicity that could impair our ability to maintain or expand our operations into some countries and therefore limit our future growth.
Our products rely on the availability of specific unlicensed radio frequency spectrum.
Our products operate in unlicensed radio frequency (“RF”) spectrum, which is used by a wide range of devices such as cordless phones, baby monitors, and microwave ovens, and is becoming increasingly crowded. If such spectrum usage continues to increase through the proliferation of consumer electronics and products competitive with ours, and others, the resultant higher levels of clutter and interference in the bands of operation our products use could decrease. Our business could be further harmed if currently unlicensed RF spectrum becomes subject to licensing in the United States or elsewhere. Network operators and service providers that use our products may be unable to obtain licenses for RF spectrum at reasonable prices or at all. Even if the unlicensed spectrum remains unlicensed, existing and new government regulations may require we make changes in our products. For example, to provide products for network operators and service providers who utilize unlicensed RF spectrum, we may be required to limit their ability to use our products in licensed RF spectrum. The operation of our products by network operators or service providers in the United States or elsewhere in a manner not in compliance with local law could result in fines, operational disruption, or harm to our reputation. In addition, if new spectrums, either licensed or unlicensed, are made available by government regulatory agencies for broadband wireless communication that may disrupt the competitive landscape of our industry and impact our business.
We could be adversely affected by unfavorable results in litigation.
We may be involved, from time to time, in a variety of claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters and other litigation matters relating to various claims that arise in the normal course of business and otherwise. It can be difficult or impossible to predict the outcome of legal proceedings with any degree of certainty, particularly given that laws may be ambiguous and factual findings can often be the result of incomplete evidence, opinions, varying standards or proof, and extraneous factors. If one or more of the legal proceedings to which we may be or become a party are resolved against us, our results of operations and financial condition could adversely affected.
We may become subject to warranty claims, product liability and product recalls.
We have received, and may in the future receive, warranty or product liability claims that may require us to make significant expenditures to defend these claims or pay damage awards. In the event of a successful warranty claim, we may also incur costs if we compensate the affected network operator or service provider. Such claims may require a significant amount of time and expense to resolve and defend against, and could also harm our reputation by calling into question the quality of our products. We also may incur costs and expenses relating to a recall of one or more of our products. The process of identifying recalled products that have been widely distributed may be lengthy and require significant resources and we may incur significant replacement costs, contract damage claims and harm to our reputation.
Our customers and the users of our products may expect us to indemnify them against claims for intellectual property infringement, defective products and other losses.
Our customers, users and other parties may expect us to indemnify them for losses incurred in connection with our products, including as a result of intellectual property infringement, defective products, and security vulnerabilities, even if our agreements with them do not require us to provide this indemnification. In some instances we may decide to defend and indemnify them, irrespective of whether we believe that we have an obligation to do so. The expenses associated with providing indemnification can be substantial. We may also reject demands for indemnification, which

may lead to disputes with a customer or other party and may negatively impact our relationships with them.
If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial condition or results of operations or safeguard our assets.
Section 404 of the Sarbanes-Oxley Act requires our management to furnish a report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. The applicable rules require us to

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disclose any material weaknesses in our internal control over financial reporting. As disclosed in Item 9A of our Annual Report, management determined that the Company did not maintain an effective control environment, attributable to a lack of sufficient, competent personnel necessary for effective financial reporting. This resulted in the lack of comprehensive and up-to-date accounting policies and procedures, skepticism on the part of key accounting personnel, internal control training, leadership and adequate communication of roles and responsibilities. Growth in the complexity of the business in fiscal 2015 without commensurate growth in the capabilities of the finance and accounting organization contributed to this deficiency.

The Company's failure to maintain an effective control environment contributed to a second deficiency in the form of ineffectively designed and maintained controls required for safeguarding of the Company's funds and timely detection of improper transactions in the general ledger. Specifically, the Company's disbursement authorization policies were not updated timely for changes in personnel and positions nor were authorization requirements clearly stated, including those for non-routine transactions.

The Company's failure to maintain an effective control environment also contributed to a third deficiency in the form of ineffectively designed and maintained controls over user access and transaction privileges to modify and post entries to the general ledger and subsidiary ledgers. In particular, the scope of user access and transaction privileges to the general ledger and subsidiary ledgers was not sufficiently restricted to provide reasonable assurance of effective process and review controls over postings to the general ledger. Additionally, recent general ledger changes were completed without due consideration of collateral impacts on segregation of duties controls.

These control deficiencies could result in misstatements of accounts or disclosures that would each result in a material misstatement of the interim or consolidated financial statements that would not be prevented or detected and, therefore, management has determined that these control deficiencies constitute material weaknesses. However, management determined that the foregoing material weaknesses did not result in a material misstatement in the consolidated financial statements as of December 31, 2015. Management determined that the first two material weaknesses resulted in the Company's inability to prevent and timely detect the business e-mail compromise fraud discussed in Note 14 that caused a material misappropriation of Company assets during fiscal 2015. In light of these material weaknesses, the Company's Chief Executive Officer and Interim Chief Accounting Officer concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2015.

In the event that we fail to remediate these material weaknesses in our internal control over financial reporting, investor perceptions of our Company may be adversely affected and could cause a decline in the market price of our stock.

Failure to comply with the FCPA and similar laws could subject us to penalties and other adverse consequences.

We face significant risks if we fail to comply with the Foreign Corrupt Practices Act ("FCPA") of the United States and other laws that prohibit improper payments or offers of payment to foreign governments and their officials and political parties by us and other business entities for the purpose of obtaining or retaining business. In many foreign countries, particularly in countries with developing economies, which represent our principal markets, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other laws and regulations. Although we have implemented a company policy requiring our employees and consultants to comply with the FCPA and similar laws, there can be no assurance that all of our employees, and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies, for which we may be ultimately held responsible. Any violation of FCPA or similar laws could result in severe criminal or civil sanctions and suspension or debarment from U.S. government contracting, which could have a material and adverse effect on our reputation, business, operating results and financial condition.

We may suffer from unfavorable tax law changes, an unfavorable government review of our tax returns, or changes in our geographic earnings mix.

We are subject to periodic audits or other reviews by tax authorities in the jurisdictions in which we conduct our activities. Tax authorities could challenge our assertions with respect to how we have conducted our business operations as might result in a claim for larger tax payments from us.

In the ordinary course of our business, there are many instances where the determination of tax implications is uncertain. Our calculations of income taxes may be based on our interpretations of applicable tax laws in the

jurisdictions in which we file. The final determination of our income tax liabilities may be materially different than what is reflected in our income tax provisions and accruals.
The legislative bodies in many jurisdictions regularly consider proposed legislation that, if adopted, could affect our tax rate in such jurisdictions, and the carrying value of our deferred tax assets or our tax liabilities.

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We conduct operations in multiple jurisdictions, and therefore our effective tax rate is influenced by the amounts of income and expense attributed to each such jurisdiction. If such amounts were to change so as to increase the amounts of our net income subject to taxation in higher tax jurisdictions, or if we were to increase our operations in jurisdictions assessing relatively higher tax rates, our effective tax rate could be adversely affected.

If we are required to bring cash into the United States to meet our future funding requirements, we may have to pay high tax rates or seek other available funds.

We hold the substantial majority of our cash and cash equivalents in accounts of our subsidiaries outside of the United States, as our business is largely outside of the United States. Our expenses in the United States could increase faster than we expect. If our cash held in the United States became insufficient to meet our future funding requirements in the United States, we may transfer cash into the United States. If we decide to transfer earnings from our non-U.S. subsidiaries to the United States, that could give rise to the imposition of potentially significant withholding taxes by the jurisdictions in which such amounts were earned, and we may incur substantial tax liabilities in the United States. In addition, we may not receive the benefit of offsetting tax credits, which also could adversely impact our effective tax rate.

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

Issuer Purchases of Equity Securities

On May 29, 2014, the Board of Directors authorized us to repurchase up to an additional $75.0 million of our common stock. The share repurchase program commenced on June 2, 2014. During fiscal 2015, the company repurchased 1,195,497 shares of its common stock at an average price per share of $29.02 for an aggregate amount of $34.7 million. The share repurchase program was terminated on June 8, 2015.

On August 4, 2015, the Board of Directors of the Company approved a $100 million stock repurchase program. Under this stock repurchase program, we were authorized to repurchase up to $100 million of our common stock. We extinguished the full $100 million of availability under this stock repurchase program on October 20, 2015.

Effective November 6, 2015, the Board of Directors of the Company approved a $50 million stock repurchase program. Under the new stock repurchase program, the Company may repurchase up to $50 million of its common stock. The plan expires on September 30, 2016. As of December 31, 2015, the Company had the full $50 million remaining for common stock repurchases under the repurchase plan.

Common stock repurchase activity under the share repurchase program during the three months ended December 31, 2015 was as follows (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Estimated Remaining Balance Available for Share Repurchases
October 1, 2015 - October 31, 2015	1,074,749	$34.12	$—
November 1, 2015 - November 30, 2015	—	—	50,000
December 1, 2015 - December 31, 2015	—	—	50,000
Total	1,074,749	$34.12	$50,000

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

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Item 5. Other Information

As previously disclosed in the Form 8-K filed December 18, 2015, Steven R. Altman, a former member of the Board of Directors and a former member of the Audit Committee of the Board, did not stand for re-election upon the expiration of his term at the Company's Annual Meeting of Stockholders, held on December 16, 2015 (the "Annual Meeting"). As a result, the Audit Committee of the Board is now comprised of two members. The Company subsequently received a letter from NASDAQ stating that the Company is no longer in compliance with NASDAQ Listing Rules which require that the Audit Committee be comprised of at least three directors who meet certain independence and other requirements. The Company is actively seeking a replacement for Altman's position.

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Item 6. Exhibits

Exhibit Number		Incorporated by Reference from Form	Incorporated by Reference from Exhibit Number	Date Filed
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.			
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.			
32.1	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.			
101.INS(1)	XBRL Instance Document			
101.SCH(1)	XBRL Taxonomy Schema Linkbase Document			
101.CAL(1)	XBRL Taxonomy Calculation Linkbase Document			
101.DEF(1)	XBRL Taxonomy Definition Linkbase Document			
101.LAB(1)	XBRL Taxonomy Labels Linkbase Document			
101.PRE(1)	XBRL Taxonomy Presentation Linkbase Document			

(1) In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		UBIQUITI NETWORKS, INC.	
Dated:	February 4, 2016	By:	/s/ Robert J. Pera Robert J. Pera Chief Executive Officer and Director (Principal Executive Officer)
Dated:	February 4, 2016	By:	/s/ Mark C. Spragg Mark C. Spragg Interim Chief Accounting Officer (Principal Financial Officer)

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Exhibit Index

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101.CAL(1)	XBRL Taxonomy Calculation Linkbase Document			
101.DEF(1)	XBRL Taxonomy Definition Linkbase Document			
101.LAB(1)	XBRL Taxonomy Labels Linkbase Document			
101.PRE(1)	XBRL Taxonomy Presentation Linkbase Document			

(1) In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.