

Ubiquiti Networks, Inc.

Form 10-Q

February 08, 2019

10-QFALSEDecember 31, 20182019Q2UBNTUbiquiti Networks, Inc.0001511737--06-30Large Accelerated

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended December 31, 2018  
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.)**

**685 Third Avenue, 27th Floor, New York, NY 10017**

(Address of principal executive offices, Zip Code)

**(646) 780-7958**

(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  No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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  No

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

Large accelerated filer  Accelerated filer

(Do not  
check if a

Non-accelerated filer  smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of February 5, 2019, 70,522,086 shares of Common Stock, par value \$0.001, were issued and outstanding.

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**UBIQUITI NETWORKS, INC.**

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Table of Contents**PART I: FINANCIAL INFORMATION****Item 1. Financial Statements****UBIQUITI NETWORKS, INC.****Consolidated Balance Sheets****(In thousands, except share data)****(Unaudited)**

	December 31, 2018		June 30, 2018
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 293,334	\$	666,681
Investments — short-term	103,489	—	
Accounts receivable, net of allowance for doubtful accounts of \$389 and \$453 at December 31, 2018 and June 30, 2018, respectively	174,327		174,521
Inventories	255,778		102,220
Vendor deposits	24,753		39,029
Prepaid expenses and other current assets	14,236		18,901
Total current assets	865,917		1,001,352
Property and equipment, net	13,243		14,328
Deferred tax assets — long-term	3,106		3,106
Investments — long-term	42,296	—	
Other long-term assets	11,750		3,791
Total assets	\$ 936,312	\$	1,022,577

**Liabilities and Stockholders' Equity****Equity**

Current liabilities:

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Accounts payable	\$ 136,454	\$ 14,098
Income taxes payable	6,524	5,780
Debt — short-term	24,425	24,425
Other current liabilities	64,694	68,613
Total current liabilities	232,097	112,916
Income taxes payable — long-term	122,344	127,719
Debt — long-term	448,154	460,352
Other long-term liabilities	8,381	5,842
Total liabilities	810,976	706,829
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock—\$0.001 par value; 50,000,000 shares authorized; none issued	—	—
Common stock—\$0.001 par value; 500,000,000 shares authorized: 70,599,038 and 74,072,521 outstanding as of December 31, 2018 and June 30, 2018, respectively	71	74
Additional paid-in capital	—	393
Accumulated other comprehensive	(148)	—

income (loss)

Retained earnings	125,413		315,281
Total stockholders' equity	125,336		315,748
Total liabilities and stockholders' equity		\$ 936,312	\$ 1,022,577

See notes to consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenues	\$ 307,276	\$ 250,811	\$ 590,181	\$ 496,679
Cost of revenues	167,045	153,911	318,344	288,123
Gross profit	140,231	96,900	271,837	208,556
Operating expenses:				
Research and development	19,977	20,468	38,199	37,396
Sales, general and administrative	10,597	10,352	24,363	18,017
Litigation settlement	18,000	—	18,000	—
Total operating expenses	48,574	30,820	80,562	55,413
Income from operations	91,657	66,080	191,275	153,143
Interest expense and other, net	(3,212)	(2,492)	(5,739)	(3,853)
Income before income taxes	88,445	63,588	185,536	149,290
Provisions for income taxes	10,649	115,047	22,037	125,824
Net income (loss)	\$ 77,796	\$ (51,459)	\$ 163,499	\$ 23,466
Net income (loss) per share of common stock:				
Basic	\$ 1.09	\$ (0.66)	\$ 2.26	\$ 0.30
Diluted	\$ 1.09	\$ (0.66)	\$ 2.25	\$ 0.29
Weighted average shares used in computing net income (loss) per share of common stock:				
Basic	71,225	77,654	72,499	78,895
Diluted	71,406	77,654	72,686	80,494
Other comprehensive income (loss):				



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Unrealized (loss) on available-for-sale securities	\$ (2)	\$ —	\$ (148)	\$ —
Other comprehensive income (loss)	(2)	—	(148)	—
Comprehensive income (loss)	\$ 77,794	\$ (51,459)	\$ 163,351	\$ 23,466

See notes to consolidated financial statements.

Table of Contents**UBIQUITI NETWORKS, INC.****Consolidated Statements of Stockholders' Equity****(In thousands, except per share amounts)****(Unaudited)**

	Three and Six Months Ended December 31, 2018						Total Stockholders' Equity
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Amount	
	Share	Amount					
<b>Balance at June 30, 2018</b>	74,073	\$ 521 74	\$ 393	\$ 315,281	\$ —	\$ 315,748	
Net Income	—	—	—	85,703	—	85,703	
Other comprehensive income (loss)	—	—	—	—	(146)	(146)	
Stock options exercised	17,378	—	194	—	—	194	
Restricted stock units issued, net of tax withholdings	6,151	—	(365)	—	—	(365)	
Repurchases of Common Stock	(1,238)	(1,163)	(997)	(111,766)	—	(112,764)	
Stock-based compensation expense	—	—	775	—	—	775	
Dividends Paid on Common Stock	—	—	—	(18,506)	—	(18,506)	
<b>Balances at September 30, 2018</b>	72,853	\$ 887 73	\$ —	\$ 270,712	\$ (146)	\$ 270,639	
Net Income	—	—	—	77,796	—	77,796	
Other comprehensive income (loss)	—	—	—	—	(2)	(2)	
Stock options exercised	18,748	—	186	—	—	186	
Restricted stock units issued, net of tax withholdings	10,378	—	(114)	—	—	(114)	
Repurchases of Common Stock	(2,287)	(2,175)	(851)	(205,462)	—	(206,315)	
Stock-based compensation expense	—	—	779	—	—	779	
Dividends Paid on Common	—	—	—	(17,633)	—	(17,633)	

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Stock

**Balances at December 31, 2018** 70,599,038 71 \$ — \$ 125,413 \$ (148) \$ 125,336

**Three and Six Months Ended December 31, 2017**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>		<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
<b>Balance at June 30, 2017</b>	80,275,968	\$ 525	\$ 601,159	\$ —	\$ 601,764	
Net Income	—	—	74,925	—	74,925	
Stock options exercised	70,299	722	—	—	722	
Restricted stock units issued, net of tax withholdings	12,750	(351)	—	—	(351)	
Repurchases of Common Stock	(2,148,332)	(1,808)	(114,951)	—	(116,761)	
Stock-based compensation expense	—	912	—	—	912	
<b>Balances at September 30, 2017</b>	78,210,187	\$ —	\$ 561,133	\$ —	\$ 561,211	
Net Income	—	—	(51,459)	—	(51,459)	
Stock options exercised	27,368	127	—	—	127	
Restricted stock units issued, net of tax withholdings	8,450	(136)	—	—	(136)	
Repurchases of Common Stock	(602,192)	—	(34,493)	—	(34,493)	
Stock-based compensation expense	—	780	—	—	780	
<b>Balances at December 31, 2017</b>	77,643,808	\$ 771	\$ 475,181	\$ —	\$ 476,030	

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See notes to consolidated financial statements.

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	Six Months Ended December 31,	
	2018	2017
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 163,499	\$ 23,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,550	3,286
Amortization of debt issuance costs	562	129
Premium amortization and (discount accretion), net	(356)	—
Provision for inventory obsolescence	936	3,151
Provision/(recovery) for loss on vendor deposits	(431)	16,187
Stock-based compensation	1,554	1,692
Deferred Taxes	—	2,253
Other, net	(142)	410
Changes in operating assets and liabilities:		
Accounts receivable	258	(18,613)
Inventories	(154,470)	39,533
Vendor deposits	15,356	(11,153)
Prepaid income taxes	—	2,419
Prepaid expenses and other assets	4,361	(2,147)
Accounts payable	122,465	(36,888)
Income taxes payable	(4,631)	113,166
Deferred revenues	6,265	1,207
Accrued and other liabilities	(14,193)	27,568
Net cash provided by operating activities	144,583	165,666
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment and other long-term assets	(5,610)	(6,195)

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Private equity investment	(5,000)	—
Purchase of investments	(167,822)	—
Proceeds from sale of investments	7,598	—
Proceeds from maturities of investments	14,721	—
Net cash (used in) investing activities	(156,113)	(6,195)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from borrowing under the Amended Credit Facility- Revolver	—	218,500
Repayment against Credit Facility	(12,500)	(7,500)
Repurchases of common stock	(313,079)	(151,255)
Payment of common stock cash dividends	(36,139)	—
Proceeds from exercise of stock options	380	849
Tax withholdings related to net share settlements of restricted stock units	(479)	(487)
Net cash (used in) provided by financing activities	(361,817)	60,107
Net (decrease) increase in cash and cash equivalents	(373,347)	219,578
Cash and cash equivalents at beginning of period	666,681	604,198
Cash and cash equivalents at end of period	\$ 293,334	\$ 823,776
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Income taxes paid, net of refunds	\$ 26,437	\$ 7,850
Interest paid	\$ 13,287	\$ 4,843
<b>Non-Cash Investing and Financing Activities:</b>		
Unpaid stock repurchases	\$ 6,000	\$ —
	\$ 36	\$ 288

Unpaid property and  
equipment and other  
long-term assets

Net unsettled  
investment purchases, \$ 74 \$ —  
sales and maturities

See notes to consolidated financial statements.

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**UBIQUITI NETWORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1—BUSINESS AND BASIS OF PRESENTATION**

**Business**— Ubiquiti Networks, Inc. and its wholly owned subsidiaries (collectively, “Ubiquiti” or the “Company”) develop high performance networking technology for service providers, enterprises, and consumers globally.

The Company operates on a fiscal year ending June 30. In this Quarterly Report, the fiscal year ending June 30, 2019 is referred to as “fiscal 2019” and the fiscal year ended June 30, 2018 is referred to as “fiscal 2018”.

**Basis of Presentation**— The Company's consolidated financial statements and accompanying notes 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. These consolidated financial statements reflect all adjustments, which are, in the opinion of the Company, of a normal and recurring nature and those necessary to state fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The June 30, 2018 balance sheet was derived from the audited financial statements as of that date. All significant intercompany transactions and balances have been eliminated.

These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended June 30, 2018, included in its Annual Report on Form 10-K, as filed with the SEC on August 24, 2018 (the “Annual Report”). The results of operations for the three and six months ended December 31, 2018 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, 2018, 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.

***Recently Adopted Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which has been codified as Accounting Standards Codification 606 (“ASC 606”). ASC 606 requires the Company’s revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. ASC 606 outlines a five-step model to make the revenue recognition determination and requires enhanced financial statement disclosures. We adopted the updated guidance in the first quarter of fiscal 2019 using the modified retrospective method, which did not have a material impact on the consolidated financial statements. Additional information and disclosures required by this new standard are contained in note 3 of Notes to Consolidated Financial Statements.

***Recent Accounting Pronouncements Not Yet Effective***

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” (“ASU 2016-02”), which establishes a new lease accounting model for lessees. The updated guidance requires an entity to recognize assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. In addition, interest on lease liabilities is to be recognized separately from the amortization of right-of-use assets in the statement of operations. Further, payments of the principal portion of lease liabilities are to be classified as financing activities while payments of interest on lease liabilities and variable lease payments are to be classified as operating activities in the statement of cash flows. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which provides an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. The amendments have the same effective date and transition requirements as the new lease standard. We will adopt this standard on July 1, 2019, the beginning of our 2020 fiscal year. We expect the adoption of the issued lease guidance will result in an increase in the assets and liabilities on our consolidated balance sheets, and we are currently evaluating the extent of this increase.

**NOTE 3—REVENUES**

On July 1, 2018, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all



the related amendments (“new revenue standard”) to all contracts not completed as of the date of adoption using the modified retrospective method. As a result of our adoption of this standard, there was no adjustment recorded to the opening balance of retained earnings as there was no cumulative effect of adoption of the new revenue standard. As we elected the modified retrospective method of adoption, comparative information from prior periods has not been restated and continues to be reported under the

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ASC 605, “Revenue Recognition”. Accordingly, the adoption of the new revenue standard did not have a material impact to our results of operations and comprehensive income or financial position, equity or cash flows as of the adoption date or for the six months ended December 31, 2018.

The Company has made the following accounting policy elections and elected to use certain practical expedients, as permitted by the FASB, in applying Topic 606: (1) the Company accounts for amounts collected from customers for sales and other taxes, net of related amounts remitted to tax authorities; (2) the Company does not adjust the promised amount of consideration for the effects of a significant financing component because, at contract inception, the Company expects the period between the time when the Company transfers a promised good or service to the customer and the time when the customer pays for that good or service will be one year or less; (3) the Company expenses costs to obtain a contract as they are incurred if the expected period of benefit, and therefore the amortization period, is one year or less; (4) the Company accounts for shipping and handling activities that occur after control transfers to the customer as a fulfillment cost rather than an additional promised service and these fulfillment costs fall within cost of revenue; and (5) the Company does not disclose the transaction price allocated to unsatisfied performance obligations when the original expected contract duration is one year or less.

Revenue is primarily generated from the sale of hardware and management tools (products), as well as the related implied post contract services (“PCS”). The Company determines revenue recognition through the five step model under ASC 606 which includes i) identification of the contract, or contracts, with a customer, ii) identification of the performance obligation in the contract, iii) determination of the transaction price, iv) allocation of the transaction price to the performance obligation within the contract, v) recognition of revenue when, or as, a performance obligation is satisfied.

### ***Contracts and Performance Obligations***

The Company accounts for a contract with a customer when there is an approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of the consideration is probable. The Company’s distinct performance obligations consist mainly of transferring control of its products identified in the contracts, purchase orders or invoices and implied PCS services.

### ***Transaction price and allocation to performance obligations***

Transaction prices are typically based on contracted rates. Although payment terms vary, payment is generally due from customers within 60 days of the invoice date and the contracts do not have significant financing components or include extended payment terms. The Company is directly responsible for fulfilling its performance obligations in contracts with customers and does not rely on another party to fulfill its promise. We use observable prices to determine the stand-alone selling price of our performance obligation related to our products, and we utilize a cost plus margin approach to estimate the stand-alone selling price of our implied PCS obligation. When our contracts contain multiple performance obligation, we allocate the transaction price based on the estimated standalone selling prices of the promised products or services underlying each performance obligation.

The expected costs associated with our base warranties continue to be recognized as an expense when the products are sold and is not considered a separate performance obligation.

### ***Revenue Recognition***

Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Revenue is recognized when obligations under the terms of a contract with our customers are satisfied; generally, this occurs with the transfer of control of our products and PCS to our customers. Transfer of control to the customer for products generally occurs at the point in time when products have been shipped to our customer by third party carriers as this represents the point in time when the customer has a present obligation to pay and physical possession including title and risk of loss have been transferred to the customer. Revenue for PCS is recognized ratably over time over the estimated period for which implied PCS services will be delivered.

### ***Disaggregation of Revenue***

See note 14 of Notes to Consolidated Financial Statements “Segment Information” for disaggregation of revenue by product category and geography.

### ***Contract Balances***

The timing of revenue recognition, billing and cash collections results in billed accounts receivable, deferred revenue primarily attributable to PCS and customer deposits on the Consolidated Balance Sheets. Accounts receivable are

recognized in the period the Company's right to the consideration is unconditional. Our contract liabilities consist of advance payments (Customer deposits) as well as billing in excess of revenue recognized primarily related to deferred revenue. We classify customer deposits as a current liability, and deferred revenue as a current or non-current liability based on the timing of when we expect to fulfill these remaining performance obligations. The current portion of deferred revenue is included in other current liabilities and the non-current portion is included in other long-term liabilities in our consolidated balance sheets.

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As of December 31, 2018, the Company's customer deposits were \$1.8 million.

As of December 31, 2018, the Company's deferred revenue, included in current liabilities and non-current liabilities, was \$12.3 million and \$6.8 million, respectively.

**Variable Consideration**

The Company does provide for rights of return to certain customers on product sales and therefore records a provision for returns related to this variable consideration based upon its historical returns experience with these customers. The Company also provides certain customers with discounts that are recorded as a reduction of revenue in the period the related product revenue is recognized and are reflected as a reduction of outstanding accounts receivable. The Company's contracts with customers generally do not contain other forms of variable consideration, however when additional variable consideration is included, the Company estimates the amount of variable consideration and determines what portion of that, if any, has a high probability of significant subsequent revenue reversal, and if so, that amount is excluded from the transaction price.

These reflect the Company's best estimates of the amount of consideration to which it is entitled based on the terms of the contract. Actual amounts of consideration ultimately received may differ from the Company's estimates. If actual results in the future vary from the Company's estimates, the Company adjusts these estimates, which would affect net product revenue and earnings in the period such variances become known.

**NOTE 4—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. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

*Level 1*—Quoted prices in active markets for identical assets or liabilities;

*Level 2*—inputs other than the quoted prices in active markets, that are observable either directly or indirectly;

*Level 3*—Unobservable inputs based on the Company's own assumption.

The Company records securities available-for-sale at fair value on a recurring basis. We classify our investments within Level 1 or 2 because they are valued using either quoted market prices or inputs other than quoted prices which are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded.

Our fixed income available-for-sale securities consist of high quality, investment grade securities from diverse issuers. The valuation techniques used to measure the fair value of our marketable securities incorporate bond terms and conditions, current performance data, proprietary pricing models, real time quotes from contributing dealers, trade prices and, other market data.

The Company began investing cash in various fixed income available-for-sale securities in the first quarter of fiscal 2019, therefore no comparative tables as of the fiscal year ending June 30, 2018 have been disclosed.

The Company held no Level 3 financial instruments as of December 31, 2018.

The following tables summarize the Company's financial instruments' adjusted cost, gross unrealized gains and losses, and fair value by significant investment category as of December 31, 2018 (in thousands):

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December 31, 2018							
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents (1)	Short-Term Investments	Long-Term Investments
Level 1							—
Money market funds	\$ 4,378	\$ —	\$ —	\$ 4,378	\$ 4,378	\$ —	\$ —
Subtotal	\$ 4,378	\$ —	\$ —	\$ 4,378	\$ 4,378	\$ —	\$ —
Level 2							
Commercial paper	\$ 2,581	\$ —	\$ —	\$ 2,581	\$ —	\$ 2,581	\$ —
Corporate securities	120,578	23	(163)	120,438	—	82,889	37,549
U.S. agency securities	7,083	—	(4)	7,079	—	7,079	—
US Government Bonds	16,441	1	(5)	16,437	750	10,940	4,747
Subtotal	\$ 146,683	\$ 24	\$ (172)	\$ 146,535	\$ 750	\$ 103,489	\$ 42,296
Total	\$ 151,061	\$ 24	\$ (172)	\$ 150,913	\$ 5,128	\$ 103,489	\$ 42,296

(1) Cash and cash equivalents on the consolidated balance sheets includes securities that have a maturity of three months or less at the date of purchase. The carrying amount approximates fair value, primarily due to the short maturity of cash equivalent instruments.

During the three and six months ended December 31, 2018, we did not reclassify any amount to earnings from accumulated other comprehensive loss related to unrealized gains or losses.

The following table represents the Company's marketable securities that had been in continuous unrealized loss position for less than 12 months and for 12 months or greater as of December 31, 2018 (in thousands):

December 31, 2018			
Continuous Unrealized Losses			
	Less than 12 Months	12 Months or Greater	Total
Fair Value of marketable securities	\$ 112,900	\$ —	\$ 112,900
Unrealized Loss	\$ (172)	\$ —	\$ (172)

Based on evaluation of securities that have been in a continuous loss position, we did not recognize any other-than-temporary impairment charges during the three and six months ended December 31, 2018. The following table represents the adjusted costs and fair value of investment by contractual maturity as of December 31, 2018 (in thousands):

Available-For-Sale		
	Adjusted Cost	Fair Value
Due within 1	\$ 108,696	\$ 108,617

year		
Due after		
1 year	42,365	42,296
through 5		
years		
Total	\$ 151,061	\$ 150,913

For certain of the Company's financial instruments, other than those presented in the disclosures above, including cash, accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate fair value due to their short maturities.

As of December 31, 2018 and June 30, 2018, the Company had debt associated with its Second Amended & Restated Credit Agreement (See Note 8), which is carried at historical cost. The fair value of the Company's debt disclosed below was estimated based on the current rates offered to the Company for debt with similar terms and remaining maturities and was a Level 2 measurement. As of December 31, 2018 and June 30, 2018, the fair value of the Company's debt carried at historical cost was \$475.0 million and \$487.5 million, respectively.

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Table of Contents**NOTE 5—EARNINGS (LOSS) PER SHARE**

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
<b>Numerator:</b>				
Net income (loss)	\$ 77,796	\$ (51,459)	\$ 163,499	\$ 23,466
<b>Denominator:</b>				
Weighted-average shares used in computing basic earnings (loss) per share	71,225	77,654	72,499	78,895
Add—dilutive potential common shares:				
Stock options	102	—	110	1,522
Restricted stock units	79	—	77	77
Weighted-average shares used in computing diluted net income (loss) per share	71,406	77,654	72,686	80,494
Net income (loss) per share of common stock:				
Basic	\$ 1.09	\$ (0.66)	\$ 2.26	\$ 0.30
Diluted	\$ 1.09	\$ (0.66)	\$ 2.25	\$ 0.29

The Company excludes potentially dilutive securities from its diluted net income per share calculation when their effect would be anti-dilutive 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 anti-dilutive for the period (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Restricted stock units	1	2	2	1

**NOTE 6—BALANCE SHEET COMPONENTS*****Inventories***

Inventories consisted of the following (in thousands):

	December 31, 2018	June 30, 2018
Finished goods	\$ 251,747	\$ 96,747

Raw materials	4,031	5,473
Total	\$ 255,778	\$ 102,220

**Property and Equipment, Net**

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

	December 31, 2018	June 30, 2018
Testing equipment	\$ 9,318	\$ 8,577
Computer and other equipment	6,631	6,265
Tooling equipment	10,148	9,594
Furniture and fixtures	1,920	1,890
Leasehold improvements	10,619	10,106
Software	6,187	6,032
Property and Equipment, Gross	44,823	42,464
Less:		
Accumulated depreciation	(31,580)	(28,136)
Property and Equipment, Net	\$ 13,243	\$ 14,328

**Other Long-term Assets**

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

	December 31, 2018	June 30, 2018
Intangible assets, net (1)	\$ 3,375	\$ 460
Private equity investment (2)	5,000	—
Other long-term assets	3,375	3,331
Total	\$ 11,750	\$ 3,791

(1) - Accumulated amortization was \$1.4 million and \$1.3 million as of December 31, 2018 and June 30, 2018, respectively.

(2) - As of December 31, 2018, the Company entered into a \$5 million strategic cost method investment where the Company acquired preferred stock. As of December 31, 2018 the shares are recorded at cost in Other Long-Term Assets on our Consolidated Balance Sheet. We elected to use the measurement alternative, defined as cost, less impairments, as adjusted up or down based on observable price changes in orderly transactions for identical or similar investments of the same issuer. Adjustments resulting from impairments and/or observable price changes are to be recorded as other income (expense) on a prospective basis. The carrying amount of our equity investments and any related gain or loss may fluctuate in the future as a result of the re-measurement of such equity investments upon the occurrence of observable price changes and/or impairments.

***Other Current Liabilities***

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

	December 31, 2018	June 30, 2018
Accrued expenses	\$ 15,539	\$ 18,241
Litigation settlement accrual	18,000	—
Accrued compensation and benefits	2,862	3,091
Warranty accrual	4,328	3,840
Deferred revenue — short-term	12,292	8,509
Customer deposits	1,831	770
Reserve for sales returns	1,165	1,219
Other payables	8,677	32,943
Total	\$ 64,694	\$ 68,613

***Other Long Term Liabilities***

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

	December 31, 2018	June 30, 2018
Deferred		
Revenue — \$	6,757	\$ 4,275
long-term		
Other		
long-term	1,624	1,567
liabilities		
Total	\$ 8,381	\$ 5,842

**NOTE 7—ACCRUED WARRANTY**

The Company offers warranties on certain products and records a liability for the estimated future costs associated with potential warranty claims. The warranty costs are reflected in the Company's consolidated statements of operations and comprehensive income (loss) within cost of revenues. The warranties are typically in effect for twelve months from the distributor's purchase date of the product. The Company assesses the adequacy of its accrued warranty liabilities and adjusts the amounts as necessary based on historical experience factors and changes in future estimates. Historical factors include product failure rates, material usage and service delivery costs incurred in correcting product failures. 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):

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	Six Months Ended December 31,	
	2018	2017
Beginning balance	\$ 3,840	\$ 3,601
Accruals for warranties issued during the period	3,839	3,373
Changes in liability for pre-existing warranties during the period	95	(343)
Settlements made during the period	(3,446)	(2,647)
Ending balance	\$ 4,328	\$ 3,984

**NOTE 8—DEBT**

On January 17, 2018, Ubiquiti Networks, Inc., the Cayman Borrower and certain subsidiaries entered into an amended and restated credit agreement (the "Second Amended & Restated Credit Agreement") with Wells Fargo, the other financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders, that provides for a \$400 million senior secured revolving credit facility (the "Revolving Facility") and a \$500 million senior secured term loan facility (the "Term Facility", together with the Revolving Facility, the "Facilities"), with an option to request increases in the amounts of such credit facilities by up to an additional \$300 million in the aggregate (any such increase to be in each lender's sole discretion). The maturity date of the Facilities is January 17, 2023.

The Term Facility was fully drawn at the closing of the Second Amended & Restated Credit Agreement, of which \$354.5 million and \$68.9 million was used to repay the prior revolver facility and term facility, respectively. The Company incurred \$4.6 million of debt issuance costs which are capitalized and amortized as interest expense over the life of the facilities.

Our Debt consisted of the following (in thousands):

	December 31, 2018	June 30, 2018
Term Loan - short term	\$ 25,000	\$ 25,000
Debt issuance costs, net	(575)	(575)
Total Debt - short term	24,425	24,425
Term Loan - long term	450,000	462,500
	(1,846)	(2,148)

Debt issuance costs, net			
Total			
Debt -	\$	448,154	\$ 460,352
long term			

The Revolving 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 are available for working capital and general corporate purposes that comply with the terms of the Second Amended & Restated Credit Agreement, including to finance the repurchase of the Company's common stock or to make dividends to the holders of the Company's common stock. Under the Second Amended & Restated Credit Agreement, revolving loans and swingline loans may be borrowed, repaid and reborrowed until January 17, 2023, at which time all amounts borrowed must be repaid. The term loan is payable in quarterly installments of 1.25% of the original principal amount of the term loan until December 31, 2019, thereafter increasing to 1.875% until December 31, 2020, and thereafter increasing to 2.50% of the original principal amount of the term loan. 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 consolidated total leverage ratio as of the most recently ended fiscal quarter or (ii) a floating per annum rate equal to the applicable LIBOR rate (or replacement rate) for a specified period, plus a margin of between 1.50% and 2.25%, depending on the Company's consolidated total 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 consolidated total 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 (or replacement 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 Second Amended & Restated 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 consolidated total 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 between 1.50% and 2.25%, depending on the Company's consolidated total 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 Second Amended & Restated Credit Agreement requires the Company to maintain during the term of the Facilities (i) a maximum consolidated total leverage ratio of 3.25 to 1.00 and (ii) minimum liquidity of \$250.0 million, which can be satisfied with

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unrestricted cash and cash equivalents and up to \$50.0 million of availability under the Revolving Facility. In addition, the Second Amended & Restated 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 Second Amended & Restated 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 Second Amended & Restated Credit Agreement. The obligations of Ubiquiti Networks, Inc. and certain domestic subsidiaries, if any, under the Second Amended & Restated 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 Second Amended & Restated 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 Ubiquiti Networks, Inc. and the Guarantors.

*Second Amended & Restated Credit Agreement*

Under the Second Amended & Restated Credit Agreement, during the three months ended December 31, 2018, the Company made aggregate payments of \$11.3 million under the Term Facility, of which \$6.2 million was repayment of principal and \$5.1 million was payment of interest. During the six months ended December 31, 2018, the Company made aggregate payments of \$25.8 million under the Term Facility, of which \$12.5 million was repayment of principal and \$13.3 was payment of interest.

As of December 31, 2018, we had no outstanding borrowings on our \$400 million Revolving Facility.

As of December 31, 2018, the interest rate on the Term Facility was 4.27%. As of January 31, 2019, the most currently available reset date, the Term Facility has an interest rate of 4.25%.

The following table summarizes our estimated debt and interest payment obligations as of December 31, 2018, for the remainder of fiscal 2019 and future fiscal years (in thousands):

	2019 (remainder)	2020	2021	2022	2023	Thereafter	Total
Debt							
payment \$	12,500	\$ 31,250	\$ 43,750	\$ 50,000	\$ 337,500	\$ —	\$ 475,000
obligations							
Interest							
and other							
payments							
on debt	10,639	20,666	19,054	16,991	8,422	—	75,772
payment							
obligations							
(1)							
Total	\$ 23,139	\$ 51,916	\$ 62,804	\$ 66,991	\$ 345,922	\$ —	\$ 550,772

(1) - Interest payments are calculated based on the applicable rates and payment dates as of December 31, 2018.

**NOTE 9—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 its headquarters in New York, New York and other locations under non-cancelable operating leases that expire at various dates through fiscal 2024.

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As of December 31, 2018, future minimum annual payments under operating leases for the remainder of fiscal 2019 and future fiscal years are as follows (in thousands):

	2019 (remainder)	2020	2021	2022	2023	Thereafter	Total
Operating leases	\$ 5,784	\$ 6,914	\$ 4,883	\$ 1,985	\$ 1,628	\$ 429	\$ 21,623

***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. If we cancel all or part of the orders, we may still be liable to the contract manufacturers for the cost of the components purchased by the subcontractors to manufacture our products. We periodically review the potential liability, and as of December 31, 2018, we have \$2.8 million recorded purchase obligation liability related to FrontRow. There have been no other significant liabilities for cancellations recorded as of December 31, 2018. 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. We may be subject to additional purchase obligations for components ordered by our contract manufacturers based on manufacturing forecasts we

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provide them each month. We estimate the amount of these additional purchase obligation to range from \$178 million to \$237 million as of December 31, 2018, depending upon the timing of orders placed for these components by our manufacturers.

### ***Other Obligations***

The Company had other obligations of \$2.1 million as of December 31, 2018, 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 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. The Company is not currently aware of any pending or threatened litigation that would have a material adverse effect on the Company's financial statements.

### ***Synopsys***

On February 3, 2017, Synopsys, Inc. ("Synopsys") filed a complaint against the Company, one of our subsidiaries and an employee in the United States District Court for the Northern District of California, alleging claims under the Digital Millennium Copyright Act. On January 17, 2019, the Company and Synopsys entered into a settlement pursuant to which the Company paid \$18 million to Synopsys and agreed to a permanent injunction to prevent any unlicensed use of Synopsys's software. As a result of the settlement, the litigation with Synopsys was dismissed. The settlement does not contain any admission of liability, wrongdoing, or responsibility by any of the parties. The Company accrued the \$18 million as an expense in the quarter ended December 31, 2018.

### ***Vivato/XR***

On April 19, 2017, XR Communications, LLC, d/b/a Vivato Technologies ("Vivato"), filed a complaint against the Company in the United States District Court for the Central District of California, alleging that at least one of the Company's products infringes United States Patent Numbers 7,062,296 (the "'296 Patent"), 7,729,728 (the "'728 Patent"), and 6,611,231 (the "'231 Patent and, collectively, the "Patents-in-Suit"). The '296 and '728 Patents are entitled "Forced Beam Switching in Wireless Communication Systems Having Smart Antennas." The '231 Patent is entitled "Wireless Packet Switched Communications Systems and Networks Using Adaptively Steered Antenna Arrays." Vivato amended its complaint on June 23, 2017 and again on July 6, 2017. According to the complaint, the products accused of infringing the Patents-in-Suit include Wi-Fi access points and routers supporting MU-MIMO, including without limitation access points and routers utilizing the IEEE 802.11ac-2013 standard. Vivato has also filed nine other lawsuits asserting the same patents against other defendants in the Central District of California. On October 2, 2017, the ten cases were consolidated into a single action for all purposes except trial. On March 19, 2018, the Company and the remaining defendants in the consolidated action moved to stay the case (the "Motion to Stay") pending completion of certain inter partes review proceedings before the Patent Trial and Appeal Board. On April 9,

2018, the Court held a hearing on the Motion to Stay, and, on April 11, 2018, the Court granted the motion. On October 22, 2018, the Court maintained the stay pending a status conference scheduled for February 11, 2019. The Company plans to vigorously defend itself against these claims; however, there can be no assurance that the Company will prevail in the lawsuit. The Company cannot currently estimate the possible loss or range of losses, if any, that it may experience in connection with this litigation.



Table of Contents**SEC Subpoena**

As previously disclosed on the Form 8-K filed by the Company on February 20, 2018, on February 13, 2018, the Securities and Exchange Commission (the "SEC") issued subpoenas to the Company and certain of the Company's officers requesting documents and information relating to a range of topics, including metrics relating to the Ubiquiti Community, accounting practices, financial information, auditors, international trade practices, and relationships with distributors and various other third parties. The Company is in the process of responding to the requests and intends to cooperate fully with the SEC. As the SEC's investigation is ongoing, we cannot currently predict the timing or the outcome of such investigation.

**Shareholder Class Actions**

On February 21, 2018, a purported class action, captioned Paul Vanderheiden v. Ubiquiti Networks, Inc. et al., No. 18-cv-01620 (the "Vanderheiden Action"), was filed in the United States District Court for the Southern District of New York against the Company and certain of its current and former officers. The Vanderheiden Action complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making false and/or misleading statements, including purported overstatements of the Company's online community user engagement metrics and accounts receivable. On February 28, 2018 and March 13, 2018, substantially similar purported class actions, captioned Xiya Qian v. Ubiquiti Networks, Inc. et al., No. 18-cv-01841 (the "Qian Action") and John Kho v. Ubiquiti Networks, Inc. et al., No. 18-cv-02242 (the "Kho Action", together with the Vanderheiden Action and the Qian Action, the "Class Actions"), respectively, were filed in the United States District Court for the Southern District of New York. On October 24, 2018, the court consolidated the Class Actions and appointed lead plaintiff and lead counsel (the "Consolidated Class Action"). Plaintiff filed its Consolidated Amended Complaint on December 24, 2018. Defendants' response to the Consolidated Amended Complaint is currently due on March 22, 2019.

While the Company believes that the Consolidated Class Action is without merit and plans to vigorously defend itself, there can be no assurance that the Company will prevail. The Company cannot currently estimate the possible loss or range of losses, if any, that it may experience in connection with this litigation.

**Shareholder Derivative Action & Section 220 Demand**

On March 13, 2018, Anthony Franchi filed a shareholder derivative complaint in the Superior Court of the State of California, County of San Mateo against the Company's directors, and certain of its officers (the "Franchi Action"). The Company is named as a nominal defendant. The complaint asserts claims against all individual defendants for breach of fiduciary duty for disseminating false and misleading information and failure to maintain internal controls and unjust enrichment. Additional claims are asserted against Robert Pera for breach of fiduciary duty for insider selling and misappropriation of information, as well as the violation of California Corporations Code § 25402. The allegations in support of these claims are similar to the allegations made in the Class Actions. Plaintiff seeks a judgment on behalf of the Company for all damages incurred or that will be incurred as a result of the alleged breaches of fiduciary duty by the individual defendants, a judgment ordering disgorgement of all profits, benefits, and other compensation obtained by the individual defendants, a judgment directing the Company to reform its governance and internal procedures, and attorneys' fees and other costs. The Company moved for a stay of the derivative action pending resolution of the Consolidated Class Action. The court denied the Company's motion, but stayed discovery until the resolution of any motion to dismiss the Consolidated Class Action. On August 27, 2018, the individual defendants and nominal defendant Ubiquiti demurred to dismiss the Franchi Action. Plaintiff filed an omnibus response on October 5, 2018 and defendants filed replies on October 22, 2018. The demurrers are pending before the Court. On June 4, 2018, alleged Ubiquiti stockholder Richard Gericke served a demand to inspect the Company's books and records pursuant to Section 220 of the Delaware General Corporation Law. The Company commenced its production of documents responding to Mr. Gericke's requests for records on August 22, 2018 and completed its production on October 10, 2018. In addition to serving his Section 220 demand, Mr. Gericke sought leave to intervene in the Franchi Action. Mr. Gericke's motion was denied without prejudice on November 30, 2018.

**NOTE 10—COMMON STOCK AND TREASURY STOCK***Common Stock Repurchases*

On March 13, 2018, the Board of Directors of the Company approved a \$200 million stock repurchase program (the "March Repurchase Program"). Under the March Repurchase Program, the Company is authorized to repurchase up to

\$200 million of its common stock.

On May 8, 2018, the Board of Directors of the Company approved a new \$200 million stock repurchase program (the "May Repurchase Program"). Under the May Repurchase Program, the Company is authorized to repurchase up to an additional \$200 million of its common stock, along with any remaining balances under the March Repurchase Program. During the third and

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fourth quarters of fiscal 2018, the Company repurchased and retired 757,219 and 586,924 shares of common stock at an average price of \$69.48 and \$70.11 for an aggregate amount of \$52.6 million and \$41.1 million respectively. Both the March and May Repurchase Programs expire on June 30, 2019.

During the first quarter of fiscal 2019, the Company repurchased and retired an additional 1,238,163 shares of common stock at an average price of \$91.07 for an aggregate amount of \$112.8 million.

On November 6, 2018, the Board of Directors of the Company approved a new \$200 million stock repurchase program ("November Repurchase Program"). Under the November Repurchase Program, the Company is authorized to repurchase up to \$200 million of its common stock. The November Repurchase Program expires on December 31, 2019. During the second quarter of fiscal 2019, the Company repurchased and retired 2,287,975 shares of common stock at an average price of \$90.17 for an aggregate amount of \$206.3 million. This includes unpaid stock repurchased of \$6.0 million relating to repurchases executed on or prior to December 31, 2018 for trades settled in the third quarter of fiscal 2019. As of December 31, 2018, there was no remaining balance available for share repurchases under the March and May Repurchase Programs and \$187.2 million available for repurchase under the November Repurchase Program.

**NOTE 11—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Comprehensive income consists of two components, net income and other comprehensive income (loss). Other comprehensive income (loss) refers to gains and losses that are recorded as an element of stockholders' equity but are excluded from net income pursuant to GAAP. As of December 31, 2018, the Company's accumulated other comprehensive income (loss) includes \$0.1 million of net unrealized loss from our available-for-sale securities.

**NOTE 12—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, 2018, the Company had 10,574,283 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 Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended December 31, 2018 and 2017 (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Cost of revenues	\$ 261	\$ 40	\$ 294	\$ 285
Research and development	497	370	964	826
Sales, general and administrative	21	370	296	581
	\$ 779	\$ 780	\$ 1,554	\$ 1,692

***Stock Options***

The following is a summary of option activity for the Company's stock incentive plans for the six months ended December 31, 2018:

Common Stock Options Outstanding				
	Weighted Number of Shares Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)	
	137,491	9.15	3.62	\$ 10,390

Balance,  
June 30,  
2018

Exercised (36, \$26) 10.55

Balance,  
December  
31, 2018

101, \$65 8.66 3.12 \$ 9,199

Vested as of  
December  
31, 2018

101, \$65 8.66 3.12 \$ 9,199

Vested and  
exercisable  
as of  
December  
31, 2018

101, \$65 8.66 3.12 \$ 9,199

During the three months ended December 31, 2018 and 2017, the aggregate intrinsic value of options exercised under the Company's stock incentive plans was \$1.9 million and \$1.7 million, respectively, as determined as of the date of option exercise. During the six months ended December 31, 2018 and 2017, the aggregate intrinsic value of options exercised under the Company's stock incentive plans was \$3.2 million and \$5.5 million, respectively, as determined as of the date of option exercise.

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As of December 31, 2018, the Company had no unrecognized compensation costs related to stock options. The Company did not grant any employee stock options during the three and six months ended December 31, 2018 and 2017.

*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, 2018	144,100	\$ 53.24
RSUs granted	39,261	\$ 89.51
RSUs vested (21,673)		\$ 49.57
RSUs canceled (20,603)		\$ 57.95
Non-vested RSUs, December 31, 2018	141,085	\$ 63.21

The intrinsic value of RSUs vested in the three months ended December 31, 2018 and 2017 was \$1.1 million and \$0.6 million, respectively. The intrinsic value of RSUs vested in the six months ended December 31, 2018 and 2017 was \$2.0 million and \$1.9 million, respectively. The total intrinsic value of all outstanding RSUs was \$14.0 million as of December 31, 2018.

As of December 31, 2018, there were unrecognized compensation costs related to RSUs of \$6.3 million which the Company expects to recognize over a weighted average period of 3.7 years.

**NOTE 13—INCOME TAXES**

The Company recorded tax provisions of \$10.6 million and \$22.0 million for the three and six months ended December 31, 2018 as compared to \$115.0 million and \$125.8 million for the three and six months ended December 31, 2017. The tax provisions for the three and six months ended December 31, 2017 reflect provisional charges of \$110.5 million for transition tax and \$2.3 million for the remeasurement of deferred income taxes. The tax provisions for the three and six months ended December 31, 2018, include one-time discrete income tax benefit of \$4 million related to litigation settlement.

The Company's estimated fiscal year 2019 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, excess tax benefit from stock-based compensation and the impact of the 2017 Tax Act.

On December 22, 2017, the U.S. government enacted a comprehensive tax legislation, commonly referred to as the U.S. Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act reduced the US federal corporate income tax rate to 21% from 35%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign-sourced earnings. In fiscal year 2018 and the first quarter of fiscal year 2019, we recorded provisional amounts for certain enactment-date effects of the 2017 Tax Act by applying the guidance in Staff Accounting Bulletin No. 118 ("SAB 118"), because we had not yet completed our enactment-date accounting for these effects. In fiscal year 2019 and 2018, the Company recorded tax expense related to the enactment-date effects of the 2017 Tax Act that included recording the one-time transition tax liability related to undistributed earnings of certain foreign subsidiaries that were not previously taxed, and adjusting deferred tax assets and liabilities to reflect the new corporate tax rate.

We applied the guidance in SAB 118 when accounting for the enactment-date effects of the 2017 Tax Act in fiscal year 2018 and the first quarter of fiscal 2019. At fiscal year ended June 30, 2018, we had not completed our accounting for all of the enactment-date income tax effects of the 2017 Tax Act under ASC 740, Income Taxes, for

the following aspects: remeasurement of deferred tax assets and liabilities, one-time transition tax, and determination of a policy election related to recording deferred income taxes related to global intangible low-taxed income ("GILTI"). However as of December 31, 2018, we have completed our accounting for all of the enactment-date income tax effects of the 2017 Tax Act. During the six months ended December 31, 2018, we recognized an additional expense of \$2.8 million to the provisional transition tax liability amount recorded at June 30, 2018 and included this adjustments as a component of income tax expense from continuing operations. There were no additional adjustments to deferred income taxes and the Company has made a policy election to treat GILTI as a period cost. As of December 31, 2018, the Company had approximately \$29.4 million of unrecognized tax benefits, substantially all of which would, if recognized, affect its tax expense. The Company recorded a net increase of its unrecognized tax benefits of \$0.1 million for the three months ended December 31, 2018. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Statement of Operations and Comprehensive Income (Loss). Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet.

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As of December 31, 2018, the Company had \$3.8 million accrued interest related to uncertain tax matters. The Company, or one of its subsidiaries, files income tax returns in the United States federal jurisdiction, and various state, local, and foreign jurisdictions and is currently undergoing income tax examinations by the U.S. Internal Revenue Service and the Hong Kong Inland Revenue Department. All material consolidated federal income tax matters have been concluded for years through 2014. All material state and local income tax matters have been concluded through 2014. The majority of the Company's foreign jurisdictions have been concluded through 2014, with the exception of Hong Kong which has been reviewed through 2009.

In July 2018, the Company received a draft Notice of Proposed Adjustment ("NOPA") from the Internal Revenue Service (IRS) proposing an adjustment to income for the fiscal 2015 and 2016 tax years based on its interpretation of certain obligations of the non-US entities under the credit facility. The incremental tax liability associated with the income adjustment proposed in the draft NOPA would be approximately \$50 million, excluding interest and penalties. The Company strongly believes the position of the IRS with regard to this matter is inconsistent with the provisions of the credit facility and applicable tax laws. However, there can be no assurance that this matter will be resolved in the Company's favor. Regardless of whether the matter is resolved in the Company's favor, the final resolution of this matter could be expensive and time-consuming to defend and/or settle. While the Company believes that the tax originally paid in fiscal 2015 and 2016 is correct, it has not provided an additional reserve for this tax uncertainty. However, there is still a possibility that an adverse outcome of the matter could have a material effect on the Company's results of operations and financial condition.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued a decision related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement, holding that the Treasury Regulations under which the compensation was mandatorily included as costs were invalid. On June 27, 2016, the Internal Revenue Service (IRS) appealed the court's decision to the Ninth Circuit Court of Appeals. On July 24, 2018 the Ninth Circuit Court of Appeals overturned the U.S. Tax Court's decision reversing in favor of the IRS, and holding that the Regulations were valid. On August 8, 2018, the Ninth Circuit Court of Appeals withdrew this decision, and assigned a new panel to consider the appeal. We will continue to monitor ongoing developments and potential impacts of this case on our consolidated financial statements, and intercompany arrangements.

**NOTE 14—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 our airMAX, EdgeMAX, UFiber, 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 primarily in the 0.9 to 6.0 GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters.

•**Enterprise Technology** our UniFi and mFi platforms, including UniFi enterprise Wi-Fi, UniFi Video Products, UniFi switching and routing solutions, including AmpliFi.

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

Three Months Ended December 31,		Six Months Ended December 31,	
2018	2017	2018	2017
Service Provider Technology	\$ 113,22237%	\$ 119,85248%	\$ 218,17937%
		\$ 239,76748%	

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Enterprise Technology	194,054	63%	130,959	52%	372,002	63%	256,912	52%
Total revenues	\$ 307,276	100%	\$ 250,811	100%	\$ 590,181	100%	\$ 496,679	100%

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2018		2017		2018		2017	
North America <sup>(1)</sup>	\$ 121,234	39%	\$ 94,957	38%	\$ 240,605	41%	\$ 191,127	38%
South America	20,907	7%	20,746	8%	35,083	6%	51,799	10%
Europe, the Middle East and Africa ("EMEA")	134,392	44%	102,026	41%	259,323	44%	195,340	39%
Asia Pacific	30,743	10%	33,082	13%	55,170	9%	58,413	13%
Total revenues	\$ 307,276	100%	\$ 250,811	100%	\$ 590,181	100%	\$ 496,679	100%

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(1) Revenue for the United States was \$114.5 million and \$89.8 million for the three months ended December 31, 2018 and 2017, respectively. Revenue for the United States was \$226.8 million and \$181.7 million for the six months ended December 31, 2018 and 2017, 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,		2018	Six Months Ended December 31,		December 31, June 30,
	2018	2017		2017	2018	
Customer A	11%	13%	10%	11%	11%	12%
Customer B	11%	*	11%	*	16%	15%

\* denotes less than 10%

**NOTE 15—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 \$0.5 million and \$0.9 million in expenses pursuant to the Aircraft Lease Agreement during the three and six months ended December 31, 2018, respectively. The Company recognized a total of approximately \$0.4 million and \$0.7 million in expenses pursuant to the Aircraft Lease Agreement during the three and six months ended December 31, 2017, respectively. All expenses pursuant to the Aircraft Lease Agreement have been included in the Company’s sales, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss).

**NOTE 16 - SUBSEQUENT EVENTS*****Repurchase Program***

Subsequent to December 31, 2018, the Company repurchased and retired 91,249 shares of common stock at an average price of \$98.63 for an aggregate amount of \$9.0 million. As of February 7, 2019, the Company had \$178.2 million available under the November Repurchase Program.

***Dividends***

On February 8, 2019, the Company announced that its Board of Directors had approved a quarterly cash dividend of \$0.25 per share payable on February 25, 2019 to shareholders of record at the close of business on February 18, 2019. The Company intends to pay regular quarter cash dividends of at least \$0.25 per share for the remainder of fiscal year 2019. Any future dividends will be subject to the approval of the Company's Board of Directors.

***Litigation Settlement***

On February 3, 2017, Synopsys, Inc. (“Synopsys”) filed a complaint against the Company, one of our subsidiaries and an employee in the United States District Court for the Northern District of California, alleging claims under the Digital Millennium Copyright Act. On January 17, 2019, the Company and Synopsys entered into a settlement pursuant to which the Company paid \$18 million to Synopsys and agreed to a permanent injunction to prevent any unlicensed use of Synopsys’s software. As a result of the settlement, the litigation with Synopsys was dismissed. The settlement does not contain any admission of liability, wrongdoing, or responsibility by any of the parties.

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**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 Note 9 “Commitments and Contingencies” to our consolidated financial statements and Part II “Other Information”, Item 1-Legal Proceedings and 1A-Risk Factors, in this report.*

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### **Overview**

The Company develops technology platforms for high-capacity distributed Internet access, unified information technology, and next-generation consumer electronics for home and personal use. We categorize our solutions into three main categories: high performance networking technology for service providers, enterprises and consumers. The majority of the Company's resources consist of entrepreneurial and de-centralized research and development teams ("R&D"). Ubiquiti does not employ a traditional direct sales force, but instead drives brand awareness through online reviews and publications, its website, its distributors and the company's user community where customers can interface directly with R&D, marketing, and support. Our technology platforms are designed from the ground up with a focus on delivering highly-advanced and easily deployable solutions that appeal to a global customer base in under-served and under-penetrated markets. Our differentiated business model, we believe has enabled us to break down traditional barriers such as high product and network deployment costs and offer solutions with disruptive price-performance characteristics. We strive to offer solutions that provide an ecosystem which simplifies the users experience and the deployment process of additional hardware.

The Company maintains an industry leading financial profile by leveraging its unique business model. 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 operator-owners of wireless internet services (WISP's), enterprises and smart homes. Our operator-owner service provider -product platforms provide carrier-class network infrastructure for fixed wireless broadband, wireless backhaul systems and routing and the related software for WISP's to easily control, track and bill their customers. Our enterprise product platforms provide wireless LAN (WLAN) infrastructure, video surveillance products, switching and routing solutions, security gateways, and other complimentary WLAN products along with a unique software platform, which enables users to control their network from one simple, easy to use software interface. Our consumer products, sold under the Ubiquiti Labs brand name, are targeted to the smart home and highly connected consumers. 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 product 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 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 one 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 from 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 maintain the traditional direct sales force as compared to some of our competitors, but instead utilize digital marketing and the Ubiquiti Community to drive market awareness and demand for our products and solutions. We believe this community-propagated viral marketing enables us to reach under-served and under-penetrated 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 of our brand and products. By reducing the cost of development, sales, marketing and support we are able to offer innovative solutions with disruptive price performance characteristics to our customers.

### **Key Components of Our Results of Operations and Financial Condition**

***Revenues***

We operate our business as one reportable and operating segment. Further information can be found in Note 14 of Notes to Consolidated Financial Statements. Our revenues are derived principally from the sale of networking hardware and management tools. 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.

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•**Service Provider Technology** includes our airMAX, EdgeMAX, UFiber, 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 primarily in the 0.9 to 6.0 GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters.

•**Enterprise Technology** includes our UniFi and mFi platforms, including UniFi enterprise Wi-Fi, UniFi Video Products, UniFi switching and routing solutions, including AmpliFi.

We sell our products and solutions globally to service providers and enterprises primarily through our extensive network of distributors, and, to a lesser extent, direct customers. Sales to distributors accounted for 97% of our revenues during the six months ended December 31, 2018.

## **Cost of Revenues**

Our cost of revenues is comprised primarily of the costs of procuring finished goods from our contract manufacturers and certain key components 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 costs, logistics fees, tariffs and excess and obsolete inventory reserves.

We operate a warehouse located in Utah and outsource other logistics warehousing and order fulfillment functions located primarily in China, and to a lesser extent, Poland. 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, channel inventory levels, tariffs, 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 on to us, which could have a material impact on our future average selling prices and unit costs. In June 2018, the Office of the United States Trade Representative announced new proposed tariffs for certain products imported into the U.S. from China. As of September 24, 2018, these tariffs were implemented, and did impact a portion of our products. As a result, we expect our near-term margins to be negatively impacted as we explore alternatives to mitigate the tariffs. Refer to “Part II—Item 1A. Risk Factors—Risks Related to Our International Operations—*Our business may be negatively affected by political events and foreign policy responses*” for additional information.

## **Operating Expenses**

We classify our operating expenses as research and development, 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, licensed or purchased intellectual property, facilities and travel. Over time, we expect our research and development costs to increase as we continue making significant investments in developing new products in addition to 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 traditional 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 continued growth in headcount, expansion of our efforts to register and defend

trademarks and patents and to support our business and operations.

***Deferred Revenues***

We recognize revenues when performance obligations under the terms of a contract with our customers are satisfied. Our deferred revenues are primarily comprised of remaining performance obligation attributable to implied PCS that we expect to fulfill in the future. As of December 31, 2018, and June 30, 2018, we had deferred revenues of \$19.0 million and \$12.7 million, respectively, related to these obligations.

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***Provisions for Income Taxes***

We use the asset and liability method to account for income taxes. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. In preparing the consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. The Company must assess such potential exposures and, where necessary, provide a reserve to cover any expected loss. To the extent that the Company establishes a reserve, its provision for income taxes would be increased. If the Company ultimately determines that payment of these amounts is unnecessary, it reverses the liability and recognizes a tax benefit during the period in which it determines that the liability is no longer necessary. The Company records an additional charge in its provision for taxes in the period in which it determines that tax liability is greater than its original estimate. The Company recognizes interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying consolidated statement of operations and comprehensive income (loss). Refer to “Part II—Item 1A. Risk Factors—Risks Related to Regulatory, Legal and Tax Matters—*Changes in applicable tax regulations could negatively affect our financial results*” for additional information.

**Critical Accounting Policies**

We prepare our 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 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 other than that have been disclosed in Note 2 to our consolidated financial statements herein.

Table of Contents**Results of Operations****Comparison of Three and Six Months Ended December 31, 2018 and 2017**

	Three Months Ended December 31,				Six Months Ended December 31,			
	2018		2017		2018		2017	
	(In thousands, except percentages)							
Revenues	\$ 307,276	100%	\$ 250,811	100%	\$ 590,181	100%	\$ 496,679	100%
Cost of revenues	167,045	54%	153,911	61%	318,344	54%	288,123	58%
(1)								
Gross profit	140,231	46%	96,900	39%	271,837	46%	208,556	42%
Operating expenses:								
Research and development	19,977	7%	20,468	8%	38,199	6%	37,396	8%
(1)								
Sales, general and administrative	10,597	3%	10,352	4%	24,363	4%	18,017	4%
(1)								
Litigation settlement	18,000	6%	—	*	18,000	3%	—	*
Total operating expenses	48,574	16%	30,820	12%	80,562	14%	55,413	11%
Income from operations	91,657	30%	66,080	26%	191,275	32%	153,143	31%
Interest expense and other, net	(3,212)	(1%)	(2,492)	(1%)	(5,739)	(1%)	(3,853)	(1%)
Income before income taxes	88,445	29%	63,588	25%	185,536	31%	149,290	30%
Provisions for income taxes	10,649	3%	115,047	46%	22,037	4%	125,824	25%
Net income (loss)	\$ 77,796	25%	\$ (51,459)	(21%)	\$ 163,499	28%	\$ 23,466	5%



\* *Less than 1%*

(1) Includes stock-based compensation as follows:

Cost of revenues	261	40	294	285
Research and development	497	370	964	826
Sales, general and administrative	21	370	296	581
Total stock-based compensation	779	780	1,554	1,692

### Revenues

Total revenues increased \$56.5 million, or 23%, from \$250.8 million in the three months ended December 31, 2017 to \$307.3 million in the three months ended December 31, 2018. Total revenues increased \$93.5 million, or 19%, from \$496.7 million in the six months ended December 31, 2017 to \$590.2 million in the six months ended December 31, 2018

During the three and six months ended December 31, 2018, there were no material price changes in the Company's products sold. However, the Company continues to introduce new products which may have average selling price and margins different than our legacy products.

### Revenues by Product Type

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(in thousands, except percentages)			
Service Provider	\$ 113,222	\$ 119,852	\$ 218,179	\$ 239,767
Technology				
Enterprise Technology	\$ 194,054	\$ 130,959	\$ 372,002	\$ 256,912
Total revenues	\$ 307,276	\$ 250,811	\$ 590,181	\$ 496,679

Service Provider Technology revenue decreased \$6.6 million, or 6%, from \$119.9 million in the three months ended December 31, 2017 to \$113.2 million in the three months ended December 31, 2018. Service Provider Technology revenue decreased \$21.6 million, or 9%, from \$239.8 million in the six months ended December 31, 2017 to \$218.2 million in the six months ended December 31, 2018.

The decrease in Service Provider Technology revenue during the three and six months ended December 31, 2018 as compared to the same period in the prior year, was primarily due to decreased revenue in South America, North America and Asia Pacific, partially offset by an increase in revenue in Europe, the Middle East and Africa ("EMEA"). Enterprise Technology revenue increased \$63.1 million, or 48%, from \$131.0 million in the three months ended December 31, 2017 to \$194.1 million in the three months ended December 31, 2018. Enterprise Technology revenue increased \$115.1

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million, or 45%, from \$256.9 million in the six months ended December 31, 2017 to \$372.0 million in the six months ended December 31, 2018

The increase in Enterprise Technology revenue during the three and six months ended December 31, 2018 as compared to the same periods in the prior year, was primarily due to product expansion and further adoption of our UniFi technology platform across all regions.

*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, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended December 31,				Six Months Ended December 31,			
	2018		2017		2018		2017	
	(in thousands, except percentages)							
North America <sup>(1)</sup>	\$ 121,234	39%	\$ 94,957	38%	\$ 240,605	41%	\$ 191,127	38%
South America	20,907	7%	20,746	8%	35,083	6%	51,799	10%
Europe, the Middle East and Africa ("EMEA")	134,392	44%	102,026	41%	259,323	44%	195,340	39%
Asia Pacific	30,743	10%	33,082	13%	55,170	9%	58,413	13%
Total revenues	\$ 307,276	100%	\$ 250,811	100%	\$ 590,181	100%	\$ 496,679	100%

(1) Revenue for the United States was \$114.5 million and \$89.8 million for the three months ended December 31, 2018 and 2017, respectively. Revenue for the United States was \$226.8 million and \$181.7 million for the six months ended December 31, 2018 and 2017, respectively.

*North America*

Revenues in North America increased \$26.3 million, or 28%, from \$95.0 million in the three months ended December 31, 2017 to \$121.2 million in the three months ended December 31, 2018. Revenues increased \$49.5 million, or 26%, from \$191.1 million in the six months ended December 31, 2017 to \$240.6 million in the six months ended December 31, 2018.

The increase in North America revenues during the three and six months ended December 31, 2018 as compared to the same periods in the prior year, was primarily due to increased revenue from our Enterprise Technology products partially offset by a decrease in revenue from Service Provider Technology products.

*South America*

Revenues in South America increased \$0.2 million, or 1%, from \$20.7 million in the three months ended December 31, 2017 to \$20.9 million in the three months ended December 31, 2018. Revenues decreased \$16.7 million, or 32%, from \$51.8 million in six months ended December 31, 2017 to \$35.1 million in six months ended December 31, 2018. The increase in South America revenues during the three months ended December 31, 2018 as compared to the same period in the prior year was primarily due to increased revenue in Enterprise Technology products, offset in part by a decrease in revenue from Service Provider Technology products.

The decrease in South America revenues during the six months ended December 31, 2018 as compared to the same period in the prior year was primarily due to decreased revenue in our Service Provider Technology products.

*Europe, the Middle East, and Africa (EMEA)*

Revenues in EMEA increased \$32.4 million, or 32%, from \$102.0 million in the three months ended December 31, 2017 to \$134.4 million in the three months ended December 31, 2018. Revenues increased \$64.0 million, or 33%, from \$195.3 million in the six months ended December 31, 2017 to \$259.3 million in the six months ended December 31, 2018.

The increase in EMEA revenues during the three and six months ended December 31, 2018 as compared to the same periods in the prior year was primarily due to increased revenue for both our Enterprise Technology products and Service Provider Technology products.

*Asia Pacific*

Revenues in the Asia Pacific region decreased \$2.3 million, or 7%, from \$33.1 million in the three months ended December 31, 2017 to \$30.7 million in the three months ended December 31, 2018. Revenues decreased \$3.2 million, or 6%, from \$58.4 million in the six months ended December 31, 2017 to \$55.2 million in the six months ended December 31, 2018.

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The decrease in Asia Pacific revenues during the three and six months ended December 31, 2018 as compared to the same period in the prior year was primarily due to decreased revenue from Service Provider Technology products, offset in part by an increase in revenue from Enterprise Technology products.

### ***Cost of Revenues and Gross Profit***

Cost of revenues increased \$13.1 million, or 9%, from \$153.9 million in the three months ended December 31, 2017 to \$167.0 million in the three months ended December 31, 2018. Cost of revenues increased \$30.2 million, or 10%, from \$288.1 million in the six months ended December 31, 2017 to \$318.3 million in the six months ended December 31, 2018.

The increase during the three and six months ended December 31, 2018 was primarily due to cost increases associated with an overall increase in revenue, higher indirect costs, partially offset by lower provisions for obsolete inventory. Gross profit margin increased to 46% in the three months ended December 31, 2018 compared to 39% in the three months ended December 31, 2017. Gross profit margin increased to 46% in the six months ended December 31, 2018 compared to 42% in the six months ended December 31, 2017.

The increase in gross profit margin during both the three and six months ended December 31, 2018 was primarily driven by changes in product mix, lower inventory obsolescence charges and to a lesser extent the benefit of product cost reduction strategies, partially offset by higher indirect costs.

The increase in indirect costs for the three and six months ended December 31, 2018 as compared to the same period in prior year, is mainly due to higher shipping and tariffs related cost. The three and six months ended December 31, 2017 includes \$18.6 million of costs related to provisions for obsolete inventory, vendor deposits and loss on purchase commitment.

### ***Operating Expenses***

#### ***Research and Development***

Research and development (“R&D”) expenses decreased \$0.5 million, or 2%, from \$20.5 million in the three months ended December 31, 2017 to \$20.0 million in the three months ended December 31, 2018. As a percentage of revenues, R&D expenses decreased from 8% for the three months ended December 31, 2017 to 7% for the three months ended December 31, 2018. R&D expenses increased \$0.8 million, or 2%, from \$37.4 million in the six months ended December 31, 2017 to \$38.2 million in the six months ended December 31, 2018. As a percentage of revenues, R&D expense decreased from 8% for the six months ended December 31, 2017 to 6% for the six months ended December 31, 2018.

The decrease in R&D expenses in absolute dollars during the three months ended December 31, 2018 as compared to the same period in the prior year was primarily due to lower non-recurring engineering (NRE) expenses and lower employee related expenses.

The increase in R&D expense in absolute dollars during the six months ended December 31, 2018 as compared to the same period in the prior year was primarily due to higher costs associated with increased headcount.

#### ***Sales, General and Administrative***

Sales, general and administrative expenses increased \$0.2 million, or 2%, from \$10.4 million in the three months ended December 31, 2017 to \$10.6 million in the three months ended December 31, 2018. As a percentage of revenues, sales, general and administrative expenses decreased from 4% for the three months ended December 31, 2017 to 3% for the three months ended December 31, 2018. Sales, general and administrative expenses increased \$6.3 million, or 35%, from \$18.0 million in the six months ended December 31, 2017 to \$24.4 million in the six months ended December 31, 2018. As a percentage of revenues, sales general and administrative expenses remained flat at 4% for six months ended December 31, 2018 and 2017.

For the three months ended December 31, 2018, compared to the same period in prior year, the cost was consistent due to higher employee related costs, largely offset by lower stock based compensation expense and marketing expenses.

The increase in sales, general and administrative expenses in absolute dollars during the six months ended December 31, 2018 was primarily related to professional fees and costs associated with increased headcount.

### ***Litigation Settlement***

On February 3, 2017, Synopsys, Inc. (“Synopsys”) filed a complaint against the Company, one of our subsidiaries and an employee in the United States District Court for the Northern District of California, alleging claims under the

Digital Millennium Copyright Act. On January 17, 2019, the Company and Synopsys entered into a settlement pursuant to which the Company paid \$18 million to Synopsys and agreed to a permanent injunction to prevent any unlicensed use of Synopsys's software. As a result of the settlement, the litigation with Synopsys was dismissed. The settlement does not contain any admission of liability, wrongdoing, or responsibility by any of the parties.

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***Provision for Income Taxes***

Our provision for income taxes decreased \$104.4 million or 91%, from \$115.0 million for the three months ended December 31, 2017 to \$10.6 million for the three months ended December 31, 2018. Our effective tax rate decreased to 12% for the three months ended December 31, 2018 as compared to 181% for the three months ended December 31, 2017.

Our provisions for income taxes decreased \$103.8 million or 82%, from \$125.8 million for the six months ended December 31, 2017 to \$22.0 million for the six months ended December 31, 2018. Our effective tax rate decreased to 12% for the six months ended December 31, 2018 as compared to 84% for the six months ended December 31, 2017. The lower effective tax rates for both the three and six months ended December 31, 2018 is primarily due to \$110.7 million net charges associated with the 2017 Tax Act recorded in the three months ended December 31, 2017.

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Table of Contents**Liquidity and Capital Resources****Sources and Uses of Cash**

Our principal sources of liquidity are cash and cash equivalents, cash generated by operations, the availability of additional funds under the Facilities and short and long term investments. We had cash and cash equivalents of \$293.3 million and \$666.7 million as of December 31, 2018 and June 30, 2018, respectively. Cash and cash equivalents includes securities that have a maturity of three months or less at the date of purchase. As of December 31, 2018, our condensed cash and investments were \$439.1 million

During the first quarter of fiscal year 2019, the Company began investing cash in various fixed income available-for-sale securities. As of December 31, 2018, we held \$150.9 million in total investments of which \$5.2 million is recorded in cash and cash equivalents. Our securities investment portfolio consists of high quality, investment grade securities from diverse issuers.

**Consolidated Cash Flow Data**

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

	Six Months Ended December 31,	
	2018	2017
	(In thousands)	
Net cash provided by operating activities	\$ 144,583	\$ 165,666
Net cash (used in) investing activities	(156,113)	(6,195)
Net cash (used in) provided by financing activities	(361,817)	60,107
Net (decrease) increase in cash and cash equivalents	\$ (373,347)	\$ 219,578

***Cash Flows from Operating Activities***

Net cash provided by operating activities in the six months ended December 31, 2018 consisted primarily of net income of \$163.5 million, partially offset by the changes in operating assets and liabilities that resulted in net cash outflows of \$24.6 million. This net change was primarily driven by outflows arising from a \$154.5 million increase in inventory, partially offset by \$15.4 million decrease in vendor deposits, and \$4.6 million decrease in taxes payable due to the timing of federal tax payments. These outflows were partly offset by \$108.3 million increase in net accounts payable and accrued liabilities.

Net cash provided by operating activities in the six months ended December 31, 2017 consisted primarily of net income of \$23.5 million in addition to the changes in operating assets and liabilities that results in net cash inflows of \$115.1 million. This net change was primarily driven by inflows arising from \$39.5 million decrease in inventory partially offset with \$11.2 million increase in vendor deposits and \$113.2 million increase in taxes payable primarily due to charges associated with the 2017 Tax Act. These inflows were partly offset by \$18.6 million increase in accounts receivable due to overall higher revenues for the period and \$9.3 million decrease in net accounts payable

and accrued liabilities.

***Cash Flows from Investing Activities***

We used \$156.1 million of cash in investing activities during the six months ended December 31, 2018. For the six months ended December 31, 2018, our investing activities consist of net purchases of available-for-sale securities of \$145.5 million, purchase of private equity investment of \$5.0 million, and capital expenditures and purchase of intangible assets of \$5.6 million. For the six months ended December 31, 2017, our investing activities consisted of capital expenditures of \$6.2 million.

***Cash Flows from Financing Activities***

We used \$361.8 million of cash in financing activities during the six months ended December 31, 2018. During the six months ended December 31, 2018, we had financing cash outflows of \$313.1 million related to the repurchase of our common stock, \$36.1 million related to dividends paid on our common stock and \$12.5 million repayment on our term loan under our credit facility.

Net cash provided by financing activities in the six months ended December 31, 2017 of \$60.1 million consisted primarily of cash inflows of \$218.5 million related to draws on our revolver under our credit facility, offset in part by cash outflows \$151.3 million related to repurchases of our common stock and \$7.5 million repayments against our outstanding term loan under the Term Facility.



Table of Contents**Liquidity**

We believe our existing cash and cash equivalents, cash provided by operations and the availability of additional funds, under the Facilities and short and long term investments, will be sufficient to meet our working capital, future stock repurchases, dividends, and capital expenditure needs for the next twelve months. However, this estimate is based on a number of assumptions that may prove to be wrong and we could exhaust our available cash and cash equivalents earlier than presently anticipated. 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.

**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 have entered and may in the future enter into standard indemnification agreements with certain distributors as well as 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 for our indemnification obligations to our directors, officers and certain other employees. We believe the fair value of these indemnification agreements is minimal. We have not recorded any liabilities for these agreements as of December 31, 2018.

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 material liability for the above indemnities as of December 31, 2018.

**Contractual Obligations and Off-Balance Sheet Arrangements**

The following table summarizes our contractual obligations as of December 31, 2018 for the remainder of fiscal 2019 and future fiscal years (in thousands):

	2019 (remainder)	2020	2021	2022	2023	Thereafter	Total
Operating leases	\$ 5,784	\$ 6,914	\$ 4,883	\$ 1,985	\$ 1,628	\$ 429	\$ 21,623
Debt payment obligations	12,500	31,250	43,750	50,000	337,500	—	475,000
Interest and other payments on debt payment	10,639	20,666	19,054	16,991	8,422	—	75,772

obligations

Transition Tax	—	8,902	8,902	8,902	8,902	66,766	102,374
Other obligations	2,098	—	—	—	—	—	2,098
Total	\$ 31,021	\$ 67,732	\$ 76,589	\$ 77,878	\$ 356,452	\$ 67,195	\$ 676,867

***Operating Leases***

The Company leases its headquarters in New York, NY and other locations worldwide under non cancellable operating leases that expire at various dates through 2024.

***Debt and Interest Payment Obligations***

On January 17, 2018, Ubiquiti Networks, Inc., the Cayman Borrower and certain subsidiaries entered into an amended and restated credit agreement (the "Second Amended & Restated Credit Agreement") with Wells Fargo, the other financial

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institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders, that provides for a \$400 million senior secured revolving credit facility (the "Revolving Facility") and a \$500 million senior secured term loan facility (the "Term Facility", together with the Revolving Facility, the "Facilities"), with an option to request increases in the amounts of such credit facilities by up to an additional \$300 million in the aggregate (any such increase to be in each lender's sole discretion). The maturity date of the Facilities is January 17, 2023.

The Second Amended & Restated Credit Agreement replaced the Company's existing \$425 million senior secured revolving facility and \$100 million senior secured term facility.

The Second Amended & Restated Credit Agreement requires the Company to maintain during the term of the Facilities (i) a maximum consolidated total leverage ratio of 3.25 to 1.00 and (ii) minimum liquidity of \$250.0 million, which can be satisfied with unrestricted cash and cash equivalents and up to \$50.0 million of availability under the Revolving Facility. Please see Note 8 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 payments dates. Although our interest rates on our debt obligations may vary, we have assumed the most recent available interest rates for all years presented.

### ***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. If we cancel all or part of the orders, we may still be liable to the contract manufacturers for the cost of the components purchased by the subcontractors to manufacture our products. We periodically review the potential liability, and as of December 31, 2018, we have \$2.8 million recorded purchase obligation liability related to FrontRow. There have been no other significant liabilities for cancellations recorded as of December 31, 2018. 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. We may be subject to additional purchase obligations for components ordered by our contract manufacturers based on manufacturing forecasts we provide them each month. We estimate the amount of these additional purchase obligation to range from \$178.0 million to \$237.0 million as of December 31, 2018, depending upon the timing of orders placed for these components by our manufacturers.

### ***Transition Tax***

The Company also had obligations of \$102.4 million as of December 31, 2018, related to Transition Tax. These obligations are included within Income taxes payable and Long-term taxes payable on our Consolidated Balance Sheets.

### ***Other Obligations***

We had other obligations of \$2.1 million as of December 31, 2018, which consisted primarily of commitments related to tooling research and development projects.

### ***Unrecognized Tax Benefits***

As of December 31, 2018, we had \$29.4 million and an additional \$3.8 million for accrued interest, classified as non-current liabilities. At this time, we are unable to make a reasonably reliable estimate of timing of payments in individual years in connection with these tax liabilities; therefore, such amounts are not included in the above contractual obligation table.

### ***Recent Accounting Pronouncements***

For a discussion of recent accounting pronouncements, refer to Note 2 to the consolidated financial statements.

### ***Note About Forward-Looking Statements***

*When used in this Report, the words "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans" "potential," "predicts," "projects," "should," "will," "would" or similar expressions and negatives of those terms are intended to 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, our introduction of new products, 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, the impact of tariffs, the expected impact of taxes on our liquidity and results of operations, 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*

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*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, the impact of U.S. tariffs on results, 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 Part II: "Other Information", Item 1, "Legal Proceedings" 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***

We had cash and cash equivalents of \$293.3 million and \$666.7 million as of December 31, 2018 and June 30, 2018, respectively. Cash and cash equivalents includes securities that have a maturity of three months or less at the date of purchase. These amounts were held primarily in cash deposit accounts in U.S. dollars. 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.

***Debt***

We are exposed to interest rates risks primarily through borrowing under our credit facility. Interest on our borrowings is based on variable rates. Based on a sensitivity analysis, as of December 31, 2018, 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 an incremental charge to our income before income taxes of approximately \$9.5 million over the next twelve months.

***Investments***

Our investments are primarily invested in money market funds, corporate bonds, U.S. agency bonds and commercial papers and we do not enter into investments for trading or speculative purposes. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss. We are exposed to market risk related to changes in interest rates where a decline in interest rates would reduce our interest income and conversely, an increase in interest rates would have an adverse impact on the fair value of our investment portfolio. The effect of a hypothetical 100 basis points increase or decrease in overall interest rate would not materially change the total fair value of the portfolio due to the conservative and short-term nature of these investments.

As of December 31, 2018, the Company held \$150.9 million in total investments, which consists of various fixed income available-for-sale securities.

***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. A 10% appreciation or depreciation in the value of the U.S. dollar relative to the other currencies in which our expenses are denominated would result in a charge to our income before income taxes of approximately \$1.2 million.

**Item 4. Controls and Procedures*****Evaluation of Disclosure Controls and Procedures***

Management, with the participation of the Company's Chief Executive Officer and Chief Accounting and Finance Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. 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.

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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, 2018, our Chief Executive Officer and Chief Accounting and Finance Officer concluded that, as of such date, our disclosure controls and procedures were effective.

### ***Changes in Internal Control over Financial Reporting***

There have been no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2018, that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II: OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Please see Part I, Item 1, Note 9 of the notes to 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, operating results, 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;
- 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 historically masked our seasonal changes in demand. For example, our consumer products may be subject to general seasonal spending trends associated with holidays.

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

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Because of our limited visibility into end customer demand and channel inventory levels, our ability to accurately forecast our future sales is limited. We sell our products and solutions globally to network operators, service providers and consumers, primarily through our network of distributors and resellers. We do not employ a traditional 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, which could harm our ability to achieve or sustain expected operating results. If we under forecast demand, our ability to fulfill sales orders will be compromised and sales to distributors may be deferred or lost altogether, which would reduce our revenues and could harm our ability to achieve or sustain expected operating results.

***Sales to the service provider market are especially volatile, and weakness in orders from this industry could harm our future operating results.***

Weakness in orders, directly or indirectly, from the service provider industry, including as a result of any slowdown in capital expenditures by service providers (which may be more prevalent during a global economic downturn, or periods of economic, political or regulatory uncertainty), could have a material adverse effect on our business, operating results, and financial condition. Such slowdowns may continue or recur in future periods. Orders from this industry could decline for many reasons other than the competitiveness of our products and services within their respective markets. These conditions have harmed our business and operating results in the past, and some of these or other conditions in the service provider market could affect our business and operating results in any future period of such slowdowns

***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, which could materially adversely affect our operating results.

***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 need to build inventory for new product announcements and shipments or decide to increase or maintain higher levels of inventory, which may result in inventory write-downs***

The Company must order components for its products and build inventory, both of finished products and components, in advance of new product announcements and shipments. With the use of third party logistics and warehousing providers, we may also decide to increase or maintain higher levels of inventory of finished products or components. Decisions to build inventory for new products or to increase or maintain higher inventory levels are typically based



upon uncertain forecasts or other assumptions and may expose us to a greater risk of carrying excess or obsolete inventory. Because the markets in which the Company compete are volatile, competitive and subject to rapid technology and price changes, 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 or not fully utilize firm purchase commitments.

***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.***

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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, slower or impaired collection on accounts receivable and costly and time-consuming litigation or arbitration. 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. We do not generally obtain letters of credit or other security for payment from the distributors, so we are not protected against accounts receivable default by the distributors.

***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. The markets for enterprise networking equipment and consumer products possess similar characteristics of rapid technological updates, evolving industry standards, frequent changes in consumer preferences, frequent new product introductions and short and unpredictable product life cycles. Our ability to keep pace in these markets depends upon our ability to enhance our current products, and continue to develop and introduce new products rapidly and at competitive prices. The success of new product introductions or updates on existing products depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, our ability to manage the risks associated with new product production ramp-up, the effective management of our inventory and manufacturing schedule and the risk that new products may have defects or other deficiencies in the early stages of introduction. The development of our products is complex and costly, and we typically have several products in development at the same time. Given the complexity, we occasionally have experienced, and could experience in the future, lower than expected yields on new or enhanced products and delays in completing the development and introduction of new products and enhancements to existing products. In addition, new products may have lower selling prices or higher costs than existing products, which could negatively impact our operating results. 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 products or enhancements to existing 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, routing, switching, video surveillance, wireless backhaul, machine-to-machine communications and consumer 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.

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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, operating results and financial condition 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 products, our brand may not be as well-known as the incumbents' brands in those markets. Potential customers may prefer to purchase from their existing suppliers or well-known brands 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 and there is no assurance that our entry into new markets will be successful.

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

Industry consolidation, acquisitions 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. As a result of such consolidation, acquisition or other arrangements, our current and potential competitors might be able to adapt more quickly to new technologies and consumer preference, devote greater resources to the marketing and promotion of their products, initiate or withstand price competition, and take advantage of acquisitions or other opportunities more readily and develop and expand their products more quickly than we do. 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 contain 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 other costs relating to regulatory proceedings, product recalls and litigation, which could harm our reputation and operating results. Undetected defects or bugs may lead to negative online Internet reviews of our products, which are increasingly becoming a significant factor in the success of our new product launches, especially for our consumer products. If we are unable to quickly respond to negative reviews, including end user reviews posted on various prominent online retailers, our ability to sell these products will be harmed. Moreover, we may offer stock rotation rights to our distributors. If we experience greater returns from retailers or end customers, or greater warranty claims, in excess of our reserves, our business, revenue and operating results could be harmed.

***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.

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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 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. The Company recovered \$8.1 million in fiscal 2015, resulting in 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. In fiscal 2016, the Company recorded a net recovery of an additional \$8.3 million, comprised of an \$8.6 million recovery less \$0.3 million of professional service fees associated with the recovery. No additional recoveries were made since fiscal year ended 2016.

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. However, any additional recoveries are likely remote and therefore cannot be assured.

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 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 maintain the traditional direct sales force compared to some of our competitors, but instead utilize digital marketing and the Ubiquiti Community to drive market awareness and demand for our products and solutions. 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, service providers and enterprises with support to install, operate and maintain our products.***

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We rely on the Ubiquiti Community to provide assistance and other information to network operators, service providers and enterprises 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 by members of the Ubiquiti Community.

Although we moderate and review many postings of Ubiquiti forum 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 provided through 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. Supply chain issues or a shortage of adequate component supply or manufacturing capacity could increase our costs or delay our ability to fulfill future orders and could have an adverse impact on our business and operating results.***

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. If we fail to manage our relationship with our manufacturers effectively, or if they experience operational difficulties, our ability to ship products to our retailers and distributors could be impaired and our competitive position and reputation could be harmed.

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.

In the event that we receive shipments of products that fail to comply with our technical specifications or that fail to conform to our quality control standards, and we are not able to obtain replacement products in a timely manner, we risk revenue losses from the inability to sell those products, increased administrative and shipping costs, and lower profitability. Additionally, if defects are not discovered until after distributors and/or end users purchase our products, they could lose confidence in the technical attributes of our products and our business and operating results could be harmed.

We do not control our contract manufacturers or suppliers, including their labor, environmental or other practices. Environmental regulations or changes in the supply, demand or available sources of natural resources may affect the availability and cost of goods and services necessary to run our business. Non-compliance or deliberate violations of labor, environmental or other laws by our contract manufacturer or suppliers, or a failure of these parties to follow ethical business practices, could lead to negative publicity and harm our reputation or brand.



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

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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.

Additionally, any or all of the following could either limit supply or increase costs, directly or indirectly, to us or our contract manufacturers:

- labor strikes or shortages;
- financial problems of either contract manufacturers or component suppliers;
- reservation of manufacturing capacity at our contract manufactures by other companies, inside or outside of our industry;
- changes or uncertainty in tariffs, economic sanctions, and other trade barriers; and
- industry consolidation occurring within one or more component supplier markets, such as the semiconductor market.

### ***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. Further, in order to minimize their inventory risk, our manufacturers might not order components from third-party suppliers with adequate lead time, thereby impacting our ability to meet our demand forecast. 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.

Our products, especially new products, sometimes utilize custom components available from only one or limited number of sources. When a component or product uses new technologies, capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. Many factors may affect the continued availability of these components at acceptable prices, including if those suppliers decide to concentrate on the production of common components instead of components customized to meet our requirements. There is no assurance that the supply of such components will not be delayed or constrained.

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

Our payment of cash dividends will be subject to, among other things, declaration by the Board of Directors of the Company our financial position and results of operations, available cash and cash flow, capital requirements, our debts, contingent liabilities, applicable corporate legal requirements, and other factors. If the Company fails to meet expectations related to dividends, its stock price may decline and which could have a material adverse impact on investor confidence and employee retention. 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.***

The global macroeconomic environment has been challenging and inconsistent caused by instability in the global credit markets, the impact of uncertainty regarding global central bank monetary policy, the instability in the geopolitical environment in many parts of the world, including the June 2016 referendum by the United Kingdom in which voters approved an exit from the European Union, commonly referred to as "Brexit". As a result of the referendum, the British government formally initiated the process for withdrawal in March 2017, and "Brexit" is scheduled to become effective on March 29, 2019. The terms of any

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withdrawal and the United Kingdom's future relationship with the European Union are subject to a negotiation period that could last at least two years from the initiation date. Although it is unknown what those terms will be, the Brexit has created global economic uncertainty and could cause disruptions in the markets that we serve. Additionally, we may be adversely affected by the Brexit in ways we do not currently anticipate.

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, higher overhead costs as a percentage of revenue and higher interest expense, risk of supply constraints, risk of excess and obsolete inventories, risk of excess facilities and manufacturing capacity and increased risk of counterparty failures.

An economic downturn or economic uncertainty in our key U.S. and international markets, as well as fluctuations in currency exchange rates, may adversely affect consumer discretionary spending and demand for our consumer products. Factors affecting the level of consumer spending include general market conditions, macroeconomic conditions, fluctuations in foreign exchange rates and interest rates, and other factors such as consumer confidence, the availability and cost of consumer credit, levels of unemployment and tax rates. If global economic conditions are volatile or if economic conditions deteriorate, consumers may delay or reduce purchases of our consumer products resulting in consumer demand for our products that may not reach our sales targets. For example, the Brexit caused significant short term volatility in global stock markets as well as currency exchange rate fluctuations, resulting in further strengthening of the U.S. dollar. Our sensitivity to economic cycles and any related fluctuation in consumer demand could adversely affect our business, financial condition and operating results.

***We have been investing and expect to continue to invest in growth areas as well as maintaining leadership in our enterprise and service provider technologies, and if the return on these investments is lower or develops more slowly than we expect, our operating results may be harmed.***

We have and we may continue to invest and dedicate resources into new growth areas, such as consumer products, while also focusing on maintaining leadership in our enterprise and service provider technologies. However, the return on our investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments (including if our selection of areas for investment does not play out as we expect), or if the achievement of these benefits is delayed, our operating results may be adversely affected. Additionally, as we invest and dedicate resources into new growth areas, there is no assurance that we may succeed at maintaining leadership in our enterprise and service provider technologies.

***To remain competitive and stimulate customer demand, we must effectively manage product introductions, product transitions and marketing.***

We believe that we must continually develop and introduce new products, enhance our existing products, effectively stimulate customer demand for new and upgraded products, and successfully manage the transition to these new and upgraded products to maintain or increase our revenue. The success of new product introductions depends on a number of factors including, but not limited to, timely and successful research and development, pricing, market and consumer acceptance, the effective forecasting and management of product demand, purchase commitments and inventory levels, the availability of products in appropriate quantities to meet anticipated demand, the management of

manufacturing and supply costs, the management of risks associated with new product production ramp-up issues, and the risk that new products may have quality issues or other defects or bugs in the early stages of introduction. Therefore, we could not determine in advance the ultimate effect of new product introductions and transitions. Additionally, if the assumptions on which we based our forecasts and management of product demand, purchase commitments or inventory levels 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 or not fully utilize firm purchase commitments.

In addition, the introduction or announcement of new products or product enhancements may shorten the life cycle of our existing products or reduce demand for our current products, thereby offsetting any benefits of successful product introductions and potentially lead to challenges in managing inventory of existing products. Failure to complete product transitions

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effectively or in a timely manner could harm our brand and lead to, among other things, lower revenue, excess prior generation product inventory, or a deficit of new product inventory and reduced profitability.

In connection with introduction of new products, and our consumer products, in particular, we may spend significant amount on advertising and other marketing campaigns, such as television, print advertising, social media and others, as well as increased promotional activities, to build brand awareness and acquire new users. While we seek to structure our advertising campaigns in the manner that we believe is most likely to encourage people to use our products and services, we may fail to identify advertising opportunities that satisfy our anticipated return on advertising spend, accurately predict customer acquisition, or fully understand or estimate the conditions and behaviors that drive customer behavior. If for any reason any of our advertising campaigns prove less successful than anticipated in attracting new customer, we may not be able to recover our advertising spend, and our rate of user acquisition may fail to meet our expectations, either of which could have an adverse effect on our business. There can be no assurance that our advertising and other marketing efforts will result in increased sales of our consumer products.

***If we are unable to anticipate consumer preferences and successfully develop desirable consumer products and solutions, we might not be able to maintain or increase revenue and profitability.***

Our success in the consumer product market depends on our ability to identify and originate product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. All of our consumer products are subject to changing consumer preferences that cannot be predicted with certainty and lead times for our products may make it more difficult for us to respond rapidly to new or changing product or consumer preferences. If we are unable to introduce appealing new consumer products or novel technologies in a timely manner, or our new consumer products or technologies are not accepted or adopted by consumers, our competitors may increase their market share, which could hurt our competitive position in the consumer product market. It is also possible that competitors could introduce new products and services that negatively impact consumer preference in the type of consumer products that we supply, which could result in decreased sales of our product and a loss in market share. We may not be able to achieve an acceptable return, if any, on our research and development efforts, and our business may be adversely affected. As we continually seek to enhance our consumer products, we will incur additional costs to incorporate new or revised features. We might not be able to, or determine that it is not in our interests to, raise prices to compensate for any additional costs.

***Our strategy for our consumer products depends upon effectively maintaining and further developing our sales channels, including developing and supporting our retail sales channel and distributors.***

We depend upon effective sales channels to reach the consumers who are the ultimate purchasers of our consumer products. In the United States, we primarily sell our consumer products through a mix of retail channels, including, e-commerce, big box, mid-market and specialty retailers, and we reach certain U.S. markets through distributors. In international markets, we primarily sell through distributors who in turn sell to local retailers.

With some of our consumer products, we depend on retailers to provide adequate and attractive space for our products in their stores. We further depend on our retailers to employ, educate and motivate their sales personnel to effectively sell our consumer products. If our retailers do not adequately display our products, choose to reduce the space for our products in their stores or locate them in less than premium positioning, choose not to carry some or all of our consumer products or promote competitors' products over ours, or do not effectively explain to customers the advantages of our consumer products, our sales could decrease and our business could be harmed. Similarly, our business could be adversely affected if any of our large retail customers were to experience financial difficulties, or change the focus of their businesses in a way that deemphasized the sale of our products.

Our distributors generally offer products from several different manufacturers. Accordingly, we are at risk that these distributors may give higher priority to selling other companies' products. We have limited number of distributors in certain regions, and if we were to lose the services of a distributor, we might need to find another distributor in that area and there can be no assurance of our ability to do so in a timely manner or on favorable terms. Further, our distributors build inventory in anticipation of future sales, and if such sales do not occur as rapidly as they anticipate, our distributors will decrease the size of their future product orders. We are also subject to the risks of our distributors encountering financial difficulties, which could impede their effectiveness and also expose us to financial risk if they are unable to pay for the products they purchase from us. Additionally, our international distributors buy from us in U.S. dollars and generally sell to retailers in local currency so significant currency fluctuations could impact their profitability, and in turn, affect their ability to buy future products from us. For example, the Brexit, caused significant short term volatility in global stock markets as well as currency exchange rate fluctuations, resulting in further strengthening of the U.S. dollar.

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Any reduction in sales by our current distributors, loss of key distributors or decrease in revenue from our distributors could adversely affect our revenue, operating results and financial condition.

### **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, Latvia, Ukraine, Canada, India, 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;
- import and export license requirements, tariffs, economic sanctions, contractual limitations and other trade barriers;
- 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;
- stringent consumer protection and product compliance regulations that are costly to comply with and may vary from country to country;
- 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.

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 and other countries 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 business, 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 invested in developing our own manufacturing capacity to support our product development and prototyping. To the extent that we may invest in and expand or relocate 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, including import and export license requirements, tariffs, economic sanctions, contractual limitations and other trade barriers;
- 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 and other countries, some of these risks may be more significant due to the less predictable legal and political environment.





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***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. Policies and statements by the current White House administration, as well as the Republican Party maintaining control of the Senate of the U.S. in the congressional election, has created uncertainty with how trade might be affected between the U.S. and the rest of the world, and China, in particular. For example, in June 2018, the Office of the United States Trade Representative announced new proposed tariffs for certain products imported into the U.S. from China. As of September 24, 2018, these tariffs were implemented, and did impact a portion of our products. We can provide no assurance regarding the scope and duration of the imposed tariffs, as well as the potential for additional tariffs or trade barriers by the U.S., China or other countries, nor that any strategies we may implement to mitigate the impact of such tariffs or other trade actions will be successful.

Changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently develop and sell products, and any negative sentiments towards the U.S. as a result of such changes, could also adversely affect our business. For example, if the U.S. government withdraws or materially modifies existing or proposed trade agreements, places greater restriction on free trade generally or imposes increases on tariffs on goods imported into the U.S., particularly from China, our business, financial condition and results of operations could be adversely affected. In addition, negative sentiments towards the U.S. among non-U.S. customers and among non-U.S. employees or prospective employees could adversely affect sales or hiring and retention, respectively.

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 or other retaliatory trade measures that may cause us to raise prices, prevent us from offering products or providing services to particular entities or markets, may cause us to make changes to our operations, or 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.

In addition, reports of certain intelligence gathering methods of the U.S. government could affect customers' perception of the products of companies based in the United States. Trust and confidence in us as an equipment supplier is critical to the development and growth of our markets. Impairment of that trust, or foreign regulatory actions taken in response to reports of certain intelligence gathering methods of the U.S. government, could affect the demand for our products from customers outside of the United States and could have an adverse effect on our operating results.

***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 New York, New York. 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.*

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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.

We may fail to apply for patents on important products, services, technologies or designs in a timely fashion, or at all. We may not have sufficient intellectual property rights in all countries where unauthorized third party copying or use of our proprietary technology occurs and the scope of our intellectual property might be more limited in certain countries. Our existing and future patents may not be sufficient to protect our products, services, technologies or designs and/or may not prevent others from developing competing products, services, technologies or designs. We cannot predict the validity and enforceability of our patents and other intellectual property with certainty.

We have registered, and applied to register, certain of our trademarks in several jurisdictions worldwide. In some of those jurisdictions, third party filings exist for the same, similar or otherwise related products or services, which could block the registration of our marks. Even if we are able to register our marks, competitors may adopt or file similar marks to ours, register domain names that mimic or incorporate our marks, or otherwise infringe upon our trademark rights. Although we police our trademark rights carefully, there can be no assurance that we are aware of all third party uses or that we will prevail in enforcing our rights in all such instances. Any of these negative outcomes could impact the strength, value and effectiveness of our brand, as well as our ability to market our products. We have also registered domain names for websites, or URLs, that we use in our business, such as [www.ubnt.com](http://www.ubnt.com). If we are unable to protect our domain names, our brand, business, and operating results could be adversely affected. Domain names similar to ours have already been registered in the United States and elsewhere, and we may be unable to prevent third parties from acquiring and using domain names that infringe, are similar to, or otherwise decrease the value of, our brand or our trademarks. In addition, although we own [www.ubnt.com](http://www.ubnt.com) and various other global top level domains, we might not be able to, or may choose not to, acquire or maintain other country-spec countries in which we currently conduct or intend to conduct business.

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 adversely affecting our operating results, and diluting our brand or reputation.

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

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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. 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. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships.

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. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, or that our suppliers will indemnify us, or that any indemnification will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts.

We have received, and may in the future receive, claims from third parties, including competitors and non-practicing entities, asserting intellectual property infringement and other related claims. We expect to continue to receive such intellectual property claims in the future. 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;
- cause us to rebrand our products or services;
- subject us to a temporary or permanent injunction;
- divert management's attention and resources;
- subject us to significant damages or settlements;
- cause us to give up some of our intellectual property;
- 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

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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, against end users of our products, 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**

### ***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 industries we participate, 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, operating results and financial condition 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.

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***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 and enterprise WLAN. As we expand into other products and services, such as video surveillance equipment, wireless backhaul, consumer electronics, and machine-to-machine communications, 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 traditional 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 traditional 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 make significant investments in information systems, hiring more administrative personnel, using more professional services and expanding our operations outside the United States. 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 traditional 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 disclosure requirements, including diligence to determine the sources of those minerals that may be used or necessary to the 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 also rely on third party software and service for our computing, storage, bandwidth, and other services. Any disruption of or interference with these services would negatively affect our operations and seriously harm our business.***

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.

We rely on third party service providers, such as G-Suite, Google Cloud and Amazon Web Services, to provide distributed computing infrastructure platforms for business operations, or what is commonly referred to as a “cloud” computing service. Any transition of the cloud services currently provided by these service providers to another cloud provider would be difficult to implement and will cause us to incur significant time and expense. If our existing cloud service providers experience interruptions in service regularly or for a prolonged basis, or other similar issues, our business would be seriously harmed. Additionally, our existing cloud service providers have broad discretion to change and interpret its terms of service and other policies with respect to us, and they may take actions beyond our

control that could harm our business.

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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 business, 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, 2018, our balance outstanding under our Term Facility, under the Second Amended & Restated Credit Agreement, was \$475.0 million. As of December 31, 2018, we had no outstanding borrowing on our Revolving Facility, under the Second Amended & Restated Credit Agreement. 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 business, 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
- our inability to maintain internal standards, controls, procedures and policies, particularly in light of our lean organizational structure.

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 investments in new businesses, products, services, technologies, joint ventures and other strategic transactions are inherently risky, and could disrupt our current operations.***

We have invested and expect to continue to invest in new businesses, products, services, technologies, joint ventures and other strategic transactions. These investments may involve significant risks and uncertainties, including insufficient revenues from such investments to offset any new liabilities assumed and expenses associated with these new investments, inadequate return

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of or loss of capital on our investments, distraction of management from current operations, use of alternative investment or compensation structures, and unidentified issues not discovered in our due diligence of such investments that could cause us to fail to realize the anticipated benefits of such investments and incur unanticipated liabilities. Because these investments are inherently risky, no assurance can be given that such investments will be successful and will not adversely affect our reputation, business prospects, operating results and financial condition.

### ***Our Chief Executive Officer owns a majority of our stock.***

Robert J. Pera, our founder, Chairman, and Chief Executive Officer, 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 Chief Executive Officer 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.

As of February 8, 2019, Mr. Pera beneficially owned 56,278,181 shares of our common stock. These shares are eligible for resale into the public market within the restrictions imposed by Rule 144 under the Securities Act of 1933. Sales of a significant amount of Mr. Pera's shares could adversely affect the market price for our common stock. Mr. Pera had informed us he has entered into arrangements under which he has pledged up to 25% of the shares of our common stock that he beneficially owns to secure loans with financial institutions. Mr. Pera had also indicated these loans have or will have various requirements to repay all or a portion of the loan upon the occurrence of various events, including when the price of the common stock goes below certain specified levels. Mr. Pera may need to sell shares of our common stock to meet these repayment requirements. Upon a default under one or more of these loans, the lender could sell the pledged shares into the market without limitation on volume or manner of sale. Sales of shares by Mr. Pera to reduce his loan balance or the lenders upon foreclosure are likely to adversely affect our stock price. Mr. Pera has also indicated to us that he may in the future from time to time pledge additional shares of common stock as collateral for margin or other loans, enter into derivative transactions based on the value of our common stock, dispose of shares of common stock, otherwise monetize shares of his common stock and/or engage in other transactions relating to shares of our common stock and/or other securities of the company. Any of these activities by Mr. Pera may adversely affect the price of our common stock. However, Mr. Pera has also indicated that he intends to continue to own at least a majority of our outstanding shares of common stock.

### **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

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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.

Even though we take precautions to prevent our products from being provided to targets of U.S. sanctions, our products, including our firmware updates, could be provided by our distributors, resellers and/or end users despite such precautions. Any such provision could have negative consequences, including government investigations, penalties and reputational harm. Our failure to obtain required import or export approval for our products could harm our international and domestic sales and adversely affect our revenue.

***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.

***Our failure to comply with U.S. and foreign laws related to privacy, data security, cybersecurity and data protection, such as the E.U. Data Protection Directive and China Cybersecurity Law, could adversely affect our financial condition, operating results, and our brand.***

We are or may become subject to a variety of laws and regulations in the United States and abroad regarding privacy, data security, cybersecurity and data protection. These laws and regulations are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting, particularly with respect to foreign laws.

In particular, there are numerous U.S. federal, state, and local laws and regulations and foreign laws and regulations regarding privacy and the collection, sharing, use, processing, disclosure, and protection of personal information and other user data. Such laws and regulations often have changes in scope, may be subject to differing interpretations, and may be inconsistent among different jurisdictions. For example, in April 2016, the E.U. Parliament approved a new data protection regulation, known as the General Data Protection Regulation (“GDPR”), which came into force on May 25, 2018. The GDPR includes operational requirements for companies that receive or process personal data of residents of the European Union that are different than those previously in place in the European Union, and that include significant penalties for non-compliance. Another example, in November 2016, the Standing Committee of China’s National People’s Congress passed China’s first Cybersecurity Law (“CSL”), which took effect in June 2017. The CSL is the first Chinese law that systematically lays out the regulatory requirements on cybersecurity and data protection, subjecting many previously under-regulated or unregulated activities in cyberspace to government scrutiny. More recently, California enacted the California Consumer Privacy Act (the “CCPA”) that will, among other things, require covered companies to provide new disclosures to California consumers, and afford such consumers new abilities to opt-out of certain sales of personal information, when it goes into effect on January 1, 2020. California legislators have announced the intent to modify the CCPA, and, as a result, we cannot yet predict the impact of the CCPA on our business or operations. The costs of compliance with, and other burdens imposed by, the GDPR, CSL and CCPA may limit the use and adoption of our products and services and could have an adverse impact on our



business, operating results and financial condition.

We strive to comply with all applicable laws, policies, legal obligations, and industry codes of conduct relating to privacy, data security, cybersecurity and data protection. However, given that the scope, interpretation, and application of these laws and regulations are often uncertain and may be conflicting, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us or third-party service-providers to comply with our privacy or security policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation, or negative publicity, and could have an adverse effect on our brand, operating results and financial condition.

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Governments are continuing to focus on privacy, cybersecurity, data protection and data security and it is possible that new privacy or data security laws will be passed or existing laws will be amended in a way that is material to our business. Any significant change to applicable laws, regulations, or industry practices regarding our employees' and users' data could require us to modify our business, services and products features, possibly in a material manner, and may limit our ability to develop new products, services, and features. Although we have made efforts to design our policies, procedures, and systems to comply with the current requirements of applicable state, federal, and foreign laws, changes to applicable laws and regulations in this area could subject us to additional regulation and oversight, any of which could significantly increase our operating costs.

***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.

***The vast majority of our products rely on the availability of specific unlicensed radio frequency spectrum.***

The vast majority of 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 frequency bands used by our products could decrease the usage by our products. 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, consumer or securities class-actions 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. Any such proceedings or matters may adversely affect how we operate the business, divert the attention of management from the operation of the business, have an adverse effect on our reputation, result in additional costs and adversely affect our results of operations. 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 be 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.***

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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.***

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with other controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations, and prevent us from producing accurate and timely financial statements to manage our business. If we fail to do so, our business could be negatively affected and our independent registered public accounting firm may be unable to attest to the fair presentation of our Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. If we cannot provide reliable financial reports and effectively prevent fraud, our reputation and operating results could be harmed. Even effective internal controls have inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting in future periods are subject to the risk that the control may become inadequate because of changes in conditions or a deterioration in the degree of compliance with the policies or procedures. We have in the past and may in the future fail to maintain adequate internal controls. For example, as reported in the Annual Reports on Form 10-K for the years ended June 30, 2015 and 2016, management of the Company determined that the Company did not maintain an effective control environment, which contributed to three material weaknesses in internal control over financial reporting. As described in more detail in our Annual Report on Form 10-K for year ended June 30, 2017, under Item 9A. “Controls and Procedures”, the Company has completed the remediation efforts of such material weakness, completed testing of the controls to address such material weaknesses and concluded that the previously reported material weaknesses in internal controls over financial reporting have been satisfactorily remediated as of June 30, 2017. Any such failure (including any failure to implement new or improved controls, difficulties in the execution of such implementation or deterioration of our current control practices) may result in an inability to prevent fraud, or cause us to fail to meet our reporting obligations. Any such failures may cause a material adverse effect on our business and financial results, and investor confidence and the market price of our stock may be adversely affected.

***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 (such as the U.K. Bribery Act of 2010) 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.

***Our results could be adversely affected by 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, including, but not limited to, income and withholding taxes. The expense of defending and resolving such audits may be significant.

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.

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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. Multi-jurisdictional changes enacted in response to the guidelines provided by the Organization for Economic Cooperation and Development (OECD) to address base erosion and profit shifting ("BEPS"), and additional amendments or guidance regarding comprehensive U.S. tax reform, among other things, may change certain U.S. tax rules impacting the way U.S. multinationals are taxed, increase tax uncertainty and adversely impact our provision for income taxes.

As a global company, 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 and the amount and type of presence in 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. Additionally, withholding taxes vary by jurisdiction and any changes to our operations in each jurisdiction could result in greater taxation to the company. A number of factors may affect our future effective tax rates including, but not limited to:

- the interpretation of country-by-country reports and outcome of discussions with various tax authorities regarding intercompany transfer pricing arrangements;
- changes that involve Ubiquiti's supply chain outside of the United States;
- changes in the composition of earnings in countries or states with differing tax rates;
- the resolution of issues arising from tax audits with various tax authorities,
- changes to tax laws regarding R&D tax credits;
- changes in stock-based compensation; and
- changes in tax law and/or generally accepted accounting principles;

From time to time the United States, foreign and state governments make substantive changes to tax rules and the application of rules to companies which may impact our taxes on international earnings. We regularly assess the likelihood of favorable or unfavorable outcomes resulting from examinations to determine the adequacy of our provision for income taxes. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be materially different than the treatment reflected in our historical income tax provisions and accruals, which could materially and adversely affect our business operating results and financial condition.

### ***Changes in applicable tax regulations could negatively affect our financial results.***

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act significantly changes the taxation of U.S.-based multinational corporations, by, among other things, reducing the U.S. corporate income tax rate, changing rules regarding the use and carrying of net operating losses, adopting elements of a territorial tax system, assessing a one-time transition tax under revised Section 965 of the Internal Revenue Code on earnings of certain foreign subsidiaries that were previously tax deferred (the "Transition Tax"), imposing a new minimum tax if deductible payments to foreign affiliates exceed a certain threshold, and creating new taxes on certain foreign-sourced earnings. The changes included in the 2017 Tax Act are broad and complex. The 2017 Tax Act is also unclear in some respects and has required and will continue to require interpretations and implementing regulations from the U.S. Treasury and Internal Revenue Service, as well as state tax authorities, and the legislation could be subject to potential amendments and technical corrections, any of which could lessen or increase certain adverse impacts of the legislation. The final transition impacts of the 2017 Tax Act may differ from the estimates provided elsewhere in this report, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the 2017 Tax Act, or any updates or changes to estimates the Company has

utilized to calculate the transition impacts.

A significant portion of our earnings are earned by our subsidiaries outside the U.S. Changes to the taxation of certain foreign earnings resulting from the 2017 Tax Act, along with the state tax impact of these changes and potential future cash distributions, may have an adverse effect on our effective tax rate. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. Although the accounting for the impact of the 2017 Tax Act is completed as of December 22, 2018, we are continuing to evaluate the overall impact of the 2017 Tax Act on our operations and U.S. federal income tax position. There can be no assurance that changes in the 2017 Tax Act will not materially and adversely affect our effective tax rate, tax payments, financial condition and results of operations.

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Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

On March 13, 2018, the Board of Directors of the Company approved a \$200 million stock repurchase program (the "March Repurchase Program"). Under the March Repurchase Program, the Company is authorized to repurchase up to \$200 million of its common stock.

On May 8, 2018, the Board of Directors of the Company approved a new \$200 million stock repurchase program (the "May Repurchase Program"). Under the May Repurchase Program, the Company is authorized to repurchase up to an additional \$200 million of its common stock, along with any remaining balances under the March Repurchase Program. During the third and fourth quarters of fiscal 2018, the Company repurchased and retired 757,219 and 586,924 shares of common stock at an average price of \$69.48 and \$70.11 for an aggregate amount of \$52.6 million and \$41.1 million respectively. Both the March and May Repurchase Programs expire on June 30, 2019.

During the first quarter of fiscal 2019, the Company repurchased and retired an additional 1,238,163 shares of common stock at an average price of \$91.07 for an aggregate amount of \$112.8 million.

On November 6, 2018, the Board of Directors of the Company approved a new \$200 million stock repurchase program ("November Repurchase Program"). Under the November Repurchase Program, the Company is authorized to repurchase up to \$200 million of its common stock. The November Repurchase Program expires on December 31, 2019. During the second quarter of fiscal 2019, the Company repurchased and retired 2,287,975 shares of common stock at an average price of \$90.17 for an aggregate amount of \$206.3 million. This includes unpaid stock repurchased of \$6.0 million relating to repurchases executed on or prior to December 31, 2018 for trades settled in the third quarter of fiscal 2019. As of December 31, 2018, there was no remaining balance available for share repurchases under the March and May Repurchase Programs and \$187.2 million available for repurchase under the November Repurchase Program.

Common Stock repurchases activity under the share repurchase program during the three months ended December 31, 2018 was as follows (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Estimated Remaining Balance Available for Share Repurchases
October 1, 2018 - October 31, 2018	1,860,342	\$ 89.03	1,860,342	\$ 27,858
November 1, 2018 - November 30, 2018	193,949	\$ 92.8	193,949	\$ 209,859
December 1, 2018 - December 31, 2018	233,684	\$ 97.13	233,684	\$ 187,161
Total	2,287,975	\$ 90.17	2,287,975	\$ 187,161

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**



None.

**Item 5. Other Information**

None.

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Exhibits**

<b>Exhibit Number</b>	<b>Incorporated by Reference from Form</b>	<b>Incorporated by Reference from Exhibit Number</b>	<b>Date Filed</b>	<b>Filed Herewith</b>
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.			X
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.			X
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.			X
101.INS	XBRL Instance Document			
101.SCH	XBRL Taxonomy Schema Linkbase Document			
101.CAL	XBRL Taxonomy			

	Calculation
	Linkbase
	Document
	XBRL
	Taxonomy
101.DEF	Definition
	Linkbase
	Document
	XBRL
	Taxonomy
101.LAB	Labels Linkbase
	Document
	XBRL
	Taxonomy
101.PRE	Presentation
	Linkbase
	Document

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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 8, 2019      By: /s/ Robert J. Pera  
Robert J. Pera  
*Chief Executive Officer and Director (Principal Executive Officer)*

Dated: February 8, 2019      By: /s/ Kevin Radigan  
Kevin Radigan  
*Chief Accounting and Finance Officer (Principal Financial Officer)*

Table of Contents**Exhibit Index**

<b>Exhibit Number</b>	<b>Incorporated by Reference from Form</b>	<b>Incorporated by Reference from Exhibit Number</b>	<b>Date Filed</b>	<b>Filed Herewith</b>
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<u>31.2</u>	<u>Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u>			X
<u>32.1</u>	<u>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.</u>			X
101.INS	XBRL Instance Document			
101.SCH	XBRL Taxonomy Schema Linkbase Document			
101.CAL	XBRL Taxonomy			

Calculation  
Linkbase  
Document  
XBRL  
Taxonomy  
101.DEF Definition  
Linkbase  
Document  
XBRL  
Taxonomy  
101.LAB Labels Linkbase  
Document  
XBRL  
Taxonomy  
101.PRE Presentation  
Linkbase  
Document