UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2023

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 number: 001-37851

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

Delaware	**95-4523882**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
3611 Valley Centre Drive, Suite 150 **San Diego, CA**	**92130**
(Address of Principal Executive Offices)	**(Zip Code)**

(760) 579-0200
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.0001 per share	AIRG	Nasdaq Capital Market

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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	☐
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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of November 2, 2023, the registrant had 10,443,709 shares of common stock (par value $0.0001) outstanding.

AIRGAIN, INC.
Form 10-Q
For the Quarter Ended September 30, 2023

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Airgain, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except par value)
(Unaudited)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 9,989	$ 11,903
Trade accounts receivable, net	6,272	8,741
Inventories	3,950	4,226
Prepaid expenses and other current assets	2,041	2,284
Total current assets	22,252	27,154
Property and equipment, net	2,454	2,765
Leased right-of-use assets	1,604	2,217
Goodwill	10,845	10,845
Intangible assets, net	8,977	11,203
Other assets	170	216
Total assets	$ 46,302	$ 54,400
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,425	$ 6,507
Accrued compensation	642	2,874
Accrued liabilities and other	2,538	2,615
Short-term lease liabilities	909	904
Total current liabilities	9,514	12,900
Deferred tax liability	145	139
Long-term lease liabilities	878	1,536
Total liabilities	10,537	14,575
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock and additional paid-in capital, par value $0.0001, 200,000 shares authorized; 10,985 shares issued and 10,444 shares outstanding at September 30, 2023; and 10,767 shares issued and 10,226 shares outstanding at December 31, 2022.	114,166	111,282
Treasury stock, at cost: 541 shares at September 30, 2023 and December 31, 2022.	(5,364)	(5,364)
Accumulated deficit	(73,037)	(66,093)
Total stockholders' equity	35,765	39,825
Total liabilities and stockholders' equity	$ 46,302	$ 54,400

See accompanying notes.

Airgain, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Sales	$ 13,696	$ 19,198	$ 45,970	$ 56,006
Cost of goods sold	8,460	11,755	28,137	33,902
Gross profit	5,236	7,443	17,833	22,104
Operating expenses:				
Research and development	2,298	2,901	7,337	9,117
Sales and marketing	1,704	2,808	6,875	8,552
General and administrative	3,144	2,998	10,533	9,738
Total operating expenses	7,146	8,707	24,745	27,407
Loss from operations	(1,910)	(1,264)	(6,912)	(5,303)
Other (income) expense:				
Interest income, net	(34)	(26)	(68)	(37)
Other expense	1	9	16	39
Total other (income) expense	(33)	(17)	(52)	2
Loss before income taxes	(1,877)	(1,247)	(6,860)	(5,305)
Income tax expense	4	52	84	134
Net loss	$ (1,881)	$ (1,299)	$ (6,944)	$ (5,439)
Net loss per share:				
Basic	$ (0.18)	$ (0.13)	$ (0.67)	$ (0.53)
Diluted	$ (0.18)	$ (0.13)	$ (0.67)	$ (0.53)
Weighted average shares used in calculating loss per share:				
Basic	10,430	10,210	10,370	10,179
Diluted	10,430	10,210	10,370	10,179

See accompanying notes.

Airgain, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(In thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net loss	$ (1,881)	$ (1,299)	$ (6,944)	$ (5,439)
Comprehensive loss	$ (1,881)	$ (1,299)	$ (6,944)	$ (5,439)

See accompanying notes.

Airgain, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(In thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Total stockholders' equity, beginning balance	$ 37,079	$ 42,248	$ 39,825	$ 44,173
Common stock and additional paid-in capital:				
Balance at beginning of period	113,599	109,186	111,282	106,971
Stock-based compensation	500	964	3,342	3,043
Common stock withheld related to net share settlement of equity awards	—	167	(690)	—
Issuance of shares for stock purchase and option plans	67	(68)	232	235
Balance at end of period	114,166	110,249	114,166	110,249
Treasury stock:				
Balance, at cost -at beginning of period	(5,364)	(5,364)	(5,364)	(5,364)
Balance, at cost -at end of period	(5,364)	(5,364)	(5,364)	(5,364)
Accumulated deficit:				
Balance at beginning of period	(71,156)	(61,574)	(66,093)	(57,434)
Net loss	(1,881)	(1,299)	(6,944)	(5,439)
Balance at end of period	(73,037)	(62,873)	(73,037)	(62,873)
Total stockholders' equity, ending balance	$ 35,765	$ 42,012	$ 35,765	$ 42,012

See accompanying notes.

Airgain, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Cash flows from operating activities:		
Net loss	$ (6,944)	$ (5,439)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	500	502
Loss on disposal of property and equipment	—	3
Amortization of intangible assets	2,227	2,269
Stock-based compensation	2,472	3,575
Deferred tax liability	7	24
Changes in operating assets and liabilities:		
Trade accounts receivable	2,469	1,305
Inventories	276	(396)
Prepaid expenses and other current assets	203	(733)
Other assets	6	109
Accounts payable	(1,100)	2,353
Accrued compensation	(1,338)	(54)
Accrued liabilities and other	(102)	(1,383)
Lease liabilities	(40)	(52)
Net cash (used in) provided by operating activities	(1,364)	2,083
Cash flows from investing activities:		
Purchases of property and equipment	(172)	(634)
Proceeds from sale of equipment	—	10
Net cash used in investing activities	(172)	(624)
Cash flows from financing activities:		
Cash paid for business acquisition contingent consideration	—	(7,015)
Payments for withholding taxes related to net share settlement of equity awards	(690)	-
Issuance of common stock, net	232	235
Net cash used in financing activities	(458)	(6,780)
Net decrease in cash, cash equivalents and restricted cash	(1,994)	(5,321)
Cash, cash equivalents, and restricted cash; beginning of period	12,078	14,686
Cash, cash equivalents, and restricted cash; end of period	$ 10,084	$ 9,365
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 78	$ 196
Supplemental disclosure of non-cash investing and financing activities:		
Operating lease liabilities resulting from right-of-use assets	$ 11	$ 364
Accrual of property and equipment	$ 17	$ 19
Cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	$ 9,989	$ 9,190
Restricted cash included in prepaid expenses and other current assets and other assets long term	95	$ 175
Total cash, cash equivalents, and restricted cash	$ 10,084	$ 9,365

See accompanying notes.

Note 1. Description of Business and Basis of Presentation

Description of Business

Airgain, Inc. was incorporated in the State of California on March 20, 1995; and reincorporated in the State of Delaware on August 17, 2016. Airgain, Inc. together with its subsidiary NimbeLink Corp. are herein referred to as the “Company,” “we,” or “our”. The Company is a leading provider of connectivity solutions including embedded components, external antennas, and integrated systems that enable wireless networking in the consumer, enterprise, and automotive markets. The Company’s headquarters is in San Diego, California.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Interim financial results are not necessarily indicative of results anticipated for the full year. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022, from which the balance sheet information herein was derived. The unaudited Condensed Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiary. All intercompany transactions and investments have been eliminated in consolidation.

Segment Information

The Company’s operations are located primarily in the United States and most of its assets are located in San Diego, California and Plymouth, Minnesota.

The Company operates in one segment related to providing connectivity solutions – embedded components, external antennas, and integrated systems. The Company’s chief operating decision-maker is our chief executive officer, who reviews operating results on an aggregate basis and manages the Company’s operations as a single operating segment.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Summary of Significant Accounting Policies

During the nine months ended September 30, 2023, there have been no material changes to the Company’s significant accounting policies as described in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Trade Accounts Receivable

We perform ongoing credit evaluations of our customers and assess each customer’s credit worthiness. The policy for determining when receivables are past due or delinquent is based on the contractual terms agreed upon. We monitor collections and payments from our customers and analyze for an allowance for credit losses. The allowance for credit losses is based upon applying an expected credit loss rate to receivables based on the historical loss rate and is adjusted for current conditions, including any specific customer collection issues identified, and economic conditions forecast. Delinquent account balances are written off after management has determined that the likelihood of collection is remote.

Inventories

As of April 2022, all of the Company's products are manufactured by third parties that retain ownership of the inventory until title is transferred to the customer at the shipping point. In some situations, the Company retains ownership of inventory which is held in third-party contract manufacturing facilities. In certain instances, shipping terms are delivery-at-place and the Company is responsible for arranging transportation and delivery of goods ready for unloading at the named place. In those instances, the Company bears all risk involved in bringing the goods to the named place and records the related inventory in transit to the customer as inventory on the accompanying consolidated balance sheets. In the second quarter of 2022, we closed our facility located in Scottsdale, Arizona where certain of our products were previously manufactured.

Inventory is stated at the lower of cost or net realizable value. For items manufactured by us, cost is determined using the weighted average cost method. For items manufactured by third parties, cost is determined using the first-in, first-out method (FIFO). Any adjustments to reduce the cost of inventories to their net realizable value are recognized in earnings in the current period. Write downs for excess and obsolete inventories are estimated based on product life cycles, quality issues, and historical experience.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally three to ten years. The estimated useful lives for leasehold improvements are determined as either the estimated useful life of the asset or the lease term, whichever is shorter. Repairs and maintenance are expensed as incurred. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. When assets are disposed of (or otherwise sold), the cost and related accumulated depreciation are removed from the accounts and any gain or loss on the disposal of property and equipment is classified as other expense (income) in the Company's consolidated statement of operations.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired. We account for our goodwill under the authoritative guidance Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350 for goodwill and other intangible assets and the provisions of ASU 2017-04, Simplifying the Test for Goodwill Impairment, which we early adopted in fiscal year 2020. Goodwill is not amortized but is tested for impairment annually as of December 31 or more frequently if events or changes in circumstances indicate that our goodwill might be impaired. Such circumstances may include, but not limited to (1) a decline in microeconomic conditions, (2) a significant decline in our financial performance or (3) a significant decline in the price of our common stock for a sustained period of time. We consider the aggregation of the relevant qualitative factors, and conclude whether it is more likely than not that the fair value of our reporting unit is less than the carrying value.

If we conclude that it is more likely than not that the fair value of our reporting unit is less than the carrying value, we perform a quantitative impairment test. The quantitative impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds the carrying amount of the net assets assigned to that reporting unit, goodwill is not considered impaired. However, if the fair value of the reporting unit is lower than the carrying amount of the net assets assigned to the reporting unit, an impairment charge is recognized equal to the excess of the carrying amount over the fair value. The impairment charge is limited to the goodwill amount of the reporting unit.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows and risk-adjusted discount rates. In addition, we make certain judgments and assumptions in determining our reporting unit. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates

Other Intangible Assets

The Company's identifiable finite-lived intangible assets are comprised of acquired intangibles, developed technologies, customer relationships and non-compete agreements. The cost of the market-related intangible assets with finite lives is amortized on a straight-line basis over the assets' respective estimated useful lives.

We assess potential impairments to our intangible assets in accordance with the authoritative guidance for impairment or disposal of long-lived assets (ASC 360) when events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of long-lived and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. As a first step, we consider factors, which may include the following, but are not limited to: (1) significant underperformance relative to historical or projected future operating results; (2) significant negative industry or economic trends; or (3) a significant decline in our stock price for a sustained period.

If this assessment indicates that the carrying value of the assets may not be recoverable, the Company is required to perform the second step to test the asset group for recoverability. This recoverability test compares the future undiscounted cash flows expected from the use of the asset group to its carrying value. If the carrying value is more than the undiscounted future cash flows, the Company is required perform a third step to determine the fair value of the asset group and compare fair value against the carrying value. Any excess carrying value over the fair value needs to be recognized as an impairment loss.

Determining the recoverability of long-lived or intangible assets is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows and the future market value of our asset group. In addition, we make certain judgments and assumptions in determining our asset group. We base our recoverability estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

Revenue Recognition

The Company generates revenue mainly from the sale of wireless connectivity solutions and technologies. A portion of revenue is generated from service agreements and data subscription plans with certain customers. The Company recognizes revenue to depict the transfer of control of the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. Control transfers to customers either when the products are shipped to or received by the customer, based on the terms of the specific agreement with the customer. Revenue from the NimbeLink data subscription plans is recognized over the period of the subscription.

The Company records revenue based on a five-step model in accordance with ASC 606 whereby the company (i) identifies the contract(s) with the customer, (ii) identifies the performance obligations in the contract, (iii) determines the transaction price, (iv) allocates the transaction price to the performance obligation(s) in the contract and (v) recognizes the revenue when (as) the entity satisfies performance obligations. We only apply the five-step model when it is probable that we will collect substantially all of the consideration that we are entitled in exchange for the goods or services that we transfer to the customer.

For product sales, each purchase order, along with existing customer agreements, when applicable, represents a contract from a customer and each product sold represents a distinct performance obligation. The contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Most of the Company’s revenue is recognized on a “point-in-time” basis when control passes to the customer. The revenue from service contracts is recognized either at a "point-in-time" or “over time” based on the terms and conditions in the contract. Revenue from data subscription plans relate to purchased asset trackers with activated data lines, through a third-party service provider. Subscription plans are recognized monthly. Service revenues are earned based on contractual milestones. Prepayments are deferred revenues and are recorded as contract liabilities. We recognize the contract liabilities over service periods ranging from three (3) to eighteen (18) months.

The Company offers return rights and/or pricing credits under certain circumstances. We estimate product returns based on historical sales and return trends and record against revenue and corresponding refund liability.

The Company's contracts with customers do not typically include extended payment terms. Payment terms may vary by contract and type of customer and generally range from 30 to 90 days from delivery.

The Company provides assurance-type warranties on all product sales ranging from one to two years. The estimated warranty costs are accrued for at the time of sale based on historical warranty experience plus any known or expected changes in warranty exposure.

The Company has opted to not disclose the portion of revenues allocated to partially unsatisfied performance obligations, which represent products to be shipped within 12 months under open customer purchase orders, at the end of the current reporting period as allowed under ASC 606. The Company has also elected to record sales commissions when incurred, pursuant to the practical expedient under ASC 340, *Other Assets and Deferred Costs*, as the period over which the sales commission asset that would have been recognized is less than one year.

There were no contract assets as of September 30, 2023 and December 31, 2022.

Shipping and Transportation Costs

Shipping and other transportation costs expensed as incurred were $0.1 million for each of the three months ended September 30, 2023 and 2022. These costs are included in sales and marketing expenses in the accompanying consolidated statements of operations.

Research and Development Costs

Research and development costs are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred. These costs are included in sales and marketing expenses in the accompanying consolidated statements of operations.

Stock-Based Compensation

We recognize compensation costs related to stock options and restricted stock units granted to employees and directors based on the estimated fair value of the awards on the date of grant. We estimate the option grant fair values, and the resulting stock-based compensation expense, using the Black-Scholes option-pricing model. The grant date fair value of stock-based awards are expensed on a straight-line basis over the requisite service period of the entire reward. The Company recognizes forfeitures when incurred.

Fair Value Measurements

The carrying values of the Company's financial instruments, including cash, trade accounts receivable, accounts payable, accrued liabilities and deferred purchase price obligations approximate their fair values due to the short maturity of these instruments.

Fair value measurements are market-based measurements, not entity-specific measurements. Therefore, fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. The Company follows a three-level hierarchy to prioritize the inputs used in the valuation techniques to derive fair values. The basis for fair value measurements for each level within the hierarchy is described below:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable in active markets.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. This standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The Company adopted this standard in the first quarter of fiscal 2023; it did not have a material impact on our financial statements.

Recently Issued Accounting Pronouncements

There were no recently issued accounting pronouncements that the Company expects to have a material impact on the Company's financial statements.

Note 3. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss available to common stockholders by the weighted average shares of common stock outstanding for the period. Diluted net loss per share is calculated by dividing net loss by the weighted average shares of common stock outstanding for the period plus amounts representing the dilutive effect of securities that are convertible into common stock. The Company calculates diluted loss per common share using the treasury stock method.

The following table presents the computation of net loss per share (in thousands except per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Numerator:				
Net loss	$ (1,881)	$ (1,299)	$ (6,944)	$ (5,439)
Denominator:				
Basic weighted average common shares outstanding	10,430	10,210	10,370	10,179
Plus dilutive effect of potential common shares	—	—	—	—
Diluted weighted average common shares outstanding	10,430	10,210	10,370	10,179
Net loss per share:				
Basic	$ (0.18)	$ (0.13)	$ (0.67)	$ (0.53)
Diluted	$ (0.18)	$ (0.13)	$ (0.67)	$ (0.53)

Potentially dilutive securities (in common stock equivalent shares) not included in the calculation of diluted net loss per share because to do so would be anti-dilutive are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Stock options, restricted stock and performance stock	2,211	2,207	2,290	2,033
Common stock equivalent shares	2,211	2,207	2,290	2,033

Note 4. Cash and Cash Equivalents

The following tables show the Company's cash and cash equivalents by significant investment category (in thousands):

	September 30, 2023	December 31, 2022
Cash	$ 9,719	$ 8,323
Level 1:		
Money market funds	270	3,580
Total	$ 9,989	$ 11,903

Restricted Cash

As of September 30, 2023, the Company had $95,000 in cash on deposit to secure certain lease commitments; $40,000 of which is short-term in nature and recorded in prepaid expenses and other current assets and $55,000 of which is restricted for more than twelve months and recorded in other assets in the Company's consolidated balance sheet. As of December 31, 2022, the Company had $175,000 in cash on deposit to secure certain lease commitments.

Note 5. Inventory

Inventories are comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Raw materials	$ 864	$ 1,060
Finished goods	3,086	3,166
Total Inventory	$ 3,950	$ 4,226

Consigned inventories, which are included in total inventories, are comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Raw materials	$ 990	$ 631
Finished goods	1,580	2,272
Total Consigned Inventory	$ 2,570	$ 2,903

Excess and obsolete inventory reserves were $1.0 million and $0.9 million as of September 30, 2023 and December 31, 2022, respectively.

Note 6. Property and Equipment

Depreciation and amortization of property and equipment is calculated on the straight-line method based on the shorter of the estimated useful life or the term of the lease for tenant improvements and three to ten years for all other property and equipment. Property and equipment consist of the following (in thousands):

	September 30, 2023	December 31, 2022
Manufacturing and testing equipment	$ 5,261	$ 5,194
Leasehold improvements	848	848
Computers and software	752	703
Furniture, fixtures, and equipment	427	409
Construction in process	55	16
Property and equipment, gross	7,343	7,170
Less accumulated depreciation	(4,889)	(4,405)
Property and equipment, net	$ 2,454	$ 2,765

Depreciation expense was $0.2 million for each of the three months ended September 30, 2023 and 2022 and $0.5 million for each of the nine months ended September 30, 2023 and 2022, respectively.

Note 7. Intangible Assets and Goodwill

Other Intangible Assets

The following is a summary of the Company's acquired other intangible assets (dollars in thousands):

	September 30, 2023			
	Weighted average amortization period (in years)	Gross carrying amount	Accumulated amortization	Net carrying amount
Market related intangibles	5	$ 1,820	$ 1,049	$ 771
Customer relationships	7	13,780	8,425	$ 5,355
Developed technologies	11	4,380	1,529	$ 2,851
Covenants to non-compete	2	115	115	$ —
Total intangible assets, net		$ 20,095	$ 11,118	$ 8,977

	December 31, 2022			
	Weighted average amortization period (in years)	Gross carrying amount	Accumulated amortization	Net carrying amount
Market related intangibles	5	$ 1,820	$ 795	$ 1,025
Customer relationships	7	13,780	6,720	7,060
Developed technologies	11	4,380	1,263	3,117
Covenants to non-compete	2	115	114	1
Total intangible assets, net		$ 20,095	$ 8,892	$ 11,203

Estimated annual amortization of intangible assets for the next five years and thereafter is shown in the following table (in thousands):

	Estimated future amortization
2023 (remaining three months)	$ 742
2024	2,968
2025	2,958
2026	557
2027	356
Thereafter	1,396
Total	$ 8,977

Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, and asset impairments, among other factors. Amortization expense was $0.7 million and $0.8 million for the three months ended September 30, 2023 and 2022, respectively. Amortization expense was $2.2 million and $2.3 million for the nine months ended September 30, 2023 and 2022, respectively.

No impairment losses were recorded against the other intangibles during the three months ended September 30, 2023 and 2022.

During the three months ended September 30, 2023, the Company had a decline in its market capitalization, as reflected in a material decline in share price. The decline in market capitalization indicated that the carrying value of the Company's intangible assets composed of acquired intangibles, developed technologies, customer relationships and non-compete agreements may not be recoverable.

Accordingly under ASC 360, the Company performed an interim impairment test to determine the recoverability of the assets group by comparing the future undiscounted cash flows expected from the use of the asset group to the carrying value at September 30, 2023. The Company determined under ASC 360-10-55-24 that the reporting unit is the asset group for the purposes of assessing impairment of the intangible assets. The cash flows of the intangible assets are dependent on the reporting entity as a whole. The cash flows of other assets and liabilities in various departments of the Company such as research, administrative and sales and marketing contribute to the generation of cash flows from the intangible assets. The recoverability test indicated that the future expected cash flows materially exceed the asset group carrying value. Therefore, the Company did not proceed with the third step to determine the fair value of the intangible assets and compare fair value against the carrying value. Based on the assessment performed, we determined that the intangible asset carrying values are not impaired as of September 30, 2023 and the useful lives remain appropriate.

Goodwill

No impairment losses were recorded against the goodwill during the three months ended September 30, 2023 and 2022.

The decline in the Company's market share price during the three months ended September 30, 2023 was a triggering event that indicated that the fair value of the entity may be below its carrying amount. As a result of the triggering event, the Company performed a qualitative assessment by comparing the margin between the market capitalization and the carrying value at September 30, 2023 and at December 31, 2022. The qualitative assessment showed a significant decline in the margin between the market capitalization and the carrying value. Therefore, the Company proceeded to perform a quantitative assessment.

The quantitative impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill. To determine the fair value of the reporting unit, the Company engaged a valuation consulting firm to assist management for purposes of impairment testing under ASC 350. The Company estimated the fair value of our reporting unit using a weighting of the market and income approaches. For the market approach, we used the guideline public company method. Under this method we utilize information from comparable publicly traded companies with similar operating and investment characteristics as the reporting unit to derive an indication of value. For the income approach, we used a discounted cash flow methodology to derive an indication of value, which required management to make estimates and assumptions related to forecasted revenues, gross profit margins, operating income margins, working capital cash flow, income tax rates, EBITDA, perpetual growth rates, and long-term discount rates, among others. We then applied a weighting to the indicated values computed from the market and income approaches to derive the fair values of the reporting unit. Forecasts of future cash flows were based on our best estimate of future net sales and operating expenses, based primarily on customer forecasts, industry trade organization data and general economic conditions. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors. Based on the analysis performed, the Company determined the fair value of the reporting unit is greater than the carrying value. Therefore, there is no goodwill impairment charge as of September 30, 2023.

Certain future events and circumstances, including adverse changes in the business and economic conditions and changes in customer behavior could result in changes to our assumptions and judgments used in the impairment tests. A downward revision of these assumptions could cause the total fair value of our goodwill and intangible assets to fall below carrying values and a non-cash impairment charge would be required. Such a charge may have a material effect on the consolidated financial statements.

Note 8. Accrued Liabilities and Other

Accrued liabilities and other is comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Accrued expenses	$ 879	$ 815
VAT payable	339	339
Accrued income taxes	201	166
Advanced payments from contract manufacturers	124	210
Contract liabilities	—	32
Goods received not invoiced	821	529
Other current liabilities	174	524
Accrued liabilities and other	$ 2,538	$ 2,615

Note 9. Leases

Operating leases

The Company has made certain assumptions and judgments when applying ASC 842, the Company elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease terms of twelve months or less).

Operating lease arrangements primarily consist of office, warehouse and test house leases expiring during different years through 2025. The facility leases have original lease terms of approximately one to five years and may contain options to extend up to 5 years and/or terminate early. Options to extend are included in leased right-of-use assets and lease liabilities in the consolidated balance sheet when we are reasonably certain to renew a lease. Since the implicit rate of such leases is unknown and we may not be reasonably certain to renew leases, the Company has elected to apply a collateralized incremental borrowing rate to facility leases on the original lease term in calculating the present value of future lease payments. As of September 30, 2023 and December 31, 2022, the weighted average discount rate for operating leases was 3.8% and 3.9%, respectively and the weighted average remaining lease term for operating leases was 2.0 years and 2.7 years, respectively.

The Company has entered into various short-term operating leases, primarily for test houses and office equipment with initial terms of 12 months or less. These short-term leases are not recorded on the Company's consolidated balance sheet and the related short-term lease expense was $23,000 and $21,000, for the three months ended September 30, 2023 and 2022, respectively. Total operating lease cost was $0.3 million and $0.2 million for the three months ended September 30, 2023 and 2022, respectively, and $0.8 million for each of the nine months ended September 30, 2023 and 2022, respectively.

The table below presents aggregate future minimum payments due under leases, reconciled to lease liabilities included in the consolidated balance sheet as of September 30, 2023 (in thousands):

	Estimated future lease obligation
2023 (remaining three months)	$ 266
2024	902
2025	687
Total minimum payments	1,855
Less imputed interest	(70)
Less unrealized translation gain	2
Total lease liabilities	1,787
Less short-term lease liabilities	(909)
Long-term lease liability	$ 878

Note 10. Income Taxes

The Company’s effective income tax rate was -1.2% and -2.5% for the nine months ended September 30, 2023 and 2022, respectively. The variance from the U.S. federal statutory rate of 21.0% for the nine months ended September 30, 2023 was primarily attributable to the utilization of deferred tax attributes that had a full valuation allowance. The variance from the U.S. federal statutory rate of 21.0% for the nine months ended September 30, 2022 was primarily attributable to the utilization of deferred tax attributes that had a full valuation allowance.

Management assesses its deferred tax assets quarterly to determine whether all or any portion of the asset is more likely than not unrealizable under Accounting Standards Codification (ASC) Topic 740. The Company is required to establish a valuation allowance for any portion of the asset that management concludes is more likely than not to be unrealizable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company’s assessment considers all evidence, both positive and negative, including the nature, frequency and severity of any current and cumulative losses, taxable income in carryback years, the scheduled reversal of deferred tax liabilities, tax planning strategies, and projected future taxable income in making this assessment.

As of December 31, 2022, the Company had a valuation allowance against net deferred tax assets of $11.9 million, however, the exclusion of a deferred tax liability generated by goodwill (an indefinite lived intangible) may not be considered a future source of taxable income in evaluating the need for a valuation allowance. In connection with the acquisition of NimbeLink, the Company recorded deferred tax liabilities associated with acquired intangible assets.

Note 11. Stockholders’ Equity

In August 2016, the Company's Board adopted the 2016 Equity Inventive Plan (the 2016 Plan) for employees, directors and consultants. In February 2021, the Board adopted the 2021 Employment Inducement Incentive Award Plan (Inducement Plan), which provides for grants of equity-based awards.

The following table presents common stock reserved for future issuance[1] (in thousands):

	September 30, 2023	December 31, 2022
Stock options issued and outstanding	2,046	2,065
Stock awards issued and outstanding	764	581
Authorized for grants under the 2016 Equity Incentive Plan[2]	423	507
Authorized for grants under the Inducement Plan[3]	335	294
Authorized for grants under the 2016 Employee Stock Purchase Plan[4]	440	378
	4,008	3,825

[1] The table above excludes 541,000 treasury stock shares as of September 30, 2023 and December 31, 2022.
[2] On January 1, 2023, the number of authorized shares in the 2016 Plan increased by 431,000 shares pursuant to the evergreen provisions of the 2016 Plan.
[3] On February 5, 2021, 300,000 shares were authorized pursuant to the terms of the Inducement Plan.
[4] On January 1, 2023, the number of authorized shares in the 2016 Employee Stock Purchase Plan increased by 100,000 shares pursuant to the evergreen provisions of the 2016 Employee Stock Purchase Plan.

Note 12. Stock Based Compensation

Stock-based compensation expense

Stock-based compensation is recorded in the consolidated statements of operations as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Cost of goods sold	$ 29	$ 36	$ 73	$ 71
Research and development	230	255	747	800
Sales and marketing[(1)]	(223)	273	53	856
General and administrative	487	556	1,599	1,848
Total stock-based compensation expense	$ 523	$ 1,120	$ 2,472	$ 3,575

[(1)] In the quarter ending September 30, 2023, the company recorded $0.2 million stock based compensation expense reversals that were non-vested and previously recognized expense in the sales and marketing department due to terminations.

Stock Options

The following table summarizes the outstanding stock option activity during the period indicated (shares in thousands):

		Weighted average		
	Number of stock options	Exercise price	Remaining contractual term (in years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2022	2,065	$ 11.78	6.7	$ 758.00
Granted	297	$ 5.56		
Exercised	(12)	$ 2.30		$ 40.00
Expired/Forfeited	(304)	$ 13.65		
Balance at September 30, 2023	2,046	$ 10.65	6.2	$ 281.00
Vested and exercisable at September 30, 2023	1,461	$ 11.36	5.2	$ 281.00
Vested and expected to vest at September 30, 2023	2,046	$ 10.65	6.2	$ 281.00

The weighted average grant date fair value of options granted during the nine months ended September 30, 2023 was $2.84. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. For stock options vested and expected to vest, the aggregate intrinsic value as of September 30, 2023 was $0.3 million.

At September 30, 2023, there was $2.3 million of unrecognized compensation cost related to unvested stock options granted under the Company’s equity plans that is expected to be recognized over the next 2.5 years.

Restricted Stock

The following table summarizes the Company's restricted stock unit (RSU) activity during the period indicated (shares in thousands):

	Restricted stock units	Weighted average grant date fair value
Balance at December 31, 2022	444	$ 11.78
Grants	653	$ 5.16
Vested and released	(287)	$ 8.17
Forfeited	(138)	$ 9.28
Balance at September 30, 2023	672	$ 7.41

As of September 30, 2023, there was $3.9 million of total unrecognized compensation cost related to unvested restricted stock units having a weighted average remaining contractual term of 3.0 years.

Performance Stock Units

The following table summarizes the Company's performance stock unit (PSU) activity during the period indicated (shares in thousands):

	Performance stock units	Weighted average grant date fair value
Balance at December 31, 2022	137	$ 2.09
Grants	—	$ —
Vested and released	—	$ —
Forfeited	(45)	$ 2.20
Balance at September 30, 2023	92	$ 2.03

Service as well as market and performance conditions determine the number of PSUs that the holder will earn from 0% to 150% of the target number of shares. The percentage received is based on the Company common stock price targets over a three-year service period. Additionally, the Company must achieve or exceed 75% of the year to date revenue target measured at the end of the quarter in which the price target is achieved. As of September 30, 2023, there was $0.1 million of total unrecognized compensation cost related to unvested PSUs having a weighted average remaining contractual term of 1.5 years.

We estimate the fair value of PSUs with a market condition using a Monte Carlo simulation model as of the date of grant using historical volatility.

Share-Settled Obligation

During the nine months ended September 30, 2023, the Company settled $0.9 million related to the 2022 bonus awards by granting 187,200 immediately vested RSUs.

Employee Stock Purchase Plan (ESPP)

The Company maintains the 2016 Employee Stock Purchase Plan (ESPP) that provides employees an opportunity to purchase common stock through payroll deductions. The ESPP is implemented through consecutive 6-month offering periods commencing on March 1 and September 1 of each year. The purchase price is set at 85% of the fair market value of the Company's common stock on either the first or last trading day of the offering period, whichever is lower. Annual contributions are limited to the lower of 20% of an employee's eligible compensation or such other limits as apply under Section 423 of the Internal Revenue Code. The ESPP is intended to qualify as an employee stock purchase plan for purposes of Section 423 of the Internal Revenue Code.

Based on the 15% discount and the fair value of the option feature of the ESPP, it is considered compensatory. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. The Company currently uses authorized and unissued shares to satisfy share award exercises.

During the nine months ended September 30, 2023, the Company received $0.2 million from the issuance of 38,400 shares under the ESPP.

Note 13. Commitments and Contingencies

Severance and Exit Costs

The following table presents details of the liability we recorded related to severance and exit costs:

	Severance and Exit Costs
	(In thousands)
Balance at December 31, 2022	$ —
Accrued to expense	205
Payments	(92)
Balance at March 31, 2023	$ 113
Accrued to expense	365
Payments	(71)
Balance at June 30, 2023	$ 407
Accrued to expense	(22)
Payments	(385)
Balance at September 30, 2023	$ —

The severance liability is recorded in accrued compensation on the accompanying unaudited condensed consolidated balance sheet. The severance and exit cost were recorded in the relevant operating expense departments in the accompanying unaudited condensed consolidated statement of operations.

Potential product warranty claims

The Company had a general warranty accrual of approximately $0.1 million and $0.2 million as of September 30, 2023 and December 31, 2022, respectively.

Indemnification

In some agreements to which the Company is a party, the Company has agreed to indemnify the other party for certain matters, including, but not limited to, product liability and intellectual property. To date, there have been no known events or circumstances that have resulted in any material costs related to these indemnification provisions and no liabilities have been recorded in the accompanying consolidated financial statements.

Note 14. Concentration of Credit Risk

Concentration of Sales and Accounts Receivable

The following represents customers that accounted for 10% or more of total revenue:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Customer A	22 %	1 %	15 %	16 %
Customer B	12 %	12 %	10 %	12 %
Customer C	8 %	12 %	16 %	13 %

The following represents customers that accounted for 10% or more of total trade accounts receivable:

	September 30, 2023	December 31, 2022
Customer A	14 %	3 %
Customer B	12 %	12 %
Customer C	12 %	15 %
Customer D	11 %	2 %
Customer E	10 %	0 %

The allowance for credit losses as of September 30, 2023 and December 31, 2022 was not material.

Concentration of Purchases

During the nine months ended September 30, 2023, the Company's products were primarily manufactured by six contract manufacturers with locations in China, Mexico, Minnesota, and Vietnam.

Concentration of Cash

The bank where most of the Company's cash was held was placed into receivership with the FDIC on March 10, 2023. The Company's cash deposits exceeded the FDIC insured limits at that time. However, the Treasury, the Federal Reserve, and the FDIC, as receiver, jointly released a statement that depositors at this specific bank would have access to their funds, including funds in excess of standard FDIC insurance limits. The Company has not experienced losses on these accounts. In the second quarter of 2023, the Company moved most of the deposits out of this institution to several accounts at a larger institutional bank.

Concentration of Property and Equipment

The Company's property and equipment, net by geographic region, are as follows (in thousands):

	September 30, 2023	December 31, 2022
North America	$ 2,227	$ 2,469
Asia Pacific (APAC)	93	138
Europe, Middle East and Africa (EMEA)	134	158
Property and equipment, net	$ 2,454	$ 2,765

Note 15. Revenue

Disaggregated revenues are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
By Market Group:				
Enterprise	$ 6,791	$ 6,747	$ 22,594	$ 24,496
Consumer	4,404	7,334	15,725	19,377
Automotive	2,501	5,117	7,651	12,133
Total sales	$ 13,696	$ 19,198	$ 45,970	$ 56,006
By Geography:				
North America	$ 8,261	$ 11,128	$ 27,867	$ 34,031
China (including Hong Kong and Taiwan)	4,961	7,443	16,989	20,170
Rest of the world	474	627	1,114	1,805
Total sales	$ 13,696	$ 19,198	$ 45,970	$ 56,006

Revenue generated from the United States was $8.2 million and $11.0 million for the three months ended September 30, 2023 and 2022, respectively and $27.6 million and $33.7 million for the nine months ended September 30, 2023 and 2022, respectively.

Liability for potential rights of return was approximately $0.1 million and $0.3 million as of September 30, 2023 and December 31, 2022, respectively and is included within accrued liabilities in the accompanying unaudited condensed consolidated balance sheets.

The deferred revenues that are recorded as contract liabilities were $25,000 and $0.2 million as of September 30, 2023 and December 31, 2022, respectively.

Note 16. Subsequent Events

None.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis and the interim unaudited condensed consolidated financial statements included in this quarterly report on Form 10-Q should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2022 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2022.

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact contained in this quarterly report, including statements regarding our future operating results, financial position and cash flows, our business strategy and plans, and our objectives for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "would," "could," "should," "expect," "plan," "anticipate," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential" or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this quarterly report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives. These forward-looking statements speak only as of the date of this quarterly report and are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, "Risk Factors." The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

Overview

Airgain is a leading provider of wireless connectivity solutions that creates and delivers embedded components, external antennas, and integrated systems across the globe. Airgain simplifies wireless connectivity across a diverse set of devices and markets, from solving complex connectivity issues to speeding time to market to enhancing wireless signals. Our product offering includes three distinct sub-brands. Airgain Embedded™ represents our embedded modems, antennas, and development kits that help design teams bring connected products to market quickly. Airgain Antenna+™ represents our external antennas, such as our fleet and Internet of things (IoT) antennas, that help enhance wireless signals in some of the harshest environments. Airgain Integrated™ represents our fully integrated products, such as our asset trackers, 5G connectivity solutions, and AirgainConnect® platform, that help solve connectivity issues in an organization's operating environment. Our mission is to connect the world through optimized, integrated wireless solutions.

As a wireless connectivity solution provider with a rich history in radio frequency (RF) technology, we are leveraging our expertise in embedded antennas and embedded modems to effectively transition from a component provider to a wireless systems provider. In 2020, we announced our patented vehicle networking flagship platform – AirgainConnect. Our first product from this platform, the AC-HPUE™ antenna-modem, offers a novel solution for our public safety and automotive fleet markets by improving vehicle networking capabilities and we are developing our next generation products directed towards a broader vehicle market size. We have also designed an entire line of cellular-based, ruggedized asset trackers that deliver real-time location and condition data on assets, whether they are indoors, outdoors or in transit. In addition, we have a robust custom products offering where we design and build integrated products such as cellular routers, large venue WiFi access points, and external cellular modem modules for major original equipment manufacturers (OEMs). Finally, our advanced development team expects to roll out several new products this year designed to improve the 5G customer experience, further helping enable our move into a leadership position in the new wave of technologies and platforms.

After a significant shift in 2022, we transitioned to a fabless model where we use third parties to manufacture our products while maintaining oversight for critical quality, test, and calibration functions. In addition, we maintain a deliberate intellectual property strategy that includes patent and trademark filings in multiple jurisdictions including the United States and other commercially significant markets.

Core Markets

Airgain's core business primarily focuses on the following three key markets:

- *Enterprise.* The enterprise market is characterized by devices that provide reliable wireless access for high-density environments such as buildings, campuses, transportation terminals and stadiums. Within this market our antennas are deployed across a wide range of systems, devices, and applications that include access points and gateways, fixed wireless access infrastructure, small cells, massive MIMO, and remote radio heads. In addition, our embedded modems are deployed across various markets with high demand for connectivity, including packaging and logistics, EV charging, smart city and smart building applications, agriculture, asset tracking, and more. We continue to deploy our asset trackers across a variety of transportation, supply chain, cold chain, and other unique applications and we continue to develop WiFi access and other custom products for multiple commercial uses.
- *Consumer.* The consumer market encompasses a large and growing audience of consumers using wireless-enabled devices. Our antennas are deployed in consumer access points, wireless gateways, Wi-Fi Mesh systems and extenders, smart TVs, smart home devices, and set-top boxes. Additionally, our antennas support a comprehensive array of technologies, including WLAN, Wi-Fi, LTE, 5G and LPWAN. In addition, with the roll out of our new 5G connectivity product lines, improving 5G access and customer experience through fixed wireless access (FWA) and repeaters for our service provider customers is anticipated to be a high growth area for Airgain.
- *Automotive*. In the automotive market, our products are deployed in a wide range of vehicles in the fleet and aftermarket segment, supporting a variety of technologies that include Wi-Fi, LTE, 5G, Satellite and LPWAN. The fleet and aftermarket segments of the automotive market typically consist of applications whereby rugged vehicular wireless routers are paired with external antenna systems to provide connectivity to fixed and mobile assets. Within this unique market segment, there has been a rise in the number of antennas per vehicle, which is especially true in the first responder, utility, agriculture, and service fleet markets where in-vehicle equipment increasingly demands connectivity.

Our Process

With our internal antennas, our design team partner with customers from the early stages of antenna prototyping to device throughput testing in order to facilitate optimal performance and a significant reduction in time to market. Our capabilities include design, custom engineering support, integration, and over-the-air (OTA) testing. Leveraged in combination, these capabilities have resulted in a strong reputation across the OEM, ODM and chipset manufacturer ecosystem. Our competencies and strengths have helped us secure design wins used in multiple reference designs from leading Wi-Fi chipset vendors, OEMs, ODMs, chipset manufacturers and service providers who rely on these reference designs and our engineering skills to deliver superior throughput performance. We view our relationship with OEM, ODM, chipset manufacturers and service providers as an important attribute to our long-term strategy and success.

With our embedded modems, we offer customer design teams the ability to speed time to market by avoiding the cost and time delays of carrier certification. We combine cellular modules with the electronics and firmware to achieve end-device certification with major carriers. In addition, we offer the ability to futureproof their designs with the ability to update firmware remotely and swap module vendors, all without changing the pin design. By leveraging our embedded modems, customers designing cellular-connected products remove complexity from the design process, reducing the need for large RF engineering teams and launching products much quicker to take advantage of market opportunities.

Macroeconomic conditions

Macroeconomic conditions have continued to create demand softness industrywide, including downward pressures relating to the anticipated service provider shift from WiFi 6E to WiFi 7. This demand softness combined with excess inventories in our channels and those of our direct customers, drove year-over-year declines in our Enterprise, Automotive and Consumer markets. These conditions have worsened in the second half of the fiscal year and, coupled with a delay in the completion of an Enterprise project, contributed to a material sales decline in the second half of the year compared to the first half of the year.These conditions have led to a reduction in visibility to customer demand and an increase in volatility in the management of our business. We remain focused on the execution of our strategic product initiatives and operational efficiencies, as they lay out the foundation of our revenue and profitability growths when market conditions improve.

Factors Affecting Our Operating Results

We believe that our performance and future success depend upon several factors including macroeconomic and geopolitical uncertainties, epidemic diseases, impact of inflation on consumer spending, and our ability to transition from a component provider to a wireless systems provider and to develop technology leadership and expand our markets.

Our performance and future success also depend on factors such as continued investments in our growth, our ability to expand into growing addressable markets, including consumer, enterprise, and automotive, the average selling prices of our products per device, manufacturing costs and our ability to diversify the number of devices that incorporate our antenna products. Our customers are price conscious, and our operating results are affected by pricing pressure which may force us to lower prices below our established list prices. In addition, a few end-customer devices which incorporate our antenna products comprise a significant amount of our sales, and the discontinuation or modification of such devices may materially and adversely affect our sales and results of operations. Our ability to maintain or increase our sales depends on, among other things:

- new and existing end customers selecting our solutions for their wireless devices and networks;
- the proliferation of Wi-Fi connected home devices and data intensive applications;
- investments in our growth to address customer needs;
- our ability to target new end markets;
- development of our product offerings and technology solutions;
- the impact of the global supply shortage on our business and that of our end customers;
- international expansion in light of continuing global tensions; and
- ability to successfully integrate past and any future acquisitions.

In addition, inflation generally affects us by increasing our raw material and employee-related costs and other expenses. Our financial condition and results of operations may also be impacted by other factors we may not be able to control, such as uncertain global economic conditions, health pandemics and epidemic diseases, global trade disputes or political instability, as well as conflicts around the world. We do not believe that such factors had a material adverse impact on our results of operations during the nine months ended September 30, 2023.

While each of these areas presents significant opportunities for us, they also pose significant risks and challenges we must successfully address. We discuss many of these risks, uncertainties and other factors in greater detail in the section entitled “Risk Factors” included in this quarterly report on Form 10-Q and in Item 1A of our Annual Report on Form 10-K.

Seasonality

Our operating results historically have not been subject to significant seasonal variations. However, our operating results are affected by how customers make purchasing decisions around local holidays in China. Although it is difficult to make broad generalizations, our sales tend to be lower in the first quarter of each year compared to other quarters due to the Lunar New Year. General weakening of economic conditions may contribute to slower sales. Results for any quarter may not be indicative of the results that may be achieved for the full fiscal year and these patterns may change as a result of general customer demand or product cycles.

Key Components of Our Results of Operations and Financial Condition

Sales

We primarily generate revenue from the sales of our products. We recognize revenue to depict the transfer of control over promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. We generally recognize product sales at the time of shipment to our customers, provided that all other revenue recognition criteria have been met. Although currently immaterial, we also generate service revenue from agreements to provide design, engineering, and testing services as well as subscription revenue from the sale of data plans.

Cost of Goods Sold

The cost of goods sold reflects the cost of producing antenna, embedded modem and asset tracking products that are shipped for our customers' devices as well as costs incurred for service agreements. This primarily includes manufacturing costs of our products payable to our third-party contract manufacturers, as well as manufacturing costs incurred at our facility in Arizona, prior to closure in March 2022. The cost of goods sold that we generate from services and subscription revenues primarily includes personnel costs and the cost to maintain data lines.

Operating Expenses

Our operating expenses are classified into three categories: research and development, sales and marketing, general and administrative and subscription revenues. The largest component of expense is personnel costs, which includes salaries, employee benefit costs, bonuses, and stock-based compensation. Operating expenses also include allocated overhead costs for depreciation of equipment, facilities and information technology. Allocated costs for facilities consist of amortization of leasehold improvements as well as rent and utility expenses and taxes. Operating expenses are generally recognized as incurred.

Research and Development. Research and development expenses primarily consist of personnel and facility-related costs attributable to our engineering research and development personnel. These expenses include work related to the design, engineering and testing of antenna and modem designs and antenna integration, validation and testing of customer devices. These expenses include salaries, including stock-based compensation, benefits, bonuses, travel, communications, and similar costs, and depreciation and allocated costs for certain facilities. We may also incur expenses from consultants and for prototyping new antenna solutions. We expect research and development expenses to increase in absolute dollars in future periods as we continue to invest in the development of new solutions and markets, although our research and development expense may fluctuate as a percentage of total sales.

Sales and Marketing. Sales and marketing expenses primarily consist of personnel and facility-related costs for our sales, marketing, and business development personnel, stock-based compensation and bonuses earned by our sales personnel, and commissions earned by our third-party sales representative firms. Sales and marketing expenses also include the costs of trade shows, advertising, marketing programs, promotional materials, demonstration equipment, travel, recruiting, and allocated costs for certain facilities. We expect sales and marketing expenses to fluctuate as a percentage of total sales.

General and Administrative. General and administrative expenses primarily consist of personnel and facility related costs for our executive, legal, human resource finance, and administrative personnel, including stock-based compensation, as well as legal, accounting, and other professional services fees, depreciation, and other corporate expenses. We expect general and administrative expenses to fluctuate as we grow our operations.

Other (Income) Expense

Interest Income, net. Interest income consists of interest from our cash and cash equivalents offset by interest expense which consists of interest charges on credit card charges and certain vendor bills.

Other Expense. Other expense consists of the loss from disposal of property and equipment, realized foreign exchange gains or losses, and other expenses.

Provision for Income Taxes

Provision for income taxes consists of federal and state income taxes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment. It is difficult for us to project future taxable income as the timing and size of sales of our products are variable and difficult to predict. We concluded that it is not more likely than not that we will utilize our deferred tax assets other than those that are offset by reversing temporary differences.

Results of Operations

The following tables set forth our operating results for the periods presented and as a percentage of our total sales for those periods. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Statement of Operations Data (in thousands):				
Sales	$ 13,696	$ 19,198	$ 45,970	$ 56,006
Cost of goods sold	8,460	11,755	28,137	33,902
Gross profit	5,236	7,443	17,833	22,104
Operating expenses:				
Research and development	2,298	2,901	7,337	9,117
Sales and marketing	1,704	2,808	6,875	8,552
General and administrative	3,144	2,998	10,533	9,738
Total operating expenses	7,146	8,707	24,745	27,407
Loss from operations	(1,910)	(1,264)	(6,912)	(5,303)
Other (income) expense	(33)	(17)	(52)	2
Loss before income taxes	(1,877)	(1,247)	(6,860)	(5,305)
Income tax expense	4	52	84	134
Net loss	$ (1,881)	$ (1,299)	$ (6,944)	$ (5,439)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Statements of Operations Data:				
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	61.8	61.2	61.2	60.5
Gross profit	38.2	38.8	38.8	39.5
Operating expenses:				
Research and development	16.8	15.1	16.0	16.3
Sales and marketing	12.4	14.7	15.0	15.3
General and administrative	22.9	15.6	22.8	17.4
Total operating expenses	52.1	45.4	53.8	49.0
Loss from operations	(13.9)	(6.6)	(15.0)	(9.5)
Other (income) expense	(0.2)	(0.1)	(0.1)	0.0
Loss before income taxes	(13.7)	(6.5)	(14.9)	(9.5)
Income tax expense	0.0	0.3	0.2	0.2
Net loss	(13.7)%	(6.8)%	(15.1)%	(9.7)%

Comparison of the Three and Nine Months Ended September 30, 2023 and 2022 **(dollars in thousands)**

Sales

	Three months ended September 30,			
	2023	2022	$ Change	% Change
Sales	$ 13,696	$ 19,198	$ (5,502)	(28.7)%

	Nine months ended September 30,			
	2023	2022	$ Change	% Change
Sales	$ 45,970	$ 56,006	$ (10,036)	(17.9)%

Sales for the three months ended September 30, 2023 decreased $5.5 million or 28.7% compared to the same period in the prior year. Consumer market sales decreased $2.9 million to $4.4 million for the three months ended September 30, 2023 from $7.3 million during the same period in the prior year due to demand softness with our cable and broadband operators. Automotive market sales decreased $2.6 million, to $2.5 million for the three months ended September 30, 2023, from $5.1 million during the same period in the prior year driven by a decrease in aftermarket sales due to customer inventory correction, and a decrease in AirgainConnect HPUE sales. Enterprise market sales were flat for the three months ended September 30, 2023 with $6.8 million during the same period in the prior year.

Sales for the nine months ended September 30, 2023 decreased $10.0 million or 17.9% compared to the same period in the prior year. Consumer market sales decreased $3.7 million to $15.7 to million for the nine months ended September 30, 2023 from $19.4 million during the same period in the prior year due to demand softness. Automotive market sales decreased $4.4 million to $7.7 million for the nine months ended September 30, 2023, from $12.1 million during the same period in the prior year driven by a decrease in aftermarket sales due to customer inventory correction and a decrease in AirgainConnect HPUE sales. Enterprise market sales decreased $1.9 million, to $22.6 million for the nine months ended September 30, 2023 from $24.5 million during the same period in the prior year, driven by lower sales of embedded modems due to channel inventory correction, partially offset by higher sales of IOT products.

Cost of Goods Sold

	Three months ended September 30,			
	2023	2022	$ Change	% Change
Cost of goods sold	$ 8,460	$ 11,755	$ (3,295)	(28.0)%

	Nine months ended September 30,			
	2023	2022	$ Change	% Change
Cost of goods sold	$ 28,137	$ 33,902	$ (5,765)	(17.0)%

Cost of goods sold for the three months ended September 30, 2023 decreased $3.3 million or 28.0% compared to the same period in the prior year. The decline was primarily due to sales decline.

Cost of goods sold for the nine months ended September 30, 2023 decreased $5.8 million or 17.0% compared to the same period in the prior year. The decline was due to sales decline.

Gross Profit

	Three months ended September 30,			
	2023	2022	$ Change	% Change
Gross profit	$ 5,236	$ 7,443	$ (2,207)	(29.7)%
Gross profit (percentage of sales)	38.2%	38.8%		(0.6)%

	Nine months ended September 30,			
	2023	2022	$ Change	% Change
Gross profit	$ 17,833	$ 22,104	$ (4,271)	(19.3)%
Gross profit (percentage of sales)	38.8%	39.5%		(0.7)%

Gross profit for the three months ended September 30, 2023 decreased $2.2 million or 29.7%, compared to the same period in the prior year, driven by lower sales. Gross profit as a percentage of sales for the three months ended September 30, 2023 decreased by 60 basis points compared to the same period in the prior year due to an unfavorable sales mix and lower enterprise margin, partially offset by lower indirect costs.

Gross profit for the nine months ended September 30, 2023 decreased $4.3 million or 19.3%, compared to the same period in the prior year, driven by lower sales and an unfavorable product mix. Gross profit as a percentage of sales for the nine months ended September 30, 2023 decreased by 70 basis points compared to the same period in the prior year due to lower enterprise margin, partially offset by lower indirect costs.

Operating Expenses

	Three months ended September 30,			
	2023	2022	$ Change	% Change
Research and development	$ 2,298	$ 2,901	$ (603)	(20.8)%
Sales and marketing	1,704	2,808	(1,104)	(39.3)%
General and administrative	3,144	2,998	146	4.9%
Total operating expenses	$ 7,146	$ 8,707	$ (1,561)	(17.9)%

	Nine months ended September 30,			
	2023	2022	$ Change	% Change
Research and development	$ 7,337	$ 9,117	$ (1,780)	(19.5)%
Sales and marketing	6,875	8,552	(1,677)	(19.6)%
General and administrative	10,533	9,738	795	8.2%
Total operating expenses	$ 24,745	$ 27,407	$ (2,662)	(9.7)%

Operating expenses for the three months ended September 30, 2023 decreased $1.6 million or 17.9% compared to the same period in the prior year. The decrease was primarily driven by lower employee compensation and lower marketing expenses.

Operating expenses for the nine months ended September 30, 2023 decreased $2.7 million or 9.7% compared to the same period in the prior year. The decrease was primarily driven by lower employee compensation expenses and outsourced service expenses.

Other (Income) Expense

	Three months ended September 30,			
	2023	2022	$ Change	% Change
Interest income, net	$ (34)	$ (26)	$ (8)	30.8%
Other expense	1	9	(8)	(88.9)%
Total other (income) expense	$ (33)	$ (17)	$ (16)	94.1%

	Nine months ended September 30,			
	2023	2022	$ Change	% Change
Interest income, net	$ (68)	$ (37)	$ (31)	83.8%
Other expense	16	39	(23)	(59.0)%
Total other (income) expense	$ (52)	$ 2	$ (54)	(2700.0)%

Other expense for the three and nine months ended September 30, 2023, consists primarily of foreign currency transaction losses.

Income Tax Expense

	Three months ended September 30,			
	2023	2022	$ Change	% Change
Income tax expense	$ 4	$ 52	$ (48)	(92.3)%

	Nine months ended September 30,			
	2023	2022	$ Change	% Change
Income tax expense	$ 84	$ 134	$ (50)	(37.3)%

Income tax expense for the three months ended September 30, 2023 decreased $48,000 or 92.31% compared to the same period in the prior year.

Income tax expense for the nine months ended September 30, 2023 decreased $0.1 million or 37.3% compared to the same period in the prior year.

Liquidity and Capital Resources

We had cash and cash equivalents of $10.0 million at September 30, 2023.

Prior to 2013 and for the years ended 2018, 2020, 2021 and 2022, we have incurred net losses. As a result, we have an accumulated deficit of $73.0 million at September 30, 2023.

In February 2022, we and our subsidiary NimbeLink Corp entered into a loan and security agreement with Silicon Valley Bank, pursuant to which we together had a revolving line of credit for $4.0 million. The line of credit expired in February 2023.

We plan to continue to invest for long-term growth, including expanding our sales force and engineering and making additional capital expenditures to further penetrate markets both in the United States and internationally, as well as expanding our research and development for new product offerings and technology solutions. We anticipate that these investments will continue to increase in absolute dollars. We believe that our existing cash and cash equivalents balance together with cash proceeds from operations will be sufficient to meet our working capital requirements for at least the next 12 months.

The following table presents a summary of our cash flow activity for the periods set forth below (in thousands):

	Nine months ended September 30,	
	2023	2022
Net cash (used in) provided by operating activities	$ (1,364)	$ 2,083
Net cash used in investing activities	(172)	(624)
Net cash used in financing activities	(458)	(6,780)
Net decrease in cash, cash equivalents and restricted cash	$ (1,994)	$ (5,321)

Net cash used in operating activities. Net cash used by operating activities was $1.4 million for the nine months ended September 30, 2023. This was primarily driven by the net loss of $6.9 million offset by $5.2 million in non-cash expenses and a $0.4 million net change in operating assets and liabilities.

Net cash used in investing activities. Net cash used in investing activities of $0.2 million for the nine months ended September 30, 2023 was for purchases of property and equipment.

Net cash used in financing activities. Net cash used in financing activities of $0.5 million for the nine months ended September 30, 2023, was primarily to pay taxes for net share settlement of restricted stock units, partially offset by proceeds from common stock issuances under the ESPP.

Employee Retention Credit

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law providing an employee retention credit (ERC), which is a refundable tax credit against certain employment taxes on qualified wages. The Taxpayer Certainty and Disaster Tax Relief Act of 2020, the American Rescue Plan Act of 2021 and the Infrastructure Investment and Jobs Act amended the qualifications for eligible employers who could apply and extended the availability of the ERC employment taxes on qualified wages paid after December 31, 2020 through September 30, 2021. We believe that we qualify for application of the ERC on qualified wages from the second quarter of 2020 through the third quarter of 2021.

In August 2023, we applied for ERC refunds, totaling $2.5 million, net of professional fees. Pending the Internal Revenue Service's (IRS) review and determination of our eligibility, we anticipate receiving the ERC refunds within the next nine months. However, there can be no assurance we will ultimately receive the amounts we currently expect, if any, or the timeframe of any such receipt, based on IRS review or otherwise.

Contractual Obligations and Commitments

There have been no material changes outside the ordinary course of our business during the nine months ended September 30, 2023, to the information regarding our contractual obligations that was disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2022.

Critical Accounting Estimates

Our management’s discussion and analysis of financial condition and operating results is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported sales and expenses during the reporting periods. These items are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions.

There were no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Significant Judgments and Estimates,” in our Annual Report on Form 10-K for the year ended December 31, 2022.

Intangible Assets and Goodwill Impairment Assessment

During the three months ended September 30, 2023, the Company had a decline in its market capitalization due to a current and near term demand softness in the wireless connectivity space, as reflected in a material decline in share price.

Intangible Assets

The decline in market capitalization indicated that the carrying value of the Company's intangible assets composed of acquired intangibles, developed technologies, customer relationships and non-compete agreements may not be recoverable.

Accordingly, the Company performed an interim impairment test to determine the recoverability of the assets group by comparing the future undiscounted cash flows expected from the use of the asset group to the carrying value at September 30, 2023. The recoverability test indicated that the future expected cash flows materially exceed the asset group carrying value. Therefore, the Company did not proceed with the third step to determine the fair value of the intangible assets and compare fair value against the carrying value. Based on the assessment performed, we determined that the intangible asset carrying values are not impaired as of September 30, 2023 and the useful lives remain appropriate.

Goodwill

The decline in the Company's market share price during the three months ended September 30, 2023 was a triggering event that indicated that the fair value of the entity may be below its carrying amount. As a result of the triggering event, the Company performed a qualitative assessment by comparing the margin between the market capitalization and the carrying value at September 30, 2023 and at December 31, 2022. The qualitative assessment showed a significant decline in the margin between the market capitalization and the carrying value. Therefore, the Company proceeded to perform a quantitative assessment.

The quantitative impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill. To determine the fair value of the reporting unit, the Company engaged a valuation consulting firm to assist management for purposes of impairment testing. The Company estimated the fair value of our reporting unit using a weighting of the market and income approaches. For the market approach, we used the guideline public company method. Under this method we utilize information from comparable publicly traded companies with similar operating and investment characteristics as the reporting unit to derive an indication of value. For the income approach, we used a discounted cash flow methodology to derive an indication of value, which required management to make estimates and assumptions related to forecasted revenues, gross profit margins, operating income margins, working capital cash flow, income tax rates, EBITDA, perpetual growth rates, and long-term discount rates, among others. Forecasts of future cash flows were based on our best estimate of future net sales and operating expenses, based primarily on customer forecasts, industry trade organization data and general economic conditions. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors. Based on the analysis performed, the Company determined the fair value of the reporting unit is greater than the carrying value. Therefore, there is no goodwill impairment charge as of September 30, 2023.

Certain future events and circumstances, including adverse changes in the business and economic conditions and changes in customer behavior could result in changes to our assumptions and judgments used in the impairment tests. A downward revision of these assumptions could cause the total fair value of our goodwill and intangible assets to fall below carrying values and a non-cash impairment charge would be required. Such a charge may have a material effect on the consolidated financial statements.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" within the unaudited condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic and current reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this quarterly report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the nine months ended September 30, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be a party to legal proceedings and subject to claims incident in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we believe that the final outcome of these matters will not have a material adverse effect on our financial condition or business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 1A. RISK FACTORS

A description of the risk factors associated with our business is included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no material changes to such risk factors. In evaluating our business, you should carefully consider the risk factors discussed in our Annual Report on Form 10-K. The occurrence of any of the risks discussed in such filings, or other events that we do not currently anticipate or that we currently deem immaterial, could harm our business, prospects, financial condition and results of operations. In that case the trading price of our common stock could decline, and you may lose all or part of your investment.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1[(1)]	Amended and Restated Certificate of Incorporation
3.2[(2)]	Amended and Restated Bylaws
4.1[(3)]	Specimen stock certificate evidencing the shares of common stock
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document

101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

(1) Incorporated by reference to the Registrant’s Current Report on Form 8-K, filed with the SEC on August 17, 2016.

(2) Incorporated by reference to the Registrant’s Current Report on Form 8-K, filed with the SEC on February 6, 2023.

(3) Incorporated by reference to Amendment No. 1 to the Registrant’s Registration Statement on Form S-1 (Registration No. 333- 212542), filed with the SEC on July 29, 2016.

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURE

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

AIRGAIN, INC.

Date: November 9, 2023

/s/ Jacob Suen
Jacob Suen
President and Chief Executive Officer
(principal executive officer)

Date: November 9, 2023

/s/ Michael Elbaz
Michael Elbaz
Chief Financial Officer
(principal financial and accounting officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jacob Suen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Airgain, Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

/s/ Jacob Suen
Jacob Suen
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Elbaz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Airgain, Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023	/s/ Michael Elbaz
	Michael Elbaz
	Chief Financial Officer and Secretary
	(principal financial officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Airgain, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jacob Suen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

/s/ Jacob Suen
Jacob Suen
President and Chief Executive Officer
(principal executive officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Airgain, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael Elbaz, Chief Financial Officer and Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

/s/ Michael Elbaz
Michael Elbaz
Chief Financial Officer and Secretary
(principal financial officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.