

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

☐ **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  
(State or Other Jurisdiction of  
Incorporation or Organization)  
3611 Valley Centre Drive, Suite 150  
San Diego, CA  
(Address of Principal Executive Offices)

95-4523882  
(I.R.S. Employer  
Identification No.)

92130  
(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:  
Common Stock, par value \$0.0001 per share

Name of each exchange on which registered:  
The Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

As of June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$94.7 million, based on the closing price of the registrant's common stock on The Nasdaq Capital Market of \$14.80 per share.

As of February 26, 2018, the registrant had 9,641,521 shares of common stock (\$0.0001 par value) outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain sections of the registrant's definitive proxy statement for the 2018 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after end of this fiscal year covered by this Form 10-K are incorporated by reference into Part III of this Form 10-K.

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AIRGAIN, INC.

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## PART I

### FORWARD-LOOKING STATEMENTS AND MARKET DATA

This annual report on Form 10-K 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 annual 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. This annual report on Form 10-K also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “would,” “could,” “should,” “expect,” “plan,” “anticipate,” “could,” “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 annual 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 annual report and are subject to a number of risks, uncertainties and assumptions, including those described in Part I, 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.

Airgain, the Airgain logo, and other trademarks or service marks of Airgain appearing in this annual report are the property of Airgain. This annual report also includes trademarks, tradenames and service marks that are the property of other organizations. Solely for convenience, trademarks and tradenames referred to in this annual report appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or that the applicable owner will not assert its rights, to these trademarks and tradenames.



## ITEM 1. BUSINESS

### Overview

Airgain is a leading provider of advanced antenna technologies used to enable high performance wireless networking across a broad range of devices and markets, including connected home, enterprise, automotive, and Internet of Things, or IoT. Our innovative antenna systems are designed to address key challenges with wireless system performance faced by our customers. We provide solutions to complex Radio Frequency, or RF, engineering challenges and help improve wireless services that require higher throughput, broad coverage footprint, and carrier grade quality. Our antennas are deployed in carrier, fleet, enterprise, residential, private, government, and public safety wireless networks and systems, including set-top boxes, access points, routers, modems, gateways, media adapters, portables, digital televisions, sensors, fleet and asset tracking devices. Through our pedigree in the design, integration, and testing of high performance embedded antenna technology, we have become a leading provider to the residential wireless local area networking, also known as WLAN, market, supplying to leading carriers, Original Equipment Manufacturers, or OEMs, Original Design Manufacturers, or ODMs, and system designers who depend on us to achieve their wireless performance goals. We also develop embedded and external antenna technology for emerging technologies, such as Long-Term Evolution, or LTE, 5G, and low power wide area networking, or LPWAN.

Our design teams partner with customers from the early stages of antenna prototyping to device throughput testing to facilitate optimal performance and quick time to market. Our capabilities include design, custom engineering support, integration, and over-the-air, or OTA, testing capabilities. These capabilities have resulted in a strong reputation across the OEM, ODM and system designer 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 partners and service providers rely on these reference designs and our engineering skills to deliver superior throughput performance. We view our relationships with OEM, ODM, chipset partners and service providers as an important attribute to our long-term strategy and success.

We have over a thousand antenna products in our portfolio and in 2017, we shipped approximately 158 million antenna products worldwide, enabling approximately 45 million devices. During that period, we supplied our products to carriers, retailers, OEMs, ODMs and end users in three primary geographic regions: United States, Canada, Europe, and Asia Pacific. Our customer base includes ARRIS Group, Inc., AT&T (DIRECTV U.S., LLC), Belkin International, Inc., Charter Communications, Inc., Comcast Corporation, Dish Network, Liberty Global plc., Telefonica SA, Sagemcom SAS, Samsung, Technicolor SA and ZTE Corporation, among others. We have achieved significant growth in our business in a short period of time. From 2012 to 2017, our annual sales have grown from \$18.2 million to \$49.5 million, while our net income has increased from a net loss of \$1.1 million in 2012 to net income of \$1.1 million in 2017.

Our antenna solutions enable carriers and device OEMs and ODMs to meet their wireless connectivity performance requirements and to rapidly expand their footprint of products supporting Wi-Fi, as well as the evolving network of connected home and IoT wireless connectivity applications. We develop antennas for a broad range of applications and technologies, including 802.11ac/ax, LTE, DECT, LPD, Bluetooth, ZigBee and Z-Wave. In addition, we have expertise in the testing and benchmarking of wireless systems and devices. To satisfy the rapidly evolving technology needs of the industry, we have remained on the leading edge of next generation development by providing solutions for Multiple Input, Multiple Output, or MIMO, Multi User MIMO, or MU-MIMO, short range wireless technologies, beam forming, and active antenna technology.

We primarily use third parties to manufacture our products while maintaining oversight for critical test and calibration functions. As of December 31, 2017, we had 131 issued patents in the United States and 23 companion patents outside the United States, and 81 patent applications on file.

### Industry Background and Market Opportunity

Wi-Fi enables devices to operate on a local area network, or LAN, or wide area network, or WAN, to connect to and access the internet without the use of cabling or wiring. Wireless technology has grown rapidly since the 1980s when the first mass market cellular networks were primarily focused around analog cellular phone voice

services. Since then, the shift towards digital and the rapid growth of internet applications has not only resulted in an explosive growth in the number of subscribers, but also has given consumers unlimited uses for wireless devices. The growing number of these devices is fueling the need for increased bandwidth. Many new products are coming out with multiple wireless capabilities whereby Wi-Fi and other similar wireless protocols have become ‘must have’ features to extend a device’s basic utility. As an example, smart devices such as the Apple iPhone and Samsung Galaxy come equipped with Wi-Fi, Bluetooth and Near Field Communication, or NFC, functions, in addition to traditional cellular functions. Each of these represents a separate radio technology and each radio requires different antenna solutions to provide an optimal user experience. Carriers and enterprises have also realized the economic benefits of wireless connectivity to enable efficient delivery of premium content and internet services in the home, enterprise and mobile. Over the past decade, wireless technologies such as cellular and Wi-Fi have emerged as mainstream networking platforms to connect people and data via devices. According to the Cisco Visual Networking Index, there were approximately 7.9 billion mobile connected devices in 2015, or 1.1 mobile devices for every person on Earth. By 2021, there are expected to be approximately 11.6 billion mobile-connected devices, representing nearly 1.5 mobile devices per person on Earth. In addition, the need for alternative wireless connectivity systems, such as ZigBee Pro, ZigBee, RF4CE, Z-Wave, LoRa and Bluetooth has resulted in the need for greater numbers of antennas per device.

The wireless market is continuing to grow rapidly as the technology is adopted across a wide variety of markets, including the following key markets we target:

- *Connected Home.* The connected home market includes devices ranging from gateways and set-top boxes that facilitate wireless video streaming, wireless speakers and smart television entertainment systems, to home automation, smart appliances, and wireless home security systems providing real time surveillance in the home. The connected home market has seen an explosion of automation services and broadband-connected devices, making the demand for increased bandwidth, high throughput and reliable connectivity more critical than ever before. In the United States alone, an estimated 94 million homes have broadband connectivity that can be upgraded to new 802.11ac gateways. According to ABI Research, the market for consumer access points and gateways worldwide is expected to increase from 179.7 million device shipments in 2016 to 214 million in 2022. In the same period, the number of set-top boxes shipped is expected to grow from 35.6 million to 62.6 million and the number of smart TV’s shipped are expected to grow from 121 million to 207.9 million. Home automation devices and smart appliances are anticipated to experience some of the highest growth rates, with compound annual growth rates, or CAGR, of 25% and 61%, respectively, during the same period.
- *Enterprise and Infrastructure.* The enterprise and infrastructure market is characterized by devices that include access points and remote radio units that provide reliable high-capacity wireless access for high-density environments such as buildings, campuses, terminals and stadiums. Wireless networking has become mission-critical for businesses, schools, and governments and they require scalable, high performance wireless access systems that support diverse network environments and emerging mobile applications. According to ABI Research, the number of global Wi-Fi hotspots, including enterprise and carrier-grade access points such as those found in coffee shops, airports or corporate offices is forecasted to grow at a CAGR of 10% from 2016 to 2022. Wi-Fi hotspots are increasingly being deployed by mobile and fixed-line carriers, as well as third-party operators, as a means of offloading 3G/4G data users to Wi-Fi networks.
- *Automotive.* The automotive industry is undergoing a significant transformation led by the path to autonomous driving and connected vehicles which includes a broad range of applications connecting vehicles with entertainment and communication features for both drivers and passengers, as well as safety and vehicle and mobility management features, and we believe the market is poised for continued growth. According to a report by Markets and Markets, the connected car market is expected to reach \$47 billion by 2020, at a CAGR of approximately 10% from 2014 to 2020. According to Machina Research, the number of connected cars is expected to reach 100 million by 2020, and is projected to grow at a CAGR of 21% from 2017 through 2022.

- *Internet-of-Things.* The IoT and machine-to-machine, or M2M, market is complex and diverse with seemingly endless connectivity solutions ranging from smart homes to smart cities, and devices targeting applications in industrial IoT, agriculture, health and medicine, energy and more. Existing and new wireless technologies will provide the backbone for these solutions, from LTE and Wi-Fi, to new technologies and standards, such as NB-IoT and LPWAN. LPWAN, for instance provides a new alternative to traditional cellular/M2M communications, coming in both licensed frequency spectrum (cellular), and unlicensed frequency spectrum technology variants. Both variants will provide low-cost IoT devices with long battery life that can expand IoT utility and enable IoT deployments on a much wider scale.

Driven primarily by the rapid expansion and proliferation of Wi-Fi connected devices, data intensive applications, streaming video and multiple connectivity standards, we believe we are well positioned to take advantage of the substantial growth in these addressable markets.

#### **Antenna Design and Testing**

We are an antenna solution provider that not only has the expertise in antenna design, engineering and integration, but also the testing and optimization of OTA throughput. Our expertise is based on years of experience in dealing with multiple antenna designs performing under varying RF conditions. We believe our expertise is important to our success as the wireless RF environment in homes, enterprises, and public places is a highly complex multipath environment that is not accurately represented by antenna simulation tool modeling. While common antenna industry practice is to design antennas exclusively within a passive environment using simulation tools based on the assumption of free space, we design all our antenna systems using a combination of device and environment modeling combined with active antenna OTA throughput performance feedback.

This performance feedback loop forms the foundation of our integration process that optimizes overall device performance, as well as antenna characteristics. Our regional OTA testing facilities are configured to replicate the real-world performance in typical homes and offices, while providing isolation from external RF and wireless interference. This low noise environment is key when comparing and identifying the effect of various antenna and system designs on wireless throughput performance. We have multiple dedicated test sites located in the vicinity of our development locations in San Diego, California, Cambridgeshire, United Kingdom, and Suzhou and Shenzhen, China.

Our engineers work directly with customers to evaluate performance factors, and to provide custom support in the areas of antenna system design and simulation, rapid prototyping, integration and testing. Our design and integration process includes:

- *Engineering Review.* When a new product is initiated, our engineers review antenna-specific characteristics, such as gain (throughput), efficiency, and coupling, alongside board-level factors, such as on-board noise and radio interference, as well as identification and housing constraints. We plan to expand awareness of the Airgain brand and Airgain offerings throughout the OEM and carrier community through participation in industry technical working groups, forums and trade events.
- *Antenna Selection and Placement.* Our engineers select several antennas that are best suited for the particular application based on a large stable of existing antenna designs from previous efforts, modifications to these prior designs as well as new, full custom designs for particular devices, coupled with the industrial design of the product, the engineer also selects candidate placements that are used in the initial simulation and placement phase. Our extensive experience in this step narrows the possible solutions to only the most promising candidates for detailed simulation and measurement.
- *Simulation and Initial Testing.* When we engage in the early stages of a program before prototype tooling is available, 3D CAD models and physical mockups of the device are used to simulate and measure these interactions. When the project progresses to the prototype stage, actual prototype devices are tested to generate even more accurate measurements. While many of our competitors select a final antenna based on RF chambers testing, we proceed with a critical further step and measure actual system level performance of the device in an iterative process to optimize performance.

- *Over-the-Air Throughput Testing.* We have developed a set of proprietary performance metrics, measurement methodologies, and automated test conditions to enable accurate and repeatable characterization of the relative OTA performance of 802.11-based WLAN devices such as routers, gateways, and set-top boxes. Our benchmark testing provides an accurate assessment of the performance characteristics for devices to enable manufacturers to make informed decisions in selecting the best antenna solution for their needs. This iteration also considers firmware stability, system noise, and interference, as well as antenna performance, to provide an “Airgain Optimized” solution.
- *Final Integration.* A final design review is conducted to evaluate the design for manufacturability. Mounting methods are reviewed for ruggedness and ease of assembly in volume production. Fine tuning of the cable routing, antenna parameters and other features of the design are then reviewed before releasing the design.
- *Validation and Reporting.* Upon completion of the design, a summary report is provided detailing the antenna selection, overall performance results and key observations, integration recommendations and detailed test results for each wireless system characterized. As the design moves to production, our product integration engineers serve as the technical interface between the antenna design team and the customer’s production team to validate and ensure product quality and reliability during high volume manufacturing.

### **Technology Benefits**

We continuously strive to remain at the forefront of wireless technologies by manufacturing the highest quality and most innovative products, as well as developing new integration processes to produce optimal antenna performance.

### ***Benefits to our Customers***

We have developed strong relationships with leading WLAN chipset vendors, OEMs, and key service providers, keeping us at the forefront of new developments in wireless technologies and industry requirements. We share our expertise with customers in several areas including design, engineering, and testing, and provide insights based on years of experience across hundreds of device. By harnessing our specialized experience and expertise, we offer solutions that can improve our customers’ product performance, reduce their staff costs and allow our customers to focus on non-antenna related factors in the face of short design, engineering and production windows. Rather than rely upon a captive engineering group that only works on in-house opportunities, we act as an outsourced antenna design, engineering, and test group for our customers.

We also bring years of experience in delivering high performance, ultra-reliable wireless connectivity for mobile, fleet, and industrial IoT and M2M applications. Designed for all environments, our broad range of multi-band products support a variety of applications from kiosk and ATM connectivity to government and public safety fleet applications.

### ***Benefits to Wireless Users***

By focusing on performance, we strive to improve product satisfaction with customers. Often, competing makers of wireless devices use chips that are made by the same semiconductor manufacturer. Antenna reliability depends on numerous factors including material, mount position, physical connection and resistance to oxidation. However, the selection and placement of an antenna, or antennas, can change the performance characteristics measurably. Each sale of an antenna solution is customized according to the needs and requirements of the customer. Tradeoffs exist on placement, power, price, and other variables. By focusing on performance, we look to engineer and deliver the optimal solution given the customer’s product constraints. This commitment to performance has established us as one of the recognized leaders in the design, testing, and performance of wireless systems, and led to what we believe is one of the broadest blue chip customer lists in the industry.

## Products

Our antennas are found in a broad range of applications and end-user devices that are deployed in carrier, fleet, enterprise, residential, private, government, and public safety wireless networks and systems, including set-top boxes, access points, routers, modems, gateways, media adapters, portables, digital televisions, sensors, and fleet and asset tracking devices. Our products have been adopted by some of the world's leading telecom manufacturers and networking companies and are now being used by millions of carrier subscribers in the United States, Canada, Europe, and Asia Pacific. We offer several product categories designed to maximize the performance of wireless devices while providing cost and design flexibility:

- *MaxBeam™ Embedded Antennas.* MaxBeam high gain antennas utilize patented technology to deliver up to double the signal strength than conventional antenna solutions. The superior performance is derived by combining the benefits of directional antenna elements with high isolation between each beam. Each antenna utilizes mixed material, multi-element assemblies to provide optimal performance and turnkey integration. The MaxBeam antenna family offers maximum coverage designed for WLAN and Cellular/LTE frequency bands.
- *Profile Embedded Antennas.* Profile Embedded Antennas feature highly efficient printed circuit board, or PCB, based solutions offering low profile designs optimized for confined industrial designs. Ideal for embedded applications requiring integration flexibility, the Profile family includes case, through-hole, and SMT mount designs and is available in single, dual, and tri-band applications.
- *Profile Contour Embedded Antennas.* Profile Contour Embedded line utilizes Flexible Printed Circuit Board, or FPC, providing performance with device integration flexibility. Flexible and very low profile, these antennas can conform to many two-dimensional shapes making them ideal for integration within curved enclosures and wearable devices. Profile Contour antennas are supplied pre-fitted with adhesive tape for ease of integration.
- *Ultra Embedded Antennas.* The Ultra line of embedded antennas has been designed for lower cost, embedded applications. These stamped metal designs allow for rapid customization and tuning to each device, making them ideal for embedded applications requiring integration flexibility. Ideal for high volume applications, these antennas utilize superior materials and plating for optimal performance.
- *OmniMax High Performance External Antennas.* Our external dipole antennas are designed for indoor and outdoor WLAN, cellular and LPWAN applications. With an extensive variety of single and dual-band designs available, this family of dipoles offers superior performance and flexible mounting options for various deployment scenarios. Our dipole antennas are available in 2.4 and 5GHz bands supporting Wi-Fi frequencies, as well as wideband 700MHz to 2.7GHz for global cellular and 4G applications, and ISM band, or industrial, scientific, and medical radio, which includes 868 to 928MHz for international unlicensed LPWAN applications.
- *MaxBeam Carrier Class Antennas.* These are a series of multi-band LTE and WLAN antennas for small cell systems including femtocells, picocells, and Wi-Fi hotspots, backhaul and community systems. These embedded antennas are designed to provide increased range and coverage for indoor or outdoor applications that demand carrier-grade service levels.
- *SmartMax™ Embedded Antennas.* These chipset agnostic smart antennas utilize dynamic spatial and polarity selection, providing optimal throughput performance and coverage for 802.11ac Wi-Fi systems. Designed for set-top-box, gateway, and smart HDTV deployments, SmartMax improves spatial correlation among received signals, producing a significant improvement in the performance of MIMO systems. SmartMax antennas require no dedicated connectivity to Wi-Fi chipset base-band circuits, minimizing the cost and complexity typically associated with Smart Antenna System integration.
- *Automotive, Fleet, Public Safety and M2M Antennas.* We have a portfolio of advanced wireless connectivity products for automotive, fleet, and industrial IoT and M2M applications. Our high performance, low profile antennas are designed for many frequencies, including LTE with MIMO, Wi-Fi, Bluetooth, and GPS/GNSS. Designed for all environments, our broad range of highly integrated and multi-band products support a variety of applications from kiosk and ATM connectivity to government and public safety applications.

## ***Design Partnerships***

We have entered into joint development efforts with WLAN chipset vendors to collaborate on next-generation WLAN reference designs, where we jointly pursue the development of reference design platforms optimized for use with integrated embedded antenna systems. These WLAN reference designs are intended to provide ODMs with high-performance, embedded antenna solutions that provide consistent, measurable results and provide a path to reduced product development costs and cycle times.

Our collaborative relationships with 802.11 chipset vendors offer opportunities for market access and improved sales of both chipsets and antennas. Early access to chipset vendors' offerings, including industrial design tradeoffs in enclosure, board layout and design, all offer chipset vendors the advantage of optimized performance in their reference designs. When our antennas are consequently listed in the reference bill of materials for the major chipset vendors' products, these antennas become the default performance recommendation for all products utilizing that chipset. Ongoing contact with the OEM's and ODM's, along with default use of the reference bill of materials components specified by chipset vendors, generates a dependable flow of sales opportunities for us.

## **Growth Strategy**

The connected home market has seen an explosion of automation services and broadband-connected devices, making the demand for increased bandwidth and reliable connectivity more critical than ever before. We continue to expand our product solutions and technology offerings and enter into new markets within the connected home market. In the carrier gateway and set-top box market, the transition to the 802.11ac standard continues to be a key driver to penetrating the connected home market with our new antenna solutions. The shift toward Gigabit Wi-Fi 802.11ac and the latest Wi-Fi standard 802.11ax is creating increased demand for our solutions as the number of antennas per device increases substantially. We continue to penetrate an increasing scope of adjacent in-home wireless device applications such as home security, smart appliances, waterproof and solar outdoor wireless systems. We are also expanding our footprint in these markets through support of an increasing range of IoT wireless standards, such as Bluetooth, ZigBee, Z-Wave, Thread, NB-IoT and LoRa WAN. Our engineering team provides custom antenna solutions to support a variety of device constraints, including flexible antenna technology for curved and smaller form factors. We provide IP alarms and security camera solutions for one of the world's leading providers of video surveillance products.

While we continue to drive solutions into an increasingly broad scope of connected home products, we have also expanded our target market footprint into segments outside the connected home, including enterprise, automotive, industrial IoT and M2M, fleet and public safety networks.

There is no one-size fits all connectivity solution for all wireless IoT applications, and many applications will utilize a mix of licensed and unlicensed technologies. Given the wide range of requirements IoT will need to address, diversity of solutions and technologies is a key requirement when considering an antenna solution provider. Leveraging our existing footprint in embedded antenna solutions for the short-range IoT space, both in unlicensed (ISM) and licensed (cellular) frequency spectrum, we are focused on enabling the expansion of IoT into long-range LPWAN enabled applications through innovation in antenna system design. We have developed antenna solutions with optimal range and service coverage for a broad range of LPWAN use case scenarios, including embedded, external (indoor) and outdoor antenna. We offer both off-the-shelf and custom integrated LPWAN antenna solutions today in support of major U.S. carrier trials and commercial network deployments in the United States and internationally. We are now a member of the LoRa Alliance, which, along with its LoRa ecosystem, is one of the fastest growing alliances in the IoT sector, and expect these alliances to further drive growth in the future of our antenna solutions.

Automakers are seeking to integrate a wide range of radio access technologies to support connected vehicles, from 2G and 3G for light, telematics-based connectivity, to LTE and Wi-Fi for heavy infotainment use, and DSRC for safety applications such as collision avoidance. Other standards such as 802.11p will play a role in vehicle-to-vehicle, or V2V, and vehicle-to-everything, or V2X, communications, while GPS will remain a basic requirement for vehicle location tracking and navigation. The connected vehicle segment has six distinct product categories, including mobility management, vehicle management, entertainment, safety, drive assistance, and well-being. Many of these categories can be particularly useful to owners of vehicle fleets, such as company and service vehicles, as well as companies in the car-rental and car-sharing industries. Although many of the technologies needed to support

these functions are already established, the number of fleet sales in this segment is expected to grow. Connected cars require internal and external antennas for a complete wireless solution. We have a leading portfolio of automotive antenna connectivity solutions, from embedded solutions for OBD II, IHU and connected car gateways, to custom shark fin antennas for automotive OEM's, and high-quality antenna products for mobile and automotive fleet applications for government, public safety, and enterprise applications.

We have developed a series of multi-band LTE and WLAN antennas for small cell systems including femto cells, pico cells, Wi-Fi hotspots, and community Wi-Fi systems, providing increased range and coverage. Designed for indoor and outdoor implementations, our small cell antenna designs provide high gain, high performance solutions for multi-frequency and multi-mode network deployments. This includes several designs based on our patented smart antenna technology that delivers increased coverage and operation stability. Our customized small cell antenna systems combine a small footprint, with increased throughput performance, minimizing the impact to the urban landscape.

We offer a comprehensive set of services for single- and multi-client Wi-Fi performance testing, characterization, and validation for wireless devices utilizing advanced MIMO configurations and technologies including WLAN, Bluetooth, ZigBee, Z-Wave, LoRa and more. Our service offering includes early stage system design, custom engineering support, and superior OTA testing services for service providers and OEMs. Our proprietary OTA testing process has established itself as an industry leader in wireless throughput enabling our service offering to create stickiness with customers as they depend on our testing services. We believe there is significant potential for growth of our service offering revenue, including through renewable service provider service contracts, and to further leverage this offering to customers and applications in adjacent markets.

Our mission is to be a leading supplier of smart and embedded antennas to the expanding wireless device and systems marketplace. The key elements of our strategy are listed below.

- *Expand our customer base within our core markets.* We sold our products in 2017 to approximately 78 end-customers. Although the customers that pay for our products are often ODMs and distributors, it is primarily the OEMs, carriers and retail-focused end-customers that drive the selection of our solutions.
- *Increase our sales to existing customers.* Within our customer base, we offer solutions that are valued for performance and reliability. In many cases we are providing antenna solutions for an isolated subset of our customer's wireless product portfolios. We plan to initiate targeted marketing campaigns to expand our solutions footprint—effectively to mine our existing customer base more effectively to expand our revenue on a per customer basis.
- *Expand geographically.* We service markets domestically and internationally. In the United States we have a strong position with the carriers that supply in home residential wireless equipment; however, there is significant scope for expansion in international regions. The substantial majority of our sales are to ODMs and distributors based in China. However, for the year ended December 31, 2017, approximately 55% of the end-customers of our products, based on sales, were in North America and approximately 45% were outside of North America.
- *Innovate into new products and markets.* Trends such as the IoT are driving an explosion of demand for wireless connectivity in new applications in and out of the home, including connected vehicles. Our technology and solutions are well suited to the majority of these high growth potential new markets. We also see new opportunities in M2M communications, LTE, Near Field Communications, Identification and Tracking via Radio Frequency Identification, or RFID, Personal Area Networks such as ZigBee, Z-Wave, LoRa or Bluetooth, and other wireless communications methods and applications.
- *Focus on system performance and products with long lifecycles.* We have sticky customer relationships with over 45% of our revenues in 2017 driven by customer programs exceeding two years on the market. Our antenna solutions are typically integrated into customers' products at the design stage. Once an equipment manufacturer designs our antennas into its product offering, it becomes difficult to design us out of a device because changing antenna suppliers involves significant cost, time, effort, and usually re-certification of products. This is especially valuable in the service provider market, where product generations generally ship for two to three years before displacement by next-generation devices.

- *Acquire complementary technologies, assets and companies.* The market for antenna solutions is diverse and fragmented. Opportunities arise for acquisition of technologies, assets and companies that would complement our business. We continue to consider acquisitions that will enable us to improve our strategic position and to take advantage of economies of scale through consolidation.

## Customers

Our customers are global. The substantial majority of our sales are to ODMs and distributors based in China. However, for the year ended December 31, 2017, approximately 55% of the end-customers of our products, based on sales, were in North America and 45% were outside of North America. In addition, our top two customers, Synnex Technology International (HK) Ltd. and Syntech Asia Ltd., accounted for approximately 21% and 13% of our sales, respectively, for the year ended December 31, 2017. We generally work with Engineering, Product Management, Product Line Management, Product Marketing, Design, and similar groups to provide antenna solutions. While the sale of the product may be to an OEM or ODM, we also consider our customers to include chipset vendors and service providers. We market our design capabilities directly to chipset vendors and service providers to generate demand.

- *OEM (Original Equipment Manufacturer).* We sell our products to OEM customers worldwide. These customers make many products including Wi-Fi access points and repeaters, set-top boxes, video gateways, and other wireless equipment found in homes, schools, businesses, and networks. Typically, these customers work with us to help overcome a specific performance issue, or to improve product performance against internal or external benchmarks. OEMs are also often mandated by service providers to select us.
- *ODM (Original Design Manufacturer).* We sell our products to ODM customers worldwide with the vast majority being headquartered in Asia. These customers make many of the same products as the OEM customers, but they make these for sale to an OEM or service provider customer. Generally, ODM customers do not own all of the rights to the design and engineering assets of the products they produce and deliver. Historically, ODMs have been thought to focus primarily on cost; however, our ODM customers also emphasize performance and design flexibility when working on antenna selection and placement.
- *Chipset Vendors.* We sell small quantities of our products directly to chipset vendors for their reference designs. Through our close working relationships with the leading chipset makers for the WLAN we have developed a significant level of expertise in the testing and evaluation of chipset reference designs and systems. Chipset vendors and Semiconductor manufacturers work with us to promote better integration and improved performance, and to create optimal reference designs. These customers help influence purchasing decisions with OEM and ODMs as their reference designs and associated Bills of Materials (BoM's) and suppliers are usually closely replicated in production designs. This can also improve time-to-market for OEM and ODM customers.
- *Service Providers.* We do not sell antennas directly to telecommunications and broadband service providers, but these companies often specify overall product performance, and sometimes use our wireless test and validation services. By working with the service providers, we are often written into the carrier's specifications, which are sent to the OEM or ODM. Our antenna products are then shipped directly from our contract manufacturers to the device manufacturer. In doing so, we can have an impact on an OEM's or ODM's ability to hit certain performance levels. We have worked with service providers, and in some cases, we have sold testing equipment that mirrors the testing equipment and environment we use internally.

## Sales and Marketing

Our sales and marketing organizations work together closely to improve market awareness, build a strong sales pipeline, and cultivate ongoing customer relationships to drive sales growth.



## **Sales**

We sell our products to OEMs, ODMs, carriers and through manufactures for retail. Our global sales effort consists of direct and indirect sales teams, and indirect channel partners. Our direct sales team consists of inside sales personnel based in China and Taiwan and our outside field sales teams based in United States, Europe, Korea, China, and Taiwan. Our outside field sales teams consist of business, sales, account, technical marketing and program managers, and field application engineers, or FAEs. Our indirect channel partners consist of distributors, engineering design companies and outside sales representatives.

Our outside sales team is engaged in pre-sales, account management, and creating partnership opportunities with third parties such as service providers and semiconductor manufacturers. They are assigned quotas and have defined sales territories and/or accounts. The sales process includes meeting and qualifying potential programs and customers, and actively managing the planning stage of devices they plan to bring to market. Our FAEs assist these managers by providing technical support to existing customers.

Our indirect channel partners provide lead generation, pre-sales support, product fulfillment and, in certain circumstances, post-sales customer service and support. This channel partner network often co-sells with our inside sales and field sales teams. Our channel provides us with additional sales leverage by sourcing new prospects, providing technical support to existing customers, upselling for additional use cases and daily indexing capacities, and maintaining repeat business with existing customers. These channels provide added coverage to customers and prospects we cannot reach directly. The percentage of our sales from indirect channel partners was 24%, 23% and 19% for the years ended December 31, 2017, 2016 and 2015, respectively.

## **Marketing**

Our marketing strategy is focused on building market awareness and acceptance of our products, and promoting our brand. We market our products directly to both prospective and existing customers. The marketing department is engaged in product management, product marketing, program management, corporate marketing, tradeshow and public speaking, development of our website and collateral material, and creating partnership opportunities with third parties, such as service providers and semiconductor manufacturers. Marketing emphasizes our competitive strengths, and provides input into the future direction of product development and customer profiles.

Our primary marketing initiatives include trade shows, industry events, industry reputation, and publications, including white papers and trade journals. We strategically choose the location and focus of each trade show based on each show's prospectus, reputation, and audience attendees, allocating marketing funds to support shows annually in North America, Asia, and Europe. These shows provide us with the opportunity to showcase our newest products and system designs, as well as set up meetings with current and potential OEM and ODM customers, carriers, and chipset partners.

## **Competition**

The embedded and external antenna market is highly competitive and is characterized by rapid technological change and evolving standards. Our principal competitors fall into three categories:

- *Direct competitors.* Direct competitors include independent antenna companies, 2J Antennas USA Corp., Adant Technologies Inc., Asian Creation Communications Factory, AVX Corporation, Fractus S.A., Baylin Technologies Inc., Honglin Technology Group Ltd., Laird PLC, Mobile Mark, Inc., PCTEL, Inc., Pinyon Technologies Inc., Sunwave Communications Co., Ltd., Taoglas Limited, Wanshih Electronic Co. Ltd., and WHA YU Industrial Co., Ltd., among others. In addition, the barriers to entry for the antenna industry are low, and we expect new competitors to emerge in the future.
- *In-house Antenna Design and Engineering Teams.* Several of our existing customers, including ODMs which design and build complete wireless devices, also have internal resources to design, engineer, and produce antenna solutions. In such cases, we compete against the captive resource of that ODM. Several ODMs, including Gemtek Technology Co. Ltd., Wistron Corporation, Foxconn Electronics Inc., and Arcadyan Technology Corporation, design, manufacture, and sell antennas, in direct competition with us.

- *Third-Party Custom Design and Engineering Companies.* Some of our existing customers and prospects use outsourced engineering services to provide antenna solutions. In these cases, there may be short-term or long-term contractors who work to design, engineer, test, and manage production of an antenna solution.

The principal competitive factors in our markets include:

- Price and total cost of ownership as a result of reliability and performance issues;
- Brand awareness and reputation;
- Antenna performance, such as reliability, range, throughput;
- Ability to integrate with other technology infrastructures;
- Offerings across breadth of in-home wireless products;
- Antenna design and testing capabilities;
- Relationships with semiconductor/chipset vendors; and
- Intellectual property portfolio.

We compete primarily based on antenna performance, our intellectual product portfolio, design and testing capabilities, and reputation. We believe we generally compete favorably on the basis of these factors. However, some of our existing and potential competitors may have advantages over us. Many of our competitors are significantly larger in scale than we are and have access to greater financial, technical, marketing, and other resources. In most instances, competition among these vendors creates some level of pricing pressure and forces us to lower prices below our established list prices. Many direct competitors compete based upon price, and some high-volume Asia-based competitors are prepared to operate at less than 20% gross product margins.

### **Manufacturing and Operations**

We have limited manufacturing capability, solely with respect to antennas deployed in the fleet and M2M market. We do final assembly of these antenna products at our facility located in Scottsdale, Arizona, where we purchase raw materials, assemble, test, and ship products. We outsource the manufacturing for all of our other products to two contract manufacturers, or CMs, located in China. We work with these CMs to purchase raw materials, assemble, test, and ship our antenna products. We perform quality assurance and testing at our California facilities.

We maintain a close direct relationship with these manufacturers to help ensure supply and quality meet our requirements. Although the contract manufacturing services required to manufacture and assemble our products can be satisfied by one of our CMs or may be readily available from several established manufacturers, it may be time consuming and costly to qualify and implement new contract manufacturer relationships. If our CMs suffer an interruption in their businesses, or experiences delays, disruptions, or quality control problems in their manufacturing operations, or we otherwise have to change or add additional contract manufacturers or suppliers, our ability to ship products to our customers could be delayed, and our business adversely affected. The CMs manufacture antenna products according to our design specification, materials specification, quality standards, and delivery requirements. We have full control and authority over the selection of materials, manufacturing processes, and inspection processes.

### **Research and Development**

We invest considerable time and financial resources in research and development to enhance our antenna design and system integration capabilities, and conduct quality assurance testing to improve our technology. Our engineering team consists of engineers located in research, design, and test centers in California, the United Kingdom, China, and Taiwan. Our engineering team actively participates in research and development activities to expand our capabilities and target applications for the connected home market, adjacent in-home applications,

connected vehicle, enterprise, and outdoor WLAN markets. We expect to continue to expand our product offerings and technology solutions in the future and to invest significantly in ongoing research and development efforts.

In the connected home, we are developing a series of antenna products for the home security market, including designs ranging from Z-Wave applications for door sensors to customized connectivity solutions for smart metering using LTE and LPWAN standards, and near field antenna modules enabling gigabit speed last meter connectivity for broadband operators. We continue to architect and improve our antenna systems for our enterprise class smart antenna customers, as well as new high performance designs for the outdoor Wi-Fi and small cell markets. We continually review alternative antenna designs for increasingly complex carrier gateway products, which are expanding beyond just delivering Wi-Fi to also include ZigBee, Z-Wave, DECT, LPWAN, NB-IoT and Bluetooth applications. Finally, we are engaged in the design and evaluation of antenna systems for next generation 802.11ax technology, including reference designs with industry leading chipset vendors.

### **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. For example, a national holiday the first week of October in China may cause customers to purchase product in the third quarter ahead of their holiday season to account for higher volume requirements in the fourth quarter. In addition, 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 Chinese New Year. 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.

### **Intellectual Property**

We rely on patent, trademark, copyright and trade secret laws, confidentiality procedures, and contractual provisions to protect our technology. As of December 31, 2017, we had 131 issued U.S. patents covering our embedded and external antenna technology with expiration dates ranging from 2020 to 2032, and 77 patent applications pending for examination in the United States. We also have 23 issued patents and 4 pending patent applications for examination in non-U.S. jurisdictions (Europe, China and Japan) with expiration dates ranging from 2020 to 2037, which entail counterparts of U.S. utility patent applications. The patents consist of several broad areas, as summarized by the following four patent groups:

- Methods of determining which antenna pattern to use;
- Antenna pattern selection with multiple stations connected to access point;
- Dynamically selected antennas for MIMO systems; and
- Hardware implementations of switched directional antennas.

Taken together, these patents with priority dates as far back as November 2000, form both a barrier to competition and a licensable asset for customers in the MIMO arena.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. We generally enter into confidentiality agreements with our employees, consultants, vendors and customers, and generally limit access to and distribution of our proprietary information. However, we cannot assure you that the steps taken by us will prevent misappropriation of our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the United States, and many foreign countries do not enforce these laws as diligently as government agencies and private parties in the United States.

Our industry is characterized by the existence of many patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, leading companies in the technology industry have extensive patent portfolios. Third parties, including certain of these leading companies, may in the future assert patent, copyright, trademark and other intellectual property rights against us, our channel partners or our customers.

## **Employees**

As of December 31, 2017, we had approximately 79 employees in the United States and 5 in the United Kingdom, 30 of whom were primarily engaged in research and development, 15 of whom were primarily engaged in sales and marketing and 39 of whom were primarily engaged in operations and general and administration functions. In addition, we also have 8 employees based out of China whom primarily were engaged in sales and marketing. In addition, we contract directly with engineers and sales contractors domestically and internationally. None of our employees are covered by a collective bargaining agreement or represented by a labor union. We consider our relationship with our employees to be good.

## **Available Information**

We file electronically with the Securities and Exchange Commission, or SEC, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. We make available on our website at [www.airgain.com](http://www.airgain.com), free of charge, copies of these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is [www.sec.gov](http://www.sec.gov). The information in or accessible through the SEC and our website are not incorporated into, and are not considered part of, this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

## ITEM 1A. RISK FACTORS

*You should carefully consider the following risk factors, together with the other information contained in this annual report on Form 10-K, including our financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” before making a decision to purchase or sell shares of our common stock. We cannot assure you that any of the events discussed in the risk factors below will not occur. These risks could have a material and adverse impact on our business, results of operations, financial condition and growth prospects. If that were to happen, the trading price of our common stock could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations or financial condition.*

### **Risks Related to Our Business and Industry**

***The markets for our antenna products is developing and may not develop as we expect.***

The wireless industry is developing and the markets for our antenna products may not develop as we expect. It is difficult to predict customer adoption rates, customer demand for our antennas, the size and growth rate of our target markets, the entry of competitive products, or the success of existing competitive products. Any expansion in our markets depends on several factors, including the cost, performance, and perceived value associated with our antennas. If our antenna products do not achieve widespread adoption or there is a reduction in demand for antennas in our markets caused by a lack of customer acceptance, technological challenges, competing technologies and products, decreases in corporate spending, weakening economic conditions, or otherwise, it could result in reduced customer orders, early order cancellations, or decreased sales, any of which would adversely affect our business, operating results and financial condition.

***Our operating results may fluctuate significantly, which makes our future operating results difficult to predict and could cause our operating results to fall below expectations or our guidance.***

Our quarterly and annual operating results have fluctuated in the past and may fluctuate significantly in the future, which makes it difficult for us to predict our future operating results. The timing and size of sales of our products are variable and difficult to predict and can result in fluctuations in our net sales from period to period. In addition, our budgeted expense levels depend in part on our expectations of future sales. Because any substantial adjustment to expenses to account for lower levels of sales is difficult and takes time, we may not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in net sales, and even a small shortfall in net sales could disproportionately and adversely affect our operating margin and operating results for a given quarter.

Our operating results may also fluctuate due to a variety of other factors, many of which are outside of our control, including the changing and volatile U.S., European, Asian and global economic environments, and any of which may cause our stock price to fluctuate. Besides the other risks in this “Risk Factors” section, factors that may affect our operating results include:

- fluctuations in demand for our products and services;
- the inherent complexity, length and associated unpredictability of product development windows and product lifecycles;
- the timing and extent of investment in our targeted growth markets and the timing and amount of sales in such markets;
- changes in customers’ budgets for technology purchases and delays in their purchasing cycles;
- seasonal fluctuations around local holidays in China affecting how customers make purchasing decisions;
- changing market conditions;
- any significant changes in the competitive dynamics of our markets, including new entrants, or further consolidation; the timing of product releases or upgrades by us or by our competitors; and

- our ability to develop, introduce and ship in a timely manner new products and product enhancements and anticipate future market demands that meet our customers' requirements.

For example, the slower than expected rollouts of our customers 802.11ax and DOCSIS 3.1 upgrade cycles in 2017 shifted the timing of our product sales, and such future deployment delays could also affect our quarterly operating results. The cumulative effects of the factors above could result in large fluctuations and unpredictability in our quarterly and annual operating results. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of future performance.

***Our products are subject to intense competition, including competition from the customers to whom we sell.***

Antenna solutions is an established technical field with low intellectual property and technological barriers to entry. Antenna competition exists globally for all areas of our business and product lines. The markets in which we compete are intensely competitive, and we expect competition to increase in the future from established competitors and new market entrants. The markets are influenced by, among others, brand awareness and reputation, price, strength and scale of sales and marketing efforts, professional services and customer support, product features, reliability and performance, scalability of products, and breadth of product offerings. Due to the proprietary nature of some of our products, competition occurs primarily at the design stage. As a result, a design win by our competitors or by us typically limits further competition regarding that design. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, operating results or financial condition. From a cost and control perspective, our products generally cost more than our competitors' products. If our ability to design antenna solutions is deemed to be on par or of lesser value than competing solutions, we could lose our customers and prospects.

***New entrants and the introduction of other distribution models in our markets may harm our competitive position.***

The markets for development, distribution, and sale of our products are rapidly evolving. New entrants seeking to gain market share by introducing new technology and new products may make it more difficult for us to sell our products, and could create increased pricing pressure, reduced profit margins, increased sales and marketing expenses, or the loss of market share or expected market share, any of which may significantly harm our business, operating results and financial condition.

***Our future success depends on our ability to develop and successfully introduce new and enhanced products for the wireless market that meet the needs of our customers.***

Our sales depend on our ability to anticipate our existing and prospective customers' needs and develop products that address those needs. Our future success will depend on our ability to introduce new products for the wireless market, anticipate improvements and enhancements in wireless technology and wireless standards, and to develop products that are competitive in the rapidly changing wireless industry. Introduction of new products and product enhancements will require coordination of our efforts with those of our customers, suppliers, and manufacturers to rapidly achieve volume production. If we fail to coordinate these efforts, develop product enhancements or introduce new products that meet the needs of our customers as scheduled, our operating results will be materially and adversely affected and our business and prospects will be harmed. We cannot assure that product introductions will meet the anticipated release schedules or that our wireless products will be competitive in the market. Furthermore, given the emerging nature of the wireless market, there can be no assurance our products and technology will not be rendered obsolete by alternative or competing technologies.

***Our business is characterized by short product development windows and short product lifecycles.***

Our solutions are purchased and integrated by customers in the electronics industry. In many cases, the products that include our solutions are subject to short product development windows and short product lifecycles. In the case of the short product development window, we may be pressured to provide solutions that are the lowest in cost to be accepted. Customer pressure could force us to reduce our price to win designs with short development

windows. Regarding short product lifecycles, we might provide up-front design and engineering work, but ultimately lose the design to a competitor, or even if we win the design, such design could be extremely short-lived due to our customers' inability to sell the product in significant volume. Our up-front costs associated with a design can be significant, and if the sales volumes are inadequate due to lack of acceptance and/or short lifecycle, our financial performance will be impaired.

***Any delays in our sales cycles could result in customers canceling purchases of our products.***

Sales cycles for some of our products can be lengthy, often lasting several months to a year or longer. In addition, it can take additional time before a customer commences volume production of equipment that incorporates our products. Sales cycles can be lengthy for several reasons, including:

- our OEM customers and carriers usually complete a lengthy technical evaluation of our products, over which we have no control, before placing a purchase order;
- the commercial introduction of our products by OEM customers and carriers is typically limited during the initial release to evaluate product performance; and
- the development and commercial introduction of products incorporating new technologies frequently are delayed.

A significant portion of our operating expense is relatively fixed and is based in large part on our forecasts of volume and timing of orders. The lengthy sales cycles make forecasting the volume and timing of product orders difficult. In addition, the delays inherent in lengthy sales cycles raise additional risks of customer decisions to cancel or change product phases. If customer cancellations or product changes were to occur, this could result in the loss of anticipated sales without sufficient time for us to reduce our operating expenses. In addition, although we currently do not maintain significant inventories, we may in the future establish significant inventory levels to meet forecasted future demand. If the forecasted demand does not materialize into purchase orders for these products, we may be required to write off our inventory balances or reduce the value of our inventory, based on a reduced sales price. A write off of the inventory, or a reduction in the inventory value due to a sales price reduction, could have an adverse effect on our financial condition and operating results.

***We have a history of losses, and we may not be profitable in the future.***

Before 2013, we had incurred net losses in each year since our inception. As a result, we had an accumulated deficit of \$42.4 million at December 31, 2017. Because the market for our antenna products is rapidly evolving, it is difficult for us to predict our operating results. We expect our operating expenses to increase over the next several years as we hire additional personnel, particularly in engineering, sales, and marketing, and continue to develop new antenna products to address new and evolving markets. In addition, as a public company we will incur additional significant legal, accounting, and other expenses that we did not incur as a private company. If our sales do not increase to offset these increases in our operating expenses, we may not be profitable in future periods. Our historical sales growth has been inconsistent and should not be considered indicative of our future performance. Any failure to sustain or increase our profitability consistently could cause the value of our common stock to materially decline.

***A limited number of customers and devices represent a significant portion of our sales. If we were to lose any of these customers or devices, our sales could decrease significantly.***

Our top two customers, Synnex Technology International (HK) Ltd. and Syntech Asia Ltd., accounted for approximately 21% and 13% of sales for the year ended December 31, 2017, respectively, and 20% and 31% of sales for the year ended December 31, 2016, respectively. Although our top customers that pay for our products are often ODMs and distributors, it is primarily the OEMs, carrier customers and retail-focused end-customers that drive the use of our antenna solutions and the purchase by the ODMs and distributors of our antenna solutions. 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. Any significant loss of, or a significant reduction in purchases by, these other significant customers or customers that drive the use of our antenna solutions or a modification or discontinuation of a device which constitutes a significant portion of sales could have an adverse effect on our financial condition and operating results.

***We sell to customers who are extremely price conscious.***

Our customers compete in segments of the electronics market. The electronics market is characterized by intense competition as companies strive to come to market with innovative designs that attract customers based upon design, performance, cost, ease of use, and convenience. Product lifecycles can be extremely short as companies try to gain advantage over their competitors. Because of the high design and engineering costs, companies that are customers or prospects for antenna solutions are extremely cost conscious. As a result, our customers and prospects demand price cuts in established products, and negotiate aggressively for lower pricing on new products. Because of the intense competition in the antenna solution market, we encounter situations that lead to difficult price negotiations potentially resulting in lower margins than forecast.

***We generally rely on a limited number of contract manufacturers to produce and ship our products, and the failure to manage our relationships with these parties successfully could adversely affect our ability to market and sell our products.***

We have limited manufacturing capability, solely with respect to antennas deployed in the fleet market. For all of our other products, we outsource the manufacturing, assembly and testing of products. We rely on two contract manufacturers, which are both located in China, to manufacture, control quality of, and ship our products. We do not have long-term contracts with these manufacturers that commit them to manufacture products for us. Any significant change in our relationship with these manufacturers could have a material adverse effect on our business, operating results, and financial condition. We make substantially all of our purchases from our contract manufacturers on a purchase order basis. Our contract manufacturers are not required to manufacture our products for any specific period or in any specific quantity. We expect that it would take approximately six to nine months to transition manufacturing, quality assurance, and shipping services to new providers. Relying on contract manufacturers for manufacturing, quality assurance, and shipping also presents significant risks to us, including the inability of our contract manufacturers to:

- qualify appropriate component suppliers;
- manage capacity during periods of high demand;
- meet delivery schedules;
- assure the quality of our products;
- ensure adequate supplies of materials;
- protect our intellectual property; and
- deliver finished products at agreed-upon prices.



We manufacture products for our fleet market primarily in our facilities in Scottsdale, Arizona. We may not be able to manufacture our products with consistent and satisfactory quality or in sufficient quantities to meet demand. We also may experience delays or disruptions at our manufacturing facilities, which could result in delays of product shipments to our customers. Any failure by us or our contract manufacturers to timely product products of satisfactory quality or in sufficient quantities in compliance with applicable laws could hurt our reputation, cause customers to cancel orders or refrain from placing new orders for our products, which could have a material adverse effect on our business, operating results, and financial condition.

***We may experience delays in obtaining product from manufacturers and may not be a high priority for our manufacturers.***

The ability and willingness of our contract manufacturers to perform is largely outside of our control. We believe that our orders may not represent a material portion of our contract manufacturers' total orders and, as a result, fulfilling our orders may not be a priority if our contract manufacturers are constrained in their abilities or resources to fulfill all of their customer obligations in a timely manner. If any of our contract manufacturers suffers an interruption in its business, experiences delays, disruptions, or quality control problems in its manufacturing operations or we have to change or add additional contract manufacturers, our ability to ship products to our customers would be delayed and our sales could become volatile and our cost of sales may increase.

***Our contract manufacturers purchase some components, subassemblies and products from a single or limited number of suppliers. The loss of any of these suppliers may substantially disrupt our ability to obtain orders and fulfill sales as we design in and qualify new components.***

We rely on third-party components and technology to build and operate our products, and we rely on our contract manufacturers to obtain the components, subassemblies, and products necessary for the manufacture of certain of our products. Shortages in components we use in our products are possible, and our ability to predict the availability of such components is limited. If shortages occur in the future, as they have in the past, our business, operating results and financial condition would be materially adversely affected. Unpredictable price increases of such components due to market demand may occur. While components and supplies are generally available from a variety of sources, we and our contract manufacturers depend on a single or limited number of suppliers for several components for our products. If our suppliers of these components or technology were to enter into exclusive relationships with other providers of wireless networking equipment or were to discontinue providing such components and technology to us and we were unable to replace them cost effectively, or at all, our ability to provide our products would be impaired. Additionally, poor quality in any of the single or limited sourced components in our products could result in lost sales or lost sales opportunities. We and our contract manufacturers generally rely on purchase orders rather than long-term contracts with these suppliers. As a result, even if available, we and our contract manufacturers may not be able to secure sufficient components at reasonable prices or of acceptable quality to build our products in a timely manner. Therefore, we may be unable to meet customer demand for our products, which would have a material adverse effect on our business, operating results, and financial condition.

***We rely significantly on channel partners to sell and support our products, and the failure of this channel to be effective could materially reduce our sales.***

Our indirect channel partners, which include outside sales representatives, accounted for 24% of our sales in 2017 and 23% in 2016. We believe that establishing and maintaining successful relationships with these channel partners is, and will continue to be, important to our financial success. Recruiting and retaining qualified channel partners and training them in our technology and product offerings require significant time and resources. To develop and expand our channel, we must continue to scale and improve our processes and procedures that support our channel partners, including investment in systems and training.

Existing and future channel partners will only work with us if we are able to provide them with competitive products on terms that are commercially reasonable to them. If we fail to maintain the quality of our products or to update and enhance them, existing and future channel partners may elect to work instead with one or more of our competitors. In addition, the terms of our arrangements with our channel partners must be commercially reasonable

for both parties. If we are unable to reach agreements that are beneficial to both parties, then our channel partner relationships will not succeed.

We have no minimum purchase commitments with any of our channel partners, and our contracts with channel partners do not prohibit them from offering products or services that compete with ours, including products they currently offer or may develop in the future and incorporate into their own systems. Some of our competitors may have stronger relationships with our channel partners than we do and we have limited control, if any, as to whether those partners use our products, rather than our competitors' products, or whether they devote resources to market and support our competitors' products, rather than our offerings.

The reduction in or loss of sales by these channel partners could materially reduce our sales. If we fail to maintain relationships with our channel partners, fail to develop new relationships with other channel partners in new markets, fail to manage, train or incentivize existing channel partners effectively, fail to provide channel partners with competitive products on terms acceptable to them, or if these channel partners are not successful in their sales efforts, our sales may decrease and our operating results could suffer.

***Defects in our products or poor design and engineering services could result in lost sales and subject us to substantial liability.***

Our antenna solutions are a critical element in determining the operating performance of our customers' products. If our antenna solutions perform poorly, whether due to design, engineering, placement or other reasons, we could lose sales. In certain cases, if our antenna solution is found to be the component that leads to failure or a failure to meet the performance specifications of our customer, we could be required to pay monetary damages to our customer. Real or perceived defects or errors in our antenna solutions could result in claims by channel partners and customers for losses they sustain. If channel partners or customers make these types of claims, we may be required, or may choose, for customer relations or other reasons, to expend additional resources to help correct the problem, including warranty and repair costs, process management costs and costs associated with remanufacturing our inventory. Liability provisions in our standard terms and conditions of sale may not be enforceable under some circumstances or may not fully or effectively protect us from claims and related liabilities and costs. In addition, regardless of the party at fault, errors of these kinds divert the attention of our engineering personnel from our product development efforts, damage our reputation and the reputation of our products, cause significant customer relations problems and can result in product liability claims. We maintain insurance to protect against certain types of claims associated with the use of our products, but our insurance coverage may not adequately cover any such claims. In addition, even claims that ultimately are unsuccessful could result in expenditures of funds in connection with litigation and divert management's time and other resources. We also may incur costs and expenses relating to a recall of one or more of our products.

The process of identifying recalled products that have been widely distributed may be lengthy and require significant resources, and we may incur significant replacement costs, contract damage claims from our customers and significant harm to our reputation. The occurrence of these problems could result in the delay or loss of market acceptance of our products and could adversely affect our business, operating results and financial condition.

***The loss of key personnel or an inability to attract, retain and motivate qualified personnel may impair our ability to expand our business.***

Our success depends upon the continued service and performance of our senior management team and key technical, marketing and production personnel, including Charles Myers, who is our President and Chief Executive Officer. The replacement of any members of our senior management team or other key employees or consultants likely would involve significant time and costs and may significantly delay or prevent the achievement of our business objectives.

Our future success also depends, in part, on our ability to continue to attract, integrate and retain highly skilled personnel. Competition for highly skilled personnel is frequently intense. Any difficulties in obtaining or retaining human resource competencies we need to achieve our business objectives may have an adverse effect on our performance.

***We are subject to the risk that third-party consultants will not perform their tasks effectively and that we will be unsuccessful in operating our business as a result.***

We rely on third parties, such as sales consultants and engineering contractors, for a portion of the design and sales and marketing of our products. The engineering contractors typically work directly with our design team but are employed by our contract manufacturers in China. We rely on these third parties in addition to our own employees to perform the daily tasks necessary to operate our business in these areas and cannot ensure that third-party consultants will be able to complete their work for us in a timely manner. Accordingly, our reliance on third parties exposes us to the risk that our business will be unsuccessful if they do not design and sell our product as expected.

***Our acquisitions expose us to risks that could adversely affect our business and adversely affect our operating results, financial condition, and cash flows.***

As part of our strategy to develop and identify new products, services and technologies, we have made, and may continue to make, acquisitions of select assets and businesses. For example, we acquired certain North American assets from Skycross, Inc., in December 2015 and in April 2017 we acquired the Antenna Plus assets. When pursuing acquisitions, we may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. Any acquisitions we complete, may not ultimately strengthen our competitive position or achieve our goals, and could be viewed negatively by our end-customers, investors and financial analysts. Acquisitions involve many risks. An acquisition may negatively affect our operating results, financial condition or cash flows because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences or unfavorable accounting treatment, may expose us to claims and disputes by third parties, including intellectual property claims and disputes, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition.

***Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.***

We may become party to litigation claims and legal proceedings. Litigation involves significant risks, uncertainties and costs, including distraction of management attention away from our current business operations. We evaluate litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. We caution you that actual outcomes or losses may differ materially from those envisioned by our current estimates. Our policies and procedures require strict compliance by our employees and agents with all United States and local laws and regulations applicable to our business operations, including those prohibiting improper payments to government officials. Nonetheless, there can be no assurance that our policies and procedures will always ensure full compliance by our employees and agents with all applicable legal requirements. Improper conduct by our employees or agents could damage our reputation in the United States and internationally or lead to litigation or legal proceedings that could result in civil or criminal penalties, including substantial monetary fines, as well as disgorgement of profits.

***Recent U.S. tax legislation may materially adversely affect our financial condition, results of operations and cash flows.***

On December 22, 2017, the Tax Cuts and Jobs Act, or the 2017 Tax Act, was enacted. The 2017 Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. corporate income tax rate from 35% to 21% and permitting immediate expensing of certain capital expenditures. Many of these changes are effective immediately, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementing regulations by the Treasury and IRS, any of which could lessen or increase certain adverse impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities.

***Our ability to use our net operating loss carryforwards and credits to offset future taxable income for U.S. federal income tax purposes may be subject to limitations, and future transfers of shares of our common stock, could cause us to experience an “ownership change” that could limit our ability to utilize our net operating losses.***

Under U.S. federal income tax law, a corporation’s ability to utilize its net operating losses, or NOL’s, to offset future taxable income may be significantly limited if it experiences an “ownership change” as defined in Section 382 of the Internal Revenue Code of 1986, as amended, or the Code. In general, an ownership change will occur if there is a cumulative change in a corporation’s ownership by “5 percent shareholders” that exceeds 50 percentage points over a rolling three-year period.

A corporation that experiences an ownership change will generally be subject to an annual limitation on its pre-ownership change NOLs equal to the value of the corporation immediately before the ownership change, multiplied by the long-term tax-exempt rate (subject to certain adjustments). The annual limitation for a taxable year is generally increased by the amount of any “recognized built-in gains” for such a year and the amount of any unused annual limitation in a prior year.

In May 2014, we completed an analysis that determined the Company had not undergone an ownership change. We believe however, that our initial public offering that occurred during 2016 may have triggered an ownership change. However, based on the value of the Company at the ownership change date, we believe that the limitation would not ultimately limit the amount of the net operating losses and credits that could be used prior to their expiration.

In addition, under the 2017 Tax Act, although the treatment of tax losses generated before December 31, 2017 has generally not changed, tax losses generated in calendar year 2018 and beyond may only offset 80% of our taxable income. This change may require us to pay federal income taxes in future years despite generating a loss for federal income tax purposes in prior years. Any such limitations on the ability to use our NOLs and other tax assets could adversely impact our business, financial condition and operating results.

***Our election to not opt out of the extended accounting transition period under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, may make our financial statements difficult to compare to other companies.***

Under the JOBS Act, as an emerging growth company, we can elect to opt out of the extended transition period for any new or revised accounting standards. We have elected not to opt out of such extended transition period. This means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, are permitted to use any extended transition period for adoption that is provided in the new or revised accounting standard having different application dates for public and private companies. This may make the comparison of our financial statements with any other public company, which is not either an emerging growth company nor an emerging growth company which has opted out of using the extended transition period, difficult or impossible as possible different or revised standards may be used.

***If we are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial reporting may be adversely affected. In addition, because of our status as an emerging growth company, you will not be able to depend on any attestation from our independent registered public accounting firm as to our internal control over financial reporting for the foreseeable future.***

The Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, requires, among other things, that we maintain effective disclosure controls and procedures and controls over financial reporting. In particular, we are required to perform system and process evaluations and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. We are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting beginning for our fiscal year ending December 31, 2017. However, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until the date we are no longer an “emerging growth company” as defined in the JOBS Act. Accordingly, you will not be able to depend on any attestation concerning our internal control over financial reporting from our independent registered public accounting firm for the foreseeable future.

***Compliance with environmental matters and worker health and safety laws could be costly, and noncompliance with these laws could have a material adverse effect on our operating results, expenses and financial condition.***

Some of our operations use substances regulated under various federal, state, local and international laws governing the environment and worker health and safety, including those governing the discharge of pollutants into the ground, air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. Some of our products are subject to various federal, state, local and international laws governing chemical substances in electronic products. We could be subject to increased costs, fines, civil or criminal sanctions, third-party property damage or personal injury claims if we violate or become liable under environmental and/or worker health and safety laws.

***Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events.***

Our corporate headquarters are located in Southern California, and our two contract manufacturers are located in eastern Asia, both regions known for seismic activity. A significant natural disaster, such as an earthquake, a fire or a flood, occurring near our headquarters, or near the facilities of our contract manufacturers, could have a material adverse impact on our business, operating results and financial condition.

***The terms of our amended and restated loan and security agreement place restrictions on our operating and financial flexibility. If we raise additional capital through debt financing, the terms of any new debt could further restrict our ability to operate our business.***

We have a \$10.0 million revolving credit facility and a \$4.0 million growth capital term loan under our amended and restated loan and security agreement with Silicon Valley Bank. These loans are secured by a lien covering substantially all of our properties, rights and assets, excluding intellectual property. As of December 31, 2017, the revolving credit facility was undrawn, and the outstanding principal balance of the growth capital term loan and the additional term loan was \$1.3 million. On January 31, 2018, we entered into a second amended and restated loan and security agreement with Silicon Valley Bank. The second amended and restated loan and security agreement contains customary affirmative and negative covenants and events of default applicable to us and any subsidiaries, if any. The affirmative covenants include, among others, covenants requiring us (and us to cause our subsidiaries) to maintain our legal existence and governmental approvals, deliver certain financial reports, maintain insurance coverage, keep inventory, if any, in good and marketable condition, maintain a liquidity ratio of cash and cash equivalents plus accounts receivable outstanding debt under the second amended and restated loan and security agreement minus deferred revenue of 1.25 to 1.00, and protect material intellectual property. The negative covenants include, among others, restrictions on us and our subsidiaries transferring collateral, incurring additional indebtedness, engaging in mergers or acquisitions, paying dividends or making other distributions, making investments, creating liens, selling assets and making any payment on subordinated debt, in each case subject to certain exceptions. If we default under the facility, the lender may accelerate all of our repayment obligations and take control of our pledged assets, potentially requiring us to renegotiate our agreement on terms less favorable to us or to immediately cease operations. Further, if we are liquidated, the lender’s right to repayment would be senior to

the rights of the holders of our common stock to receive any proceeds from the liquidation. The lender could declare a default upon the occurrence of any event that it interprets as a material adverse effect as defined under the credit facility, thereby requiring us to repay the loan immediately or to attempt to reverse the declaration of default through negotiation or litigation. Any declaration by the lender of an event of default could significantly harm our business and prospects and could cause the price of our common stock to decline. If we raise any additional debt financing, the terms of such additional debt could further restrict our operating and financial flexibility.

***If we are unable to manage our growth and expand our operations successfully, our business and operating results will be harmed and our reputation may be damaged.***

We have expanded our operations significantly since inception and anticipate that further significant expansion will be required to achieve our business objectives. The growth and expansion of our business and product offerings places a continuous and significant strain on our management, operational and financial resources. Any such future growth would also add complexity to and require effective coordination throughout our organization. To date, we have used the services of third-parties to perform tasks including design and sales and marketing. Our growth strategy may entail expanding our group of contractors or consultants to implement these tasks going forward. Because we rely on consultants, effectively outsourcing key functions of our business, we will need to be able to manage these consultants to ensure that they successfully carry out their contractual obligations and meet expected deadlines. However, if we are unable to effectively manage our outsourced activities or if the quality of the services provided by consultants is compromised for any reason, our ability to provide quality products in a timely manner could be harmed, which may have a material adverse effect on our business operating results and financial condition.

To manage any future growth effectively, we must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems and controls, and our ability to manage headcount, capital and processes in an efficient manner. We may not be able to successfully implement improvements to these systems and processes in a timely or efficient manner, which could result in additional operating inefficiencies and could cause our costs to increase more than planned. If we do increase our operating expenses in anticipation of the growth of our business and this growth does not meet our expectations, our operating results may be negatively impacted. If we are unable to manage future expansion, our ability to provide high quality products and services could be harmed, which could damage our reputation and brand and may have a material adverse effect on our business, operating results and financial condition.

***Our business, operating results and growth rates may be adversely affected by current or future unfavorable economic and market conditions.***

Our business depends on the economic health and general willingness of our current and prospective end- customers to make those capital commitments necessary to purchase our products. If the conditions in the U.S. and global economies remain uncertain or continue to be volatile, or if they deteriorate, our business, operating results and financial condition may be materially adversely affected. Economic weakness, end-customer financial difficulties, limited availability of credit and constrained capital spending have at times in the past resulted, and may in the future result, in challenging and delayed sales cycles, slower adoption of new technologies and increased price competition, and could negatively affect our ability to forecast future periods, which could result in an inability to satisfy demand for our products and a loss of market share.

In addition, if interest rates rise or foreign exchange rates weaken for our international customers, overall demand for our products and services could decline and related capital spending may be reduced. Furthermore, any increase in worldwide commodity prices may result in higher component prices for us and increased shipping costs, both of which may negatively affect our business, operating results and financial condition.

***Our business and prospects depend on the strength of our market efforts and our brand. Failure to maintain and enhance our brand would harm our ability to maintain and expand our base of customers.***

Maintaining and enhancing our brand is important to maintaining and expanding our base of customers who purchase our products. This will depend largely on our ability to continue to provide high-quality solutions, and we may not be able to do so effectively. While we may engage in a broader marketing campaign to further promote our brand, this effort may not succeed. Our efforts in developing our brand may be affected by the marketing efforts of

our competitors. If we are unable to cost-effectively maintain and increase awareness of our brand, our business, results of operations and financial condition could be harmed. Our brand may be impaired by other factors, including product malfunctions. Any inability to effectively police our trademark rights against unauthorized uses by third parties could adversely impact the value of our trademarks and our brand recognition. If we fail to maintain and enhance our brand, or if we need to incur unanticipated expenses to establish our brand in new markets, our operating results would be negatively affected from reduced sales and increased marketing expenses.

#### **Risks Relating to Intellectual Property**

***If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our rights.***

Our ability to compete effectively is dependent in part upon our ability to protect our proprietary technology. We rely on patents, trademarks, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. There can be no assurance these protections will be available in all cases or will be adequate to prevent our competitors from copying, reverse engineering or otherwise obtaining and using our technology, proprietary rights or products. For example, the laws of certain countries in which our products are manufactured or licensed do not protect our proprietary rights to the same extent as the laws of the United States. In addition, third parties may seek to challenge, invalidate or circumvent our patents, trademarks, copyrights and trade secrets, or applications for any of the foregoing. There can be no assurance that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology or design around our proprietary rights. In each case, our ability to compete could be significantly impaired. To prevent substantial unauthorized use of our intellectual property rights, it may be necessary to prosecute actions for infringement and/or misappropriation of our proprietary rights against third parties. Any such action could result in significant costs and diversion of our resources and management's attention, and there can be no assurance we will be successful in such action. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

***Claims by others that we infringe their intellectual property rights could harm our business.***

Our industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in protracted and expensive litigation for many companies. Third parties may in the future assert claims of infringement of intellectual property rights against us or against our customers or channel partners for which we may be liable. As the number of products and competitors in our market increases and overlaps occur, infringement claims may increase.

Intellectual property claims against us, and any resulting lawsuits, may result in our incurring significant expenses and could subject us to significant liability for damages and invalidate what we currently believe are our proprietary rights. Our involvement in any patent dispute or other intellectual property dispute or action to protect trade secrets and know-how could have a material adverse effect on our business. Adverse determinations in any litigation could subject us to significant liabilities to third parties, require us to seek licenses from third parties and prevent us from manufacturing and selling our products. Any of these situations could have a material adverse effect on our business.

These claims, regardless of their merits or outcome, would likely be time consuming and expensive to resolve and could divert management's time and attention.

***We are generally obligated to indemnify our channel partners and end-customers for certain expenses and liabilities resulting from intellectual property infringement claims regarding our products, which could force us to incur substantial costs.***

We have agreed, and expect to continue to agree, to indemnify our channel partners and end-customers for certain intellectual property infringement claims regarding our products. As a result, in the case of infringement claims against these channel partners and end-customers, we could be required to indemnify them for losses resulting from such claims or to refund amounts they have paid to us. Our channel partners and other end-customers

in the future may seek indemnification from us in connection with infringement claims brought against them. We will evaluate each such request on a case-by-case basis and we may not succeed in refuting all such claims. If a channel partner or end-customer elects to invest resources in enforcing a claim for indemnification against us, we could incur significant costs disputing it. If we do not succeed in disputing it, we could face substantial liability.

## **Risks Related to Our International Operations**

***Our international sales and operations subject us to additional risks that can adversely affect our operating results and financial condition.***

The substantial majority of our sales are to ODMs and distributors based in China. Additionally, for the year ended December 31, 2017, approximately 45% of the end-customers of our products, based on sales, are outside of North America, and we are continuing to expand our international operations as part of our growth strategy. We have limited sales personnel and sales and support operations in the United States, Asia, and Europe. Our ability to convince customers to expand their use of our antenna products is directly correlated to our direct engagement with our end-customers and our channel partners. To the extent we are unable to engage with non-U.S. customers effectively with our limited sales force capacity, we may be unable to grow sales to existing customers.

Our international operations subject us to a variety of risks and challenges, including: increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations; reliance on channel partners; increased financial accounting and reporting burdens and complexities; compliance with foreign laws and regulations; compliance with U.S. laws and regulations for foreign operations; and reduced protection for intellectual property rights in some countries and practical difficulties of enforcing rights abroad. Any of these risks could adversely affect our international operations, reduce our international sales or increase our operating costs, adversely affecting our business, operating results and financial condition and growth prospects.

***We are subject to governmental export and import controls that could impair our ability to compete in international markets due to licensing requirements and subject us to liability if we are not in compliance with applicable laws.***

Our products are subject to export control and import laws and regulations, including the U.S. Export Administration Regulations, U.S. Customs regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. Exports of our products must be made in compliance with these laws and regulations. If we violate these laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges, fines, which may be imposed on us and responsible employees or managers, and, in extreme cases, the incarceration of responsible employees or managers. In addition, if our channel partners, agents or consultants fail to obtain appropriate import, export or re-export licenses or authorizations, we may also be adversely affected through reputational harm and penalties. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. Changes in our products or changes in applicable export or import laws and regulations may also create delays in the introduction and sale of our products in international markets, prevent our end-customers with international operations from deploying our products or, in some cases, prevent the export or import of our products to certain countries, governments or persons altogether. Any change in export or import laws and regulations, shift in the enforcement or scope of existing laws and regulations, or change in the countries, governments, persons or technologies targeted by such laws and regulations, could also result in decreased use of our products, or in our decreased ability to export or sell our products to existing or potential end-customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, financial condition and operating results.

***The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.***

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. In March 2017, the United Kingdom formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. The referendum was advisory, and the terms of any



withdrawal are subject to a negotiation period that could last until March 2019. The referendum and the ensuing process of the United Kingdom's withdrawal from the European Union has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital and negatively affect our customers, which could have a material adverse effect on our business, financial condition and results of operations and affect our strategy in the European market.

***Changes to United States tax, tariff and import/export regulations may have a negative effect on global economic conditions, financial markets and our business.***

There have been ongoing discussions and commentary regarding potential significant changes to United States trade policies, treaties, tariffs and taxes, including trade policies and tariffs regarding China. We do a significant amount of business in China, including dealing with Chinese suppliers and customers. The current administration, along with Congress, has created significant uncertainty about the future relationship between the United States and other countries with respect to the trade policies, treaties, taxes, government regulations and tariffs that would be applicable. It is unclear what changes might be considered or implemented and what response to any such changes may be by the governments of other countries. These changes have created significant uncertainty about the future relationship between the United States and China, as well as other countries, including with respect to the trade policies, treaties, government regulations and tariffs that could apply to trade between the United States and other nations. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between these nations and the United States. Any of these factors could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations and affect our strategy in China and elsewhere around the world.

***New regulations or standards or changes in existing regulations or standards in the United States or internationally related to our end-customer's products may result in unanticipated costs or liabilities, which could have a material adverse effect on our business, operating results and future sales, and could place additional burdens on the operations of our business.***

Our end-customers' products are subject to governmental regulations in many jurisdictions. To achieve and maintain market acceptance, our end-customers' products must continue to comply with these regulations and many industry standards. In the United States, our end-customers' products must comply with various regulations defined by the Federal Communications Commission, Underwriters Laboratories and others. Our end-customers must also comply with similar international regulations.

As these regulations and standards evolve, and if new regulations or standards are implemented, our end-customers may have to modify their products. The failure of their products to comply, or delays in compliance, with the existing and evolving industry regulations and standards could prevent or delay introduction of our antennas used in their products, which could harm our business. End-customer uncertainty regarding future policies may also affect demand for communications products, including our products. Moreover, channel partners or customers may require us, or we may otherwise deem it necessary or advisable, to alter our products to address actual or anticipated changes in the regulatory environment. Our inability to alter our products to address these requirements and any regulatory changes may have a material adverse effect on our business, operating results and financial condition.

***We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.***

We operate in several foreign countries. The U.S. Foreign Corrupt Practices Act and similar anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. Practices in the local business communities of many

countries outside the United States have a level of government corruption that is greater than that found in the developed world. Our policies mandate compliance with these anti-bribery laws and we have established policies and procedures designed to monitor compliance with these anti-bribery law requirements; however, we cannot assure that our policies and procedures will protect us from potential reckless or criminal acts committed by individual employees or agents. If we are found to be liable for anti-bribery law violations, we could suffer from criminal or civil penalties or other sanctions that could have a material adverse effect on our business.

## **Risks Related to Our Common Stock**

### ***The price of our common stock may be volatile.***

The trading price of our common stock may be volatile and may fluctuate substantially in response to various factors. This may be especially true for companies with a small public float. Prior to our initial public offering, there was no public market for shares of our common stock. From August 12, 2016, the date that our common stock started trading on the Nasdaq Capital Market, through February 26, 2018, the trading price of our common stock has ranged from \$7.31 per share to \$29.30 per share. The trading price of our common stock depends on several factors, including those described in this “Risk Factors” section and elsewhere in this annual report, including:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;
- failure of financial analysts to maintain coverage of us, changes in financial estimates by any analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or new or terminated significant contracts, commercial relationships or capital commitments;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business or our competitors’ businesses or the competitive landscape generally;
- litigation involving us, our industry or both or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any major change in our management;
- general economic conditions and slow or negative growth of our markets; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors, as well as general economic, political and market conditions such as recessions or interest rate changes, may seriously affect the market price of our common stock, regardless of our actual operating performance. The realization of any of the above risks or any of a broad range of other risks, including those described in this “Risk Factors” section and elsewhere in this annual report on Form 10-K could have a dramatic and material adverse impact on the market price for our common stock.

In addition, in the past, following periods of volatility in the overall market and the market prices of particular companies’ securities, securities class action litigations have often been instituted against these companies. Litigation of this type, if instituted against us, could result in substantial costs and a diversion of our management’s attention and resources. Any adverse determination in any such litigation or any amounts paid to settle any such actual or threatened litigation could require that we make significant payments.

***Our directors and principal stockholders own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.***

As of December 31, 2017, our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, will beneficially own, in the aggregate, approximately 20.9% of our outstanding common stock. As a result, these stockholders, acting together, would be able to significantly influence and may be able to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, would be able to significantly influence and may be able to control the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might adversely affect the market price of our common stock by:

- delaying, deferring or preventing a change in control of the company;
- impeding a merger, consolidation, takeover, or other business combination involving us; or
- a potential acquirer from making a tender offer or otherwise attempting to obtain control of the company.

***If securities or industry analysts issue an adverse opinion regarding our stock our stock price and trading volume could decline.***

The trading market for our common stock is influenced by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. We currently have limited research coverage by securities and industry analysts. If any of the analysts who may cover us change their recommendation regarding our common stock adversely, or provide more favorable relative recommendations about our competitors, the trading price of our common stock would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the trading price of our common stock or trading volume to decline.

***Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.***

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Some of these provisions:

- authorize our board of directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock and up to 200,000,000 shares of authorized common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;

- specify that special meetings of our stockholders can be called only by our board of directors, the Chairman, the Chief Executive Officer or the President;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered terms;
- provide that our directors may be removed only for cause; and
- provide that vacancies on our board of directors may, except as otherwise required by law, be filled only by a majority of directors then in office, even if less than a quorum.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us. Furthermore, our amended and restated certificate of incorporation specifies that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for most legal actions involving actions brought against us by stockholders. We believe this provision benefits us by providing increased consistency in the application of Delaware law by chancellors particularly experienced in resolving corporate disputes, efficient administration of cases on a more expedited schedule relative to other forums and protection against the burdens of multi-forum litigation. However, the provision may have the effect of discouraging lawsuits against our directors and officers. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in such action.

These anti-takeover provisions and other provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors and could also delay or impede a merger, tender offer or proxy contest involving our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing or cause us to take other corporate actions you desire. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline.

***We have never paid cash dividends on our common stock, and we do not anticipate paying cash dividends in the foreseeable future.***

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. In addition, our second amended and restated loan and security agreement with Silicon Valley Bank restricts our ability to pay cash dividends on our common stock without the prior written consent of Silicon Valley Bank, and we may also enter into credit agreements or other borrowing arrangements in the future that will restrict our ability to declare or pay cash dividends on our common stock. We currently intend to retain any future earnings to fund the growth of our business. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for the foreseeable future.

***An active trading market for our common stock may not be maintained.***

Prior to our initial public offering in August 2016, there was not a public market for our common stock. Given the small size of our initial public offering, it may take some time for an active market to fully develop. We can provide no assurance that we will be able to maintain an active trading market for our shares. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

***Our inability to raise additional capital on acceptable terms in the future may limit our ability to develop and commercialize new solutions and technologies and expand our operations.***

If our available cash balances anticipated cash flow from operations are insufficient to satisfy our liquidity requirements, including because of lower demand for our products as a result of other risks described in this “Risk Factors” section and elsewhere in this annual report, we may seek to raise additional capital through equity offerings, debt financings, collaborations or licensing arrangements. We may also consider raising additional capital in the future to expand our business, pursue strategic investments, take advantage of financing opportunities, or other reasons.

Additional funding may not be available to us on acceptable terms, or at all. If we raise funds by issuing equity securities, dilution to our stockholders could result. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. The terms of debt securities issued or borrowings could impose significant restrictions on our operations. The incurrence of indebtedness or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in restrictive covenants, such as limitations on our ability to incur additional debt or issue additional equity, limitations on our ability to acquire or license intellectual property rights, and other operating restrictions that could adversely affect our ability to conduct our business. In addition, the issuance of additional equity securities by us, or the possibility of such issuance, may cause the market price of our common stock to decline. If we do not have, or are not able to obtain, sufficient funds, we may have to delay development or commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or to grant licenses on terms that are not favorable to us. If we are unable to raise adequate funds, we may have to liquidate some or all of our assets, or delay, reduce the scope of or eliminate some or all of our development programs. We also may have to reduce marketing, customer support or other resources devoted to our products or cease operations. Any of these actions could harm our business, operating results and financial condition.

***We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an “emerging growth company” as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may choose to take advantage of certain exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, which includes, among other things:

- exemption from the auditor attestation requirements under Section 404 of the Sarbanes-Oxley Act;
- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements;
- exemption from the requirements of holding non-binding stockholder votes on executive compensation arrangements; and
- exemption from any rules requiring mandatory audit firm rotation and auditor discussion and analysis and, unless the SEC otherwise determines, any future audit rules that may be adopted by the Public Company Accounting Oversight Board.

We could be an emerging growth company until December 31, 2021, which is the last day of the fiscal year following the fifth anniversary after our initial public offering, or until the earliest of (i) the last day of the fiscal year in which we have annual gross revenue of \$1 billion or more, (ii) the date on which we have, during the previous three year period, issued more than \$1 billion in non-convertible debt or (iii) the date on which we are deemed to be a large accelerated filer under the federal securities laws. We will qualify as a large accelerated filer as of the first day of the first fiscal year after we have (i) more than \$700 million in outstanding common equity held by our non-affiliates and (ii) been public for at least 12 months. The value of our outstanding common equity will be measured each year on the last day of our second fiscal quarter.

We cannot predict if investors will find our common stock less attractive if we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

***We incur significant increased costs as a result of operating as a public company, and our management is required to devote substantial time to comply with the laws and regulations affecting public companies, particularly after we are no longer an emerging growth company.***

As a public company, particularly after we cease to qualify as an emerging growth company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting and corporate governance requirements, to comply with the rules and regulations imposed by the Sarbanes-Oxley Act and the Dodd-Frank Act, as well as rules implemented by the SEC and Nasdaq. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives and our legal and accounting compliance costs will increase. It is likely that we will need to hire additional staff in the areas of investor relations, legal and accounting. These new rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We are evaluating and monitoring developments regarding these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

For example, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls over financial reporting and disclosure controls and procedures. In particular, as a public company, we are required to perform system and process evaluations and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. As described above, as an emerging growth company, we will not need to comply with the auditor attestation provisions of Section 404 for several years. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause our stock price to decline.

When the available exemptions under the JOBS Act, as described above, cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

Our corporate headquarters occupy approximately 10,300 square feet in San Diego, California, under a lease that expires in June 2020. We also lease a 4,300 square foot home facility and a 3,900 square foot home facility in Rancho Santa Fe, California and a 3,900 square foot home facility in Poway, California that are used as testing facilities. Additionally, we lease a manufacturing plant/facility in Scottsdale, Arizona. In addition, we lease an office space in Melbourne, Florida and office buildings in four locations outside of the United States in Shenzhen, China, Jiangsu Province, China, Shulin City, Taiwan, and Cambridgeshire, United Kingdom. We believe our facilities are suitable and sufficient to meet our current operating needs. We intend to add new facilities as we hire new employees, and we believe that the current headquarters in San Diego offers suitable additional space to accommodate such an expansion.

**ITEM 3. 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 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

Our common stock has been publicly traded on the Nasdaq Capital Market under the symbol "AIRG" since our initial public offering on August 12, 2016, which was completed at a price to the public of \$8.00 per share. Prior to our initial public offering, there was no public market for our common stock. The following table sets forth, for the periods indicated, the high and low sale prices per share of our common as reported by the Nasdaq Capital Market. Since our common stock has only been traded on a public market since August 12, 2016, we have not set forth quarterly information with respect to the high and low sale prices for our common stock for the two most recent fiscal years.

	High	Low
<b>Year Ended December 31, 2017</b>		
First Quarter	\$ 18.20	\$ 12.02
Second Quarter	16.23	13.08
Third Quarter	14.39	8.72
Fourth Quarter	10.21	7.31
<b>Year Ended December 31, 2016</b>		
Third Quarter (beginning August 12, 2016)	\$ 16.94	\$ 7.36
Fourth Quarter	29.30	11.35

#### Holders of Common Stock

As of February 26, 2018, there were 9,641,521 shares of our common stock outstanding held by approximately 81 holders of record of our common stock. This number was derived from our shareholder records and does not include beneficial owners of our common stock whose shares are held in the name of various dealers, clearing agencies, banks, brokers and other fiduciaries.

#### Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Our second amended and restated loan and security agreement with Silicon Valley Bank restricts our ability to pay cash dividends on our common stock, and we may also enter into credit agreements or other borrowing arrangements in the future that will restrict our ability to declare or pay cash dividends on our common stock. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

#### Equity Compensation Plan Information

See Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information regarding securities authorized for issuance under equity compensation plans.

#### Performance Graph

*The information contained in this Performance Graph section shall not be deemed "soliciting material" or to be "filed" with the SEC, for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Airgain, Inc. under the Securities Act of 1933, as amended, or the Securities Act, or the Exchange Act.*



The following graph shows a comparison from August 12, 2016, the date our common stock commenced trading on the Nasdaq Capital Market, through December 31, 2017 of cumulative total return for our common stock, the Nasdaq Composite Index and the S&P Information Technology Index. Such returns are based on historical results and are not intended to suggest future performance. The graph assumes the investment of \$100 on August 12, 2016 in our stock at the opening trading price of \$8.00 and in the indices at the opening trading prices, with the reinvestment of dividends, although dividends have not been declared on our common stock.



**Unregistered Sales of Equity Securities**

None.

**Issuer Repurchases of Equity Securities**

In August 2017, our board of directors approved a share repurchase program pursuant to which we may purchase up to \$7.0 million of shares of our common stock over the twelve-month period following establishment of the program. The repurchases under the new share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from our working capital. Repurchases will be made in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, subject to market conditions, available liquidity, cash flow, applicable legal requirements and other factors. All shares of common stock repurchased under our share repurchase program will be returned to the status of authorized but unissued shares of common stock.

The following table sets forth our repurchases of equity securities for the three months ended December 31, 2017:

Fiscal Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of a Publicly Announced Program	Approximate Dollar Amount of Shares That May Yet be Purchased Under the Program (1)
October 1, 2017 to October 31, 2017	—	—	—	—
November 1, 2017 to November 31, 2017	69,280	9.59	121,480	5,866,642
December 1, 2017 to December 31, 2017	13,520	9.05	135,000	5,742,900
Total during the three months ended December 31, 2017	82,800	\$ 9.40	135,000	\$ 5,742,900

(1) As of December 31, 2017 we have repurchased shares of common stock having an aggregate value of \$1,257,100

## ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our selected financial data as of, and for the periods ended on, the dates indicated. We have derived the statements of operations data for the years ended December 31, 2017, 2016, and 2015 and the balance sheet data as of December 31, 2017 and 2016 from our audited financial statements included elsewhere in this annual report. We have derived the statements of operations data for the year ended December 31, 2014 and the balance sheet data as of December 31, 2015 and 2014 from our audited financial statements not included in this annual report. The following selected financial data should be read in conjunction with our financial statements and related notes included elsewhere in this annual report and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this annual report. Our historical results for any prior period are not indicative of our future results.

	For the Year Ended December 31,			
	2017	2016	2015	2014
Sales	\$ 49,521,171	\$ 43,433,867	\$ 27,793,073	\$ 25,509,572
Cost of goods sold	26,218,965	24,156,792	16,148,163	14,132,357
Gross profit	23,302,206	19,277,075	11,644,910	11,377,215
Operating expenses:				
Research and development	7,319,575	5,622,132	4,257,400	3,311,337
Sales and marketing	7,012,829	5,670,625	4,035,591	3,516,095
General and administrative	8,000,602	4,532,151	3,453,288	2,972,257
IPO costs	—	—	229,332	726,926
Total operating expenses	22,333,006	15,824,908	11,975,611	10,526,615
Income (loss) from operations	969,200	3,452,167	(330,701)	850,600
Other income	(197,740)	(289,721)	(60,981)	(2,743,871)
Income (loss) before income taxes	1,166,940	3,741,888	(269,720)	3,594,471
Provision for income taxes	25,685	8,181	622	6,171
Net income (loss)	1,141,255	3,733,707	(270,342)	3,588,300
Net income (loss) per share (1):				
Basic	\$ 0.12	\$ 0.65	\$ (4.17)	\$ 2.08
Diluted	\$ 0.11	\$ 0.40	\$ (4.30)	\$ (2.86)
Weighted average shares used in calculating income (loss) per share (1):				
Basic	9,485,271	3,373,316	651,593	555,805
Diluted	10,361,373	4,667,503	651,593	555,805

- (1) See Note 1 of Notes to Financial Statements for an explanation of the method used to calculate net income or loss per share and the number of shares used in the computation of the net per share amounts.

	As of December 31,			
	2017	2016	2015	2014
<b>Balance Sheet Data:</b>				
Cash and cash equivalents	\$ 15,026,068	\$ 45,161,403	\$ 5,335,913	\$ 3,590,745
Short-term investments	21,287,064	—	—	—
Working capital	36,352,509	41,573,071	1,802,826	3,412,680
Total assets	56,297,908	56,063,503	15,260,414	8,733,058
Preferred stock warrant liability	—	—	709,504	809,974
Long-term notes payable	—	1,333,333	2,721,865	346,873
Preferred redeemable convertible stock	—	—	43,106,906	40,724,356
Preferred convertible stock	—	—	5,968,549	5,968,549
Additional paid in capital	89,907,766	88,582,470	—	—
Accumulated deficit	(42,409,741)	(43,550,996)	(46,475,746)	(44,389,408)
Total stockholders' equity (deficit)	46,224,979	45,032,402	(39,412,822)	(37,670,138)

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and operating results together with our financial statements and related notes included elsewhere in this annual report. This discussion and analysis contains forward-looking statements based upon current beliefs, plans and expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of this annual report.*

### Overview

We are a leading provider of advanced antenna technologies used to enable high performance wireless networking across a broad range of devices and markets, including connected home, enterprise, automotive, and Internet of Things, or IOT. Our innovative antenna systems are designed to address key challenges with wireless system performance faced by our customers. We provide solutions to complex Radio Frequency, or RF, engineering challenges and help improve wireless services that require higher throughput, broad coverage footprint, and carrier grade quality. Our antennas are deployed in carrier, fleet, enterprise, residential, private, government, and public safety wireless networks and systems, including set-top boxes, access points, routers, modems, gateways, media adapters, portables, digital televisions, sensors, fleet and asset tracking devices. Through our pedigree in the design, integration, and testing of high performance embedded antenna technology, we have become a leading provider to the residential wireless local area networking, also known as WLAN, market, supplying to leading carriers, Original Equipment Manufacturers, or OEMs, Original Design Manufacturers, or ODMs, and system designers who depend on us to achieve their wireless performance goals. We also develop embedded and external antenna technology for emerging technologies, such as Long-Term Evolution, or LTE, 5G, and low power wide area networking, or LPWAN.

We shipped approximately 158 million antenna products worldwide in 2017 enabling approximately 45 million devices. Our products are found in a broad range of devices that generally enable Wi-Fi connectivity for data and video coverage. We sell our products to OEMs and ODMs. These companies compete based on product performance, product features, price, and other factors. While our products are found in devices manufactured by global OEMs and ODMs, the products end up primarily in the end-user devices that are deployed in carrier, enterprise, and residential wireless networks and systems. Our global sales force works with telecommunications and broadband carriers and retail-focused customers who seek high performance, reliable wireless solutions. By working with these end-user carriers and retail-focused customers, we seek to have service providers influence OEMs and ODMs to specify our antennas for the products they provide to their end-user customers. Our direct sales team works directly with customers, and also works with indirect channel partners who pursue sales opportunities that are based in the United States, Canada, Europe, and Asia Pacific.

Our sales cycle can be short or lengthy depending upon the specific situation; however, the majority of our revenues are derived from device designs with life-cycles of over 12 months. For some recurring customers, we are able to design and produce antenna systems for volume production in less than one calendar quarter. In situations where we are selling to a new customer, it may take 12 to 18 months from initial meeting to achieve a design win. Competition generally lengthens the sales process, but our past performance and ability to provide high throughput, highly reliable antenna solutions can shorten the process. We intend to continue investing for long-term growth. We have invested and expect to continue to invest heavily in our product development efforts to address customer needs, and enable solutions that can address new end markets, such as alternative wireless connectivity technologies. In addition, we expect to continue to expand our sales force and engineering organizations and to make additional capital expenditures to further penetrate markets both in the United States and internationally, and to continue to expand our research and development for new product offerings and technology solutions.

Although our sales cycle can be lengthy depending on the specific situation, the majority of our revenues are derived from device designs with life-cycles of over a year. In 2017, 45% of our product revenues were from devices in the marketplace for over two years and 30% for devices in the marketplace for one to two years and 25% for devices in the marketplace for less than one year.

We believe demand is growing rapidly for our antenna solutions and there is a significant market opportunity. As the ability to provide mobile internet access has grown, our solutions and expertise have become more important to prospects and customers. As a passive component, embedded antennas can be viewed as a commodity. However, our design, engineering, and research show that antenna selection, placement, and testing can have significant improvements in device performance. We believe that we are chosen when performance is a more significant factor than price, and our distinctive focus on superior designs that provide increased range and throughput has allowed us to build a leadership position in the in-home WLAN antenna market.

### **Factors Affecting Our Operating Results**

We believe that our performance and future success depend upon several factors, including manufacturing costs, investments in our growth, our ability to expand into growing addressable markets, including the automotive, fleet, and industrial IoT space, the average selling price of our products per device, the number of antennas per device, and our ability to diversify the number of devices that incorporate our antenna products. Our customers are extremely 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. We have seen the number of devices shipped decrease by 8.2 million devices and the number of antennas per device increase by 0.5 antennas per device for the year ended December 31, 2017, when compared to the year ended December 31, 2016. Our ability to maintain or increase our sales depends on new and existing end-customers selecting our antenna solutions for their heterogeneous next-generation wireless devices and networks depends on the proliferation of Wi-Fi connected home devices and data intensive applications, investments in our growth to address customer needs, target new end markets, develop our product offerings and technology solutions and expand internationally, as well as successfully integrating past and any future acquisitions. 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 this annual report in greater detail under the section entitled “Risk Factors.”

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

#### ***Sales***

We primarily generate revenue from the sales of our products. As discussed further in “Critical Accounting Policies and Significant Judgments and Estimates” below, we recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. We generally recognize sales at the time of shipment to our customers, provided that all other revenue recognition criteria have been met. Although currently insignificant, we may also generate service revenue derived from agreements to provide design, engineering, and testing for a customer.

#### ***Cost of Goods Sold***

The cost of goods sold reflects the cost of producing antenna products that are shipped for our customers’ devices. This primarily includes manufacturing costs of our products payable to our third-party contract manufacturers, as well as manufacturing costs incurred at our manufacturing facility in Arizona. The cost of goods sold that we generate from services provided to customers primarily includes personnel costs.

#### ***Operating Expenses***

Our operating expenses are classified into three categories: research and development, sales and marketing, and general and administrative. For each category, the largest component 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 leasehold improvements and rent. 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 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 operating expenses such as office supplies, premises expenses, insurance and corporate legal expenses. We may also incur expenses from consultants and for prototyping new antenna solutions. We expect research and development expense to increase in absolute dollars as we increase our research and development headcount to further strengthen and enhance our antenna design and integration capabilities and 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 expense also includes the costs of trade shows, marketing programs, promotional materials, demonstration equipment, travel, recruiting, and allocated costs for certain facilities. We expect sales and marketing expense to increase in absolute dollars as we increase investments in strategic partnerships and increase the size of our sales and marketing organizations in support of our investment in our growth opportunities, although our sales and marketing expense may 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, finance, and administrative personnel, including stock-based compensation, as well as legal, accounting, and other professional services fees, depreciation, and other corporate expenses. We have recently incurred, and expect to continue to incur, additional expenses as we grow our operations and operate as a public company, including higher legal, corporate insurance and accounting expenses, and the additional costs of achieving and maintaining regulatory compliance. We expect general and administrative expense to increase in absolute dollars due to additional legal fees and accounting, insurance, investor relations, and other costs associated with being a public company, as well as, due to costs associated with growing our business, although our general and administrative expense may fluctuate as a percentage of total sales.

#### **Other Income**

*Interest Income.* Interest income consists of interest from our cash and cash equivalents and our short-term investments.

*Interest Expense.* Interest expense consists of interest on our outstanding debt and amortization of loan fees.

*Fair Market Value Adjustments—Warrants.* Consists of the change in fair value of our convertible preferred stock warrant liability. The preferred stock warrants are classified as liabilities on our balance sheets and their estimated fair value is re-measured at each balance sheet date using a combination of an option-pricing model and current value model under the probability-weighted return method, with the corresponding change recorded within other expense (income). In May 2016, the warrants were amended such that they became immediately exercisable into shares of our common stock. Concurrent with such amendment, the holders of the outstanding warrants elected to net exercise the warrants, and were granted an aggregate of 127,143 shares of our common stock. Following such net exercise, there will be no future re-measurement of the warrant liability.

#### **Provision for Income Taxes**

Provision for income taxes consists of federal and state income taxes. Significant judgments and estimates based on interpretations of existing tax laws or regulations in the United States are required in determining our provision for income taxes. Changes in tax laws, statutory tax rates, and estimates of our future taxable income could impact the deferred tax assets and liabilities provided for in the consolidated financial statements and would require an adjustment to the provision for income taxes.

In accordance with the 2017 Tax Act, we have recorded a provision for income taxes of \$25,685. The impact of the 2017 Tax Act primarily represents the impact of revaluing our U.S. deferred tax assets based on the rates at

which they are expected to reverse in the future. For U.S. federal purposes the corporate statutory income tax rate was reduced from a tax range of 15% to 35% to a flat 21% corporate income tax rate, effective for our 2018 tax year.

## Results of Operations

The following tables set forth our operating results for the periods presented 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.

	For the Year Ended December 31,		
	2017	2016	2015
	(calculated as a percentage of associated sales)		
Statement of Operations Data:			
Sales	100.0%	100.0%	100.0%
Cost of goods sold	52.9%	55.6%	58.1%
Gross profit	47.1%	44.4%	41.9%
Operating expenses:			
Research and development	14.8%	12.9%	15.3%
Sales and marketing	14.2%	13.1%	14.5%
General and administrative	16.2%	10.4%	12.4%
IPO costs	—	—	0.8%
Total operating expenses	45.2%	36.4%	43.1%
Income (loss) from operations	1.9%	8.0%	(1.2)%
Other income	(0.4)%	(0.7)%	(0.2)%
Income (loss) before income taxes	2.3%	8.7%	(1.0)%
Provision for income taxes	0.1%	0.0%	0.0%
Net income (loss)	2.2%	8.7%	(1.0)%

## Comparison of the Years Ended December 31, 2017, 2016 and 2015

	For the Year Ended December 31,			
	2017	2016	Increase/(Decrease)	% Change
Sales	\$ 49,521,171	\$ 43,433,867	\$ 6,087,304	14.0%

  

	For the Year Ended December 31,			
	2016	2015	Increase/(Decrease)	% Change
Sales	\$ 43,433,867	\$ 27,793,073	\$ 15,640,794	56.3%

The increase in sales of \$6.1 million to \$49.5 million for the year ended December 31, 2017 was primarily driven by an increase in product sales of which \$5.2 million in sales of products acquired in connection with the acquisition of the Antenna Plus assets. The total number of devices within our organic business decreased by 8.2 million devices to 45.4 million devices for the year ended December 31, 2017 when compared to the year ended December 31, 2016. This decrease in the number of devices was primarily driven by a decrease in set-top box and television devices. The average number of antennas per device increased from 2.97 antennas per device for the year ended December 31, 2016 to 3.49 antennas per device for the year ended December 31, 2017. The average selling price per device for the year ended December 31, 2017 increased to \$0.96 as compared to \$0.79 for the year ended December 31, 2016. Overall demand in the set-top-box and carrier gateway markets and the incorporation of our antennas in new devices, offset by a decrease in demand in the television market and products reaching the end of their lifecycle, contributed to the increase in sales for the year ended December 31, 2017 when compared to the year ended December 31, 2016.

The increase in sales of \$15.6 million to \$43.4 million for the year ended December 31, 2016 was primarily driven by an increase in product sales, of which \$5.0 million was associated with sales of products acquired in connection with the acquisition of certain North American assets from Skycross. Total devices increased by 19.0 million devices to 53.6 million devices for the year ended December 31, 2016 compared to the year ended December 31, 2015. The average number of antennas per device increased from 2.53 antennas per device for the year ended December 31, 2015 to 2.97 antennas per device for the year ended December 31, 2016. The average selling price per device for the year ended December 31, 2016 increased to \$0.79 as compared to \$0.78 for the year ended December 31, 2015. During the year ended December 31, 2016, we sold significantly more board mounted antennas which do not require cables or connectors. Board mounted antennas tend to have lower per unit pricing and higher margins. Additionally, overall demand in the set-top-box and television markets and the incorporation of our antennas in new devices offset by products reaching the end of their lifecycle, contributed to the increase in sales for the year ended December 31, 2016 when compared to the year ended December 31, 2015.

#### ***Cost of Goods Sold***

	For the Year Ended December 31,			
	2017	2016	Increase/(Decrease)	% Change
Cost of goods sold	\$ 26,218,965	\$ 24,156,792	\$ 2,062,173	8.5%

	For the Year Ended December 31,			
	2016	2015	Increase/(Decrease)	% Change
Cost of goods sold	\$ 24,156,792	\$ 16,148,163	\$ 8,008,629	49.6%

The increase in cost of goods sold between the years ended December 31, 2017 and December 31, 2016, was primarily due to the increase in sales associated with the acquisition of the Antenna Plus assets and sales within the carrier gateway and set-top-box markets offset by a decline in sales in the television product market. For the year ended December 31, 2017, our cost of goods sold included \$2.3 million of cost of goods sold associated with the acquisition of the Antenna Plus assets.

The increase in cost of goods sold between the years ended December 31, 2016 and December 31, 2015 was primarily due to an increase in products sales.

#### ***Gross Profit***

	For the Year Ended December 31,			
	2017	2016	Increase/(Decrease)	% Change
Gross profit	\$ 23,302,206	\$ 19,277,075	\$ 4,025,131	20.9%
Gross profit (percentage of sales)	47.1%	44.4%		2.7%

	For the Year Ended December 31,			
	2016	2015	Increase/(Decrease)	% Change
Gross profit	\$ 19,277,075	\$ 11,644,910	\$ 7,632,165	65.5%
Gross profit (percentage of sales)	44.4%	41.9%		2.5%

Gross profit as a percentage of sales increased 2.7% for the year ended December 31, 2017 as compared to the year ended December 31, 2016. The increase in gross profit as a percentage of sales was primarily driven by a shift in the sales mix for the year ended December 31, 2017 when compared to the year ended December 31, 2016.



Gross profit as a percentage of sales increased 2.5% for the year ended December 31, 2016 as compared to the year ended December 31, 2015 due primarily to an increase in sales of board mounted antennas, which do not require cables or connectors. Board mounted antennas tend to have lower per unit pricing and higher gross margins. We anticipate the sales of board mounted antennas as a percentage of sales mix will be lower in future periods which may cause gross profit as a percentage of sales to decline.

### ***Operating Expenses***

	For the Year Ended December 31,			
	2017	2016	Increase/(Decrease)	% Change
Operating Expenses				
Research and development	\$ 7,319,575	\$ 5,622,132	\$ 1,697,443	30.2%
Sales and marketing	7,012,829	5,670,625	1,342,204	23.7%
General and administrative	8,000,602	4,532,151	3,468,451	76.5%
Total	<u>\$ 22,333,006</u>	<u>\$ 15,824,908</u>	<u>\$ 6,508,098</u>	<u>41.1%</u>

  

	For the Year Ended December 31,			
	2016	2015	Increase/(Decrease)	% Change
Operating Expenses				
Research and development	\$ 5,622,132	\$ 4,257,400	\$ 1,364,732	32.1%
Sales and marketing	5,670,625	4,035,591	1,635,034	40.5%
General and administrative	4,532,151	3,453,288	1,078,863	31.2%
IPO costs	-	229,332	(229,332)	
Total	<u>\$ 15,824,908</u>	<u>\$ 11,975,611</u>	<u>\$ 3,849,297</u>	<u>32.1%</u>

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

Research and development expense increased \$1.7 million for the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to a \$0.7 million increase in operating expenses associated with the acquisition of the Antenna Plus assets, \$0.7 million increase in personnel expenses associated with headcount increases and \$0.3 million increase miscellaneous research and development expenses.

Research and development expense increased \$1.4 million for the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily due to a \$0.8 million increase in personnel expenses associated with headcount increases, \$0.2 million increase in product development, and \$0.3 million increase in miscellaneous research and development expenses.

### ***Sales and Marketing***

Sales and marketing expense increased \$1.3 million for the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to a \$0.6 million increase in operating expenses associated with the acquisition of the Antenna Plus assets, \$0.5 million increase in personnel expenses associated with headcount increases, \$0.1 million increase in travel and entertainment and \$0.1 million increase in miscellaneous sales and marketing expenses.

Sales and marketing expense increased \$1.6 million for the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily due to a \$1.1 million increase in personnel expenses associated with headcount increases, \$0.2 million increase in travel and entertainment expenses, and \$0.2 million increase in miscellaneous sales and marketing expenses.

### General and Administrative

General and administrative expense increased \$3.5 million for the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to a \$0.9 million increase in acquisitions costs, \$0.8 million increase in costs of being a public company, \$0.7 million increase in operating expenses associated with the acquisition of the Antenna Plus assets, \$0.6 million increase in personnel expenses associated with headcount increases, \$0.2 million increase in expenses due to the completion of the R&D tax credit study and \$0.1 million increase in corporate legal expenses.

General and administrative expense increased \$1.1 million for the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily due to an increase of \$0.4 million due to the amortization of the intangible assets acquired with the acquisition of certain North American assets from Skycross, an increase of \$0.3 million in personnel expenses associated with headcount increases and bonus payouts and an increase of \$0.2 million of indirect costs related to our public equity offerings.

### Other Expense (Income)

	For the Year Ended December 31,			
	2017	2016	Increase/(Decrease)	% Change
Other expense (income):				
Interest income	\$ (296,451)	\$ (7,803)	\$ (288,648)	3699.2%
Interest expense	98,711	178,371	(79,660)	-44.7%
Fair market value adjustment, warrants	—	(460,289)	460,289	-100.0%
Total	<u>\$ (197,740)</u>	<u>\$ (289,721)</u>	<u>\$ 91,981</u>	<u>-31.7%</u>

	For the Year Ended December 31,			
	2016	2015	Increase/(Decrease)	% Change
Other expense (income):				
Interest income	\$ (7,803)	\$ —	\$ (7,803)	0.0%
Interest expense	178,371	39,489	138,882	351.7%
Fair market value adjustment, warrants	(460,289)	(85,325)	(374,964)	439.5%
Exercise and expiration of warrants	—	(15,145)	15,145	-100.0%
Total	<u>\$ (289,721)</u>	<u>\$ (60,981)</u>	<u>\$ (228,740)</u>	<u>375.1%</u>

Other income decreased \$0.1 million for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily due to a decrease in the warrant fair market value adjustment in the amount of \$0.5 million and an increase in interest expense in the amount of \$0.8 million, offset by an increase in interest income in the amount of \$0.3 million.

Other income increased \$0.2 million from December 31, 2015 to December 31, 2016 primarily due to the conversion of warrants into common stock and related adjustments to record the warrants to their fair market value in 2016. This increase was offset by \$0.1 million increase in interest expense on our outstanding loans.

### Liquidity and Capital Resources

We had cash and cash equivalents of \$15.0 million and \$21.3 million in short-term investments at December 31, 2017. In August 2017, we transferred a portion of our cash into an investment account. In April 2017, we paid approximately \$6.3 million in cash, net of post-closing working capital adjustments, in connection with the acquisition of the Antenna Plus assets. In August 2016, we completed our initial public offering, or IPO, and received net proceeds of approximately \$11.0 million, including the sale of shares pursuant to the exercise of the underwriters' over-allotment option and after deducting underwriting discounts and commissions and offering-related transaction costs. In December 2016, we completed our public offering of common stock and received net proceeds of approximately \$26.0 million, including the sale of shares pursuant to the exercise of the underwriters' over-allotment option and after deducting underwriting discounts and commissions and estimated offering-related transaction costs.

Before 2013, we had incurred net losses in each year since our inception. As a result, we had an accumulated deficit of \$42.4 million at December 31, 2017.

Since inception, we have primarily financed our operations and capital expenditures through private sales of preferred stock, public offerings of our common stock and cash flows from our operations. We have raised an aggregate of \$29.5 million in net proceeds from the issuance of our preferred stock and convertible promissory notes and \$37.0 million from the sale of common stock in public offerings.

As of December 31, 2017, we had approximately \$1.3 million outstanding under a term loan pursuant to our amended and restated loan and security agreement with Silicon Valley Bank. In addition, under our amended and restated loan and security agreement with Silicon Valley Bank, we have a revolving line of credit for \$10.0 million. As of December 31, 2017, there was no balance owed on the line of credit.

In August 2017, our board of directors approved a share repurchase program pursuant to which we may purchase up to \$7.0 million shares of our common stock over the twelve month period following the establishment of the program. The repurchases under the new share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from our working capital. Repurchases will be made in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, subject to market conditions, available liquidity, cash flow, applicable legal requirements and other factors. All shares of common stock repurchased under our share repurchase program will be returned to the status of authorized but unissued shares of common stock. During the year ended December 31, 2017, we repurchased 135,000 shares of common stock under the repurchase program. These shares were repurchased at an average price per share of \$9.40, for a total cost of \$1.3 million.

In December 2013, we amended our amended and restated loan and security agreement with Silicon Valley Bank to provide for growth capital term loans of \$750,000. The growth capital term loan required interest only payments through June 30, 2014 at which time it was to be repaid in 32 equal monthly installments of interest and principal. The growth capital term loan matured on February 1, 2017, at which time all unpaid principal and accrued and unpaid interest was due. The growth capital term loan interest rate was 6.5%. We must maintain a liquidity ratio of cash and cash equivalents plus accounts receivable to outstanding debt under the amended and restated loan and security agreement of 1.00 to 1.00 or greater. The line of credit is available as long as we maintain a liquidity ratio of cash and cash equivalents plus accounts receivable to outstanding debt under the amended and restated loan and security agreement of 1.25 to 1.00. If this liquidity ratio is not met, the line of credit will only allow for maximum advances of 80% of the aggregate face amount of all eligible receivables. As of December 31, 2017, the line of credit bore interest at the U.S. prime rate (4.50% as of December 31, 2017) plus 1.25%, and matured in April 2017, subject to certain minimum EBITDA requirements in every quarter. The lender has a first security interest in all of our assets, excluding intellectual property, for which the lender has received a negative pledge. The amended and restated loan and security agreement contains customary affirmative and negative covenants and events of default applicable to us and any subsidiaries.

In December 2015, we further amended our amended and restated loan and security agreement with Silicon Valley Bank to include an additional term loan up to \$4.0 million. The additional term loan requires 36 monthly installments of interest and principal and matures on December 1, 2018. Effective September 2017, we amended the loan and security agreement with Silicon Valley Bank to update the financial covenants. The amended and restated loan and security agreement requires that we maintain either (1) a minimum cash balance of unrestricted cash at Silicon Valley Bank or one of its affiliates of no less than \$25.0 million; or a liquidity ratio of 1.25 to 1.00 as of the last day of each month and a minimum EBITDA, measured as the last day of each fiscal quarter for the previous six-month period (for December 31, 2017 the minimum EBITDA is \$750,000). The interest rate of the additional term loan is 5.0%. As of December 31, 2017, \$1.3 million was outstanding on this additional term loan. We are in compliance with all of the financial covenants in the amended and restated loan and security agreement pertaining to the revolving credit line and the additional term loan as of December 31, 2017.

On January 31, 2018, we entered into a second amended and restated loan and security agreement with Silicon Valley Bank. The second amended and restated loan and security agreement amends and restates the terms of our amended and restated loan and security agreement with Silicon Valley Bank. The agreement, among other things, increases the aggregate principal amount available under the revolving line of credit from \$3.0 million to \$10.0 million and modifies certain existing financial covenants. Under the second amended and restated loan and security agreement, we may borrow up to \$10.0 million under the line of credit, subject to a borrowing base limit of 80% of the aggregate face amount of all eligible receivables. The agreement removed the minimum EBITDA requirement previously applicable to the line of credit and term loan, and maintained the liquidity ratio financial covenant such we must maintain a ratio of cash and cash equivalents plus accounts receivable to outstanding debt under the second amended and restated loan and security agreement minus deferred revenue of 1.25 to 1.00. We will be required to pay interest on borrowings outstanding, if any, under the revolving line of credit at a floating rate per annum equal to 1% above the Wall Street Journal prime rate (or, if unavailable, the SVB prime rate) on a monthly basis, so long as we maintain a liquidity ratio of cash and cash equivalents plus accounts receivable to outstanding debt under the second amended and restated loan and security agreement minus deferred revenue of 1.50 to 1.00. If this liquidity ratio is not met, we will be subject to a minimum interest charge of \$3,000 per month and borrowings outstanding, if any, under the revolving line of credit will accrue interest at a floating rate per annum equal to 2% above the Wall Street Journal prime rate (or if unavailable, the SVB prime rate) on a monthly basis. Borrowings outstanding on the amended and restated loan and security agreement will continue to be repaid in equal monthly installments of interest and principal and matures on December 1, 2018. The revolving line of credit matures on January 31, 2020.

We plan to continue to invest for long-term growth, including expanding our sales force and engineering organizations 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 and increasing our sales and marketing initiatives by entering into strategic partnerships. 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:

	For the Year Ended December 31,		
	2017	2016	2015
Net cash provided by (used in) operating activities	\$ (254,656)	\$ 4,669,277	\$ 1,848,825
Net cash used in investing activities	(27,824,279)	(275,649)	(4,132,854)
Net cash provided by (used in) financing activities	(2,056,400)	35,431,862	4,029,197
Net increase (decrease) in cash and cash equivalents	\$ (30,135,335)	\$ 39,825,490	\$ 1,745,168

**Net Cash Provided by (Used in) Operating Activities.** Net cash used in operating activities was \$0.3 million for the year ended December 31, 2017. This was primarily driven by our net income of \$1.1 million, net non-cash operating expenses of \$1.7 million and the change in operating assets and liabilities of \$3.1 million.

Net cash provided by operating activities was \$4.7 million for the year ended December 31, 2016. This was primarily driven by our net income of \$3.7 million, net non-cash operating expenses of \$1.2 million and the change in operating assets and liabilities of \$0.2 million, offset by a decrease in the warrant liability of \$0.5 million.

Net cash provided by operating activities was \$1.9 million for the year ended December 31, 2015. This was primarily driven by our net loss of \$0.3 million, offset by a decrease in the warrant liability of \$0.1 million, net non-cash operating expenses of \$1.1 million and the change in operating assets and liabilities of \$1.1 million.

**Net Cash Used in Investing Activities.** Net cash used in investing activities was \$27.8 million for the year ended December 31, 2017. This consisted of \$22.0 million in purchases of available-for-sale securities, \$6.3 million in cash paid for the acquisition of the Antenna Plus assets, \$0.3 million of purchases of property and equipment, offset by \$0.8 million in maturities of available-for-sale securities.

Net cash used in investing activities was \$0.3 million for the year ended December 31, 2016. This consisted of the purchase of property and equipment.

Net cash used in investing activities was \$4.1 million for the year ended December 31, 2015. This primarily consisted of cash used in the acquisition of certain North American assets of Skycross.

**Net Cash Provided by (Used in) Financing Activities.** Net financing activities for the year ended December 31, 2017 used net cash of \$2.1 million and primarily consisted of repayment of notes payable in the amount of \$1.4 million, common stock repurchases in the amount of \$1.3 million offset by proceeds from the exercise of stock options in the amount of \$0.6 million.

Net financing activities for the year ended December 31, 2016 provided net cash of \$35.4 million and primarily consisted of net proceeds received from our IPO and subsequent public offering of common stock in the amount of \$36.8 million, collectively, offset by the repayment of notes in the amount of \$1.6 million.

Net financing activities for the year ended December 31, 2015 provided net cash of \$4.0 million and primarily consisted of the proceeds from notes payable.

## Contractual Obligations and Commitments

The following table summarizes our contractual obligations at December 31, 2017:

	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years (in thousands)	3-5 Years	More than 5 Years
Operating Leases					
Office leases	\$ 2,464	\$ 972	\$ 1,469	\$ 23	\$ —
Notes Payable (1)	1,333	1,333	—	—	—
Total	<u>\$ 3,797</u>	<u>\$ 2,305</u>	<u>\$ 1,469</u>	<u>\$ 23</u>	<u>\$ —</u>

(1) Notes payable represents amounts outstanding under our term loan with Silicon Valley Bank.

We have entered into lease agreements for office space and research facilities in San Diego, California; Rancho Santa Fe, California; Poway, California; Scottsdale, Arizona; Melbourne, Florida; Taipei, Taiwan; Shenzhen and Jiangsu, China; and Cambridgeshire, United Kingdom; under non-cancelable operating leases that expire at various dates through 2020.

We subcontract with other companies to manufacture our products. During the normal course of business, our contract manufacturers procure components based upon orders placed by us. If we cancel all or part of the orders, we may still be liable to the contract manufacturers for the cost of the components purchased by the subcontractors to manufacture our products. We periodically review the potential liability, and as of December 31, 2017, we have no significant accruals recorded. Our financial position and operating results could be negatively impacted if we were required to compensate the contract manufacturers for any unrecorded liabilities incurred.

## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as defined by applicable regulations of the Securities and Exchange Commission) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

## **Critical Accounting Policies and Significant Judgments and Estimates**

Our management's discussion and analysis of financial condition and operating results is based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these 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 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.

We have elected to use the extended transition period for complying with new or revised financial accounting standards available under Section 102(b)(2)(B) of the Securities Act of 1933, as amended. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

While our significant accounting policies are more fully described in the notes to our financial statements in this annual report, we believe that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements and understanding and evaluating our reported financial results.

### ***Revenue Recognition***

We generate revenue from the sale of our antenna products. We recognize revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Title and risk of loss transfer 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. We incur selling expenses to obtain design wins prior to revenue recognition, which is not a deliverable of a revenue arrangement.

A portion of our sales is made through distributors under agreements allowing for pricing credits and/or rights of return under certain circumstances. To date, pricing credits and returns under these provisions have been insignificant; accordingly, our allowance for sales returns and pricing credits was insignificant as of December 31, 2017 and 2016.

To date, services revenues have been immaterial as a percentage of total revenues. Service revenues are recognized ratably over the term of the agreement.

### ***Business Combinations***

We use an outside third party consultant to help determine the allocation of the purchase price of a business combination to the assets acquired and liabilities assumed, such as for our acquisition of the Skycross and Antenna Plus assets and related liabilities. The fair values assigned, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, are determined based on estimates and assumptions made by management. We record any excess consideration over the aggregate fair value of tangible and intangible assets, net of liabilities assumed, as goodwill. These valuations require us to make significant estimates and assumptions, especially with respect to intangible assets.

### ***Stock-based Compensation***

We recognize compensation costs related to stock options granted to employees based on the estimated fair value of the awards on the date of grant, net of estimated forfeitures. We estimate the grant date fair value, and the

resulting stock-based compensation expense, using the Black-Scholes-Merton option-pricing model. The grant date fair value of stock-based awards is expensed on a straight-line basis over the vesting period of the respective award.

We account for stock-based compensation arrangements with non-employees using a fair value approach. The fair value of these options is measured using the Black-Scholes-Merton option-pricing model reflecting the same assumptions as applied to employee options in each of the reported periods, other than the expected life, which is assumed to be the remaining contractual life of the option. The compensation costs of these arrangements are subject to remeasurement over the vesting terms as earned.

We recorded stock-based compensation expense of approximately \$0.7 million, \$0.3 million and \$0.3 million for the years ended December 31, 2017, 2016 and 2015, respectively. We expect to continue to grant stock options and other equity-based awards in the future, and to the extent that we do, our stock-based compensation expense recognized in future periods will likely increase.

The Black-Scholes-Merton option-pricing model requires the use of highly subjective and complex assumptions, which determine the fair value of stock-based awards. If we had made different assumptions, our stock-based compensation expense, net loss and net loss per share of common stock could have been significantly different.

Our assumptions are as follows:

- *Fair value of our common stock.* Prior to our initial public offering, we estimated the fair value of our common stock. See “Significant Factors, Assumptions and Methodologies Used in Determining Fair Value of Our Common Stock” below. Upon the closing of our initial public offering, our common stock is valued by reference to the publicly traded price of our common stock.
- *Expected term.* The expected term represents the period that the stock-based awards are expected to be outstanding. Our historical share option exercise experience does not provide a reasonable basis upon which to estimate an expected term because of a lack of sufficient data. Therefore, we estimate the expected term by using the simplified method, which calculates the expected term as the average of the time-to-vesting and the contractual life of the options.
- *Expected volatility.* We have historically been a private company. Therefore, we historically estimated the expected volatility based on the average historical volatilities of publicly traded companies within our industry that we consider to be comparable to our business over a period approximately equal to the expected term. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock price becomes available, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.
- *Risk-free interest rate.* The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected term.
- *Expected dividend.* The expected dividend is assumed to be zero as we have never paid dividends and have no current plans to pay any dividends on our common stock.
- *Expected forfeiture.* We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. To the extent actual forfeitures differ from the estimates, the difference will be recorded as a cumulative adjustment in the period that the estimates are revised.

### ***Preferred Redeemable Convertible Stock Warrant Liability***

As of December 31, 2015, we had issued freestanding warrants exercisable to purchase shares of our Series G preferred redeemable convertible stock. These warrants were classified as a liability in the accompanying balance sheets, because the terms for redemption of the underlying security were outside our control. The warrants were recorded at fair value using a combination of an option pricing model and current value model under the probability-weighted return method. The fair value of all warrants was remeasured at each balance sheet date with any changes in fair value being recognized in the statement of operations. In May 2016, the warrants were amended such that the warrants became immediately exercisable into shares of our common stock. Concurrent with such amendment, the holders of the outstanding warrants elected to net exercise the warrants, and were granted an aggregate of 127,143 shares of our common stock. Following such net exercise, there will be no future re-measurement of the warrant liability.

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

In January 2017, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill. For public entities, ASU 2017-04 is effective for fiscal years beginning after December 15, 2019. For nonpublic entities, ASU 2017-04 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which simplifies the way cash receipts and cash payments are presented on the statement of cash flows. For public entities, ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. For nonpublic entities, ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We have adopted this pronouncement.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. For public entities, the ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. For nonpublic entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. We are evaluating the effect that ASU 2016-02 will have on our financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. For public entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years on a prospective basis. For nonpublic entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early application is not permitted. We are evaluating the effect that ASU 2016-01 will have on our financial statements and related disclosure. We have not yet selected a transition method, nor have we determined the effect of the standard on our ongoing financial reporting.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, or ASU 2014- 09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective. For public entities, ASU 2014-09 is effective for reporting periods beginning after December 15, 2017, including interim periods within that reporting period. For nonpublic entities, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018 and interim periods in fiscal years beginning after December 15, 2019. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our financial statements and related



disclosures. We have not yet selected a transition method, nor have we determined the effect of the standard on our ongoing financial reporting.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Interest Rate Sensitivity***

Our investment portfolio is exposed to market risk from changes in interest rates. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current investment policies, we do not use interest rate derivative instruments to manager exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk, and reinvestment risk. We mitigate default risk by investing in investment grade securities. We maintain a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not material affect the fair value of our interest sensitive financial statements.

Our long-term debt bears interest at a fixed rate and therefore has minimal exposure to changes in interest rates. At December 31, 2017, our undrawn revolving credit facility under our loan and security agreement with Silicon Valley Bank bore interest at the U.S. prime rate (4.50% as of December 31, 2017) plus 1.25% and was subsequently amended and restated on January 31, 2018, and currently bears interest at the Wall Street Journal prime rate plus 1.00%. If we draw funds from our revolving credit facility, we will be exposed to interest rate sensitivity, which is affected by changes in the Wall Street Journal prime rate.

### ***Foreign Currency Risk***

All of our sales are denominated in U.S. dollars, and therefore, our sales are not currently subject to significant foreign currency risk. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and the report of our independent registered public accounting firm required pursuant to this item are included in this annual report beginning on page F-1.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. 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, control 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 Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this annual report. 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.

#### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting. Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2017.

#### **Attestation Report of the Registered Public Accounting Firm**

This annual report does not include an attestation report of our independent registered public accounting firm due to an exemption established by the JOBS Act for "emerging growth companies."

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

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item will be contained in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2018 Annual Meeting of Stockholders, or the Definitive Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 31, 2017, under the headings “Election of Directors,” “Corporate Governance,” “Our Executive Officers,” and “Section 16(a) Beneficial Ownership Reporting Compliance,” and is incorporated herein by reference.

#### Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to our officers, directors and employees, which is available on our website at [www.airgain.com](http://www.airgain.com). The Code of Business Conduct and Ethics contains general guidelines for conducting the business of our company consistent with the highest standards of business ethics and is intended to qualify as a “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and Item 406 of Regulation S-K. In addition, we intend to promptly disclose (1) the nature of any amendment to our Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions and (2) the nature of any waiver, including an implicit waiver, from a provision of our code of ethics that is granted to one of these specified officers, the name of such person who is granted the waiver and the date of the waiver on our website in the future.

### ITEM 11. EXECUTIVE COMPENSATION

Information required by this item will be contained in our Definitive Proxy Statement under the heading “Executive Compensation and Other Information,” and is incorporated herein by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item will be contained in our Definitive Proxy Statement under the heading “Security Ownership of Certain Beneficial Owners and Management,” and is incorporated herein by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item will be contained in our Definitive Proxy Statement under the headings “Certain Relationships and Related Person Transactions,” “Board Independence” and “Committees of the Board of Directors” and is incorporated herein by reference.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item will be contained in our Definitive Proxy Statement under the heading “Independent Registered Public Accountants’ Fees,” and is incorporated herein by reference.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

**1. Financial Statements.**

The financial statements of Airgain, Inc., together with the report thereon of KPMG LLP, an independent registered public accounting firm, are included in this annual report on Form 10-K.

**2. Finance Statement Schedules.**

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

**3. Exhibits**

A list of exhibits is set forth on the Exhibit Index immediately preceding the signature page of this annual report on Form 10-K and is incorporated herein by reference.

**ITEM 16. FORM 10-K SUMMARY**

None.

Index to Financial Statements

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## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
of Airgain, Inc.:

### *Opinion on the Financial Statements*

We have audited the accompanying balance sheets of Airgain, Inc. (the “Company”) as of December 31, 2017 and 2016, and the related statements of operations, comprehensive income (loss), stockholders’ equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

### *Basis for Opinion*

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimated made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2012.

/s/ KPMG LLP

San Diego, California  
March 15, 2018

**Airgain, Inc.**  
**Balance Sheets**

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 15,026,068	\$ 45,161,403
Short term investments	21,287,064	—
Trade accounts receivable	8,418,132	5,154,996
Inventory	741,557	146,815
Prepaid expenses and other current assets	609,786	349,550
Total current assets	46,082,607	50,812,764
Property and equipment, net	1,036,860	807,086
Goodwill	3,700,447	1,249,956
Customer relationships, net	4,075,918	2,822,918
Intangible assets, net	1,052,333	286,719
Other assets	349,743	84,060
Total assets	<u>\$ 56,297,908</u>	<u>\$ 56,063,503</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 3,969,083	\$ 3,949,005
Accrued bonus	2,224,517	1,748,551
Accrued liabilities	1,121,833	1,072,242
Deferred purchase price	1,000,000	1,000,000
Current portion of long-term notes payable	1,333,333	1,388,563
Current portion of deferred rent obligation under operating lease	81,332	81,332
Total current liabilities	9,730,098	9,239,693
Long-term notes payable	—	1,333,333
Deferred tax liability	7,971	6,166
Deferred rent obligation under operating lease	334,860	451,909
Total liabilities	10,072,929	11,031,101
Stockholders' equity:		
Common shares, par value \$0.0001, 200,000,000 shares authorized at December 31, 2017 and December 31, 2016; 9,616,992 and 9,275,062 shares issued at December 31, 2017 and December 31, 2016, respectively; 9,481,992 and 9,275,062 shares outstanding at December 31, 2017 and December 31, 2016, respectively	961	928
Additional paid in capital	89,907,766	88,582,470
Treasury stock, at cost: 135,000 shares and no shares at December 31, 2017 and December 31, 2016, respectively	(1,257,100)	—
Accumulated other comprehensive loss	(16,907)	—
Accumulated deficit	(42,409,741)	(43,550,996)
Total stockholders' equity	46,224,979	45,032,402
Commitments and contingencies (note 12)		
Total liabilities and stockholders' equity	<u>\$ 56,297,908</u>	<u>\$ 56,063,503</u>

*See accompanying notes to the financial statements.*



**Airgain, Inc.**  
**Statements of Operations**

	For the Year Ended December 31,		
	2017	2016	2015
Sales	\$ 49,521,171	\$ 43,433,867	\$ 27,793,073
Cost of goods sold	26,218,965	24,156,792	16,148,163
Gross profit	23,302,206	19,277,075	11,644,910
Operating expenses:			
Research and development	7,319,575	5,622,132	4,257,400
Sales and marketing	7,012,829	5,670,625	4,035,591
General and administrative	8,000,602	4,532,151	3,453,288
IPO costs	—	—	229,332
Total operating expenses	22,333,006	15,824,908	11,975,611
Income (loss) from operations	969,200	3,452,167	(330,701)
Other (income) expense:			
Interest income	(296,451)	(7,803)	—
Interest expense	98,711	178,371	39,489
Fair market value adjustment - warrants	—	(460,289)	(85,325)
Exercise and expiration of warrants	—	—	(15,145)
Total other (income) expense	(197,740)	(289,721)	(60,981)
Income (loss) before income taxes	1,166,940	3,741,888	(269,720)
Provision for income taxes	25,685	8,181	622
Net income (loss)	1,141,255	3,733,707	(270,342)
Accretion of dividends on preferred convertible stock	—	(1,537,021)	(2,444,954)
Net income (loss) attributable to common stockholders	\$ 1,141,255	\$ 2,196,686	\$ (2,715,296)
Net income (loss) per share:			
Basic	\$ 0.12	\$ 0.65	\$ (4.17)
Diluted	\$ 0.11	\$ 0.40	\$ (4.30)
Weighted average shares used in calculating income (loss) per share			
Basic	9,485,271	3,373,316	651,593
Diluted	10,361,373	4,667,503	651,593

*See accompanying notes to the financial statements.*

**Airgain, Inc.**  
**Statements of Comprehensive Income (Loss)**

	For the Year Ended December 31,		
	2017	2016	2015
Net income (loss)	\$ 1,141,255	\$ 3,733,707	\$ (270,342)
Unrealized loss on available-for-sale securities	(16,907)	—	—
Total comprehensive income (loss)	<u>\$ 1,124,348</u>	<u>\$ 3,733,707</u>	<u>\$ (270,342)</u>

*See accompanying notes to the financial statements.*

**Airgain, Inc.**  
**Statements of Stockholders' Equity (Deficit)**

	Preferred Convertible Stock		Common Stock		Additional Paid-in Capital	Treasury Stock	Note to Employee	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount						
Balance at December 31, 2014	6,244,174	\$ 5,968,549	625,282	\$ 1,017,003	\$ —	\$ —	\$ (266,282)	\$ —	\$ (44,389,408)	\$ (37,670,138)
Stock-based compensation	—	—	—	—	341,554	—	—	—	—	341,554
Shares issued pursuant to stock awards	—	—	16,300	—	—	—	—	—	—	—
Exercise of stock options	—	—	24,260	77,372	—	—	—	—	—	77,372
Forgiveness of note to employee	—	—	—	—	—	—	266,282	—	—	266,282
Effect of accretion to redemption value	—	—	—	—	(341,554)	—	—	—	(1,815,996)	(2,157,550)
Net loss	—	—	—	—	—	—	—	—	(270,342)	(270,342)
Balance at December 31, 2015	6,244,174	\$ 5,968,549	665,842	\$ 1,094,375	\$ —	\$ —	\$ —	\$ —	\$ (46,475,746)	\$ (39,412,822)
Stock-based compensation	—	—	—	—	298,535	—	—	—	—	298,535
Conversion of warrants	—	—	127,143	—	249,215	—	—	—	—	249,215
Exercise of stock options	—	—	58,155	112,101	25,302	—	—	—	—	137,403
Effect of accretion to redemption value	—	—	—	—	(547,750)	—	—	—	(808,957)	(1,356,707)
Change in par value from no par value to \$0.0001	—	—	—	(1,206,391)	1,206,391	—	—	—	—	—
Issuance of common stock upon initial public offering, net of issuance costs	—	—	1,700,100	170	10,816,808	—	—	—	—	10,816,978
Issuance of warrants to underwriters	—	—	—	—	126,218	—	—	—	—	126,218
Conversion of preferred redeemable convertible stock to common stock upon initial public offering	—	—	3,778,753	378	44,463,235	—	—	—	—	44,463,613
Conversion of preferred convertible stock to common stock upon initial public offering	(6,244,174)	(5,968,549)	1,259,187	126	5,968,423	—	—	—	—	—
Issuance of common stock upon secondary public offering, net of issuance costs	—	—	1,685,882	169	25,976,093	—	—	—	—	25,976,262
Net income	—	—	—	—	—	—	—	—	3,733,707	3,733,707
Balance at December 31, 2016	—	\$ —	9,275,062	\$ 928	\$ 88,582,470	\$ —	\$ —	\$ —	\$ (43,550,996)	\$ 45,032,402
Stock-based compensation	—	—	—	—	736,066	—	—	—	—	736,066
Exercise of stock options	—	—	284,455	28	588,454	—	—	—	—	588,482
Shares issued pursuant to stock awards	—	—	57,475	5	(5)	—	—	—	—	—
Common stock repurchases	—	—	(135,000)	—	—	(1,257,100)	—	—	—	(1,257,100)
Reversal of costs related to secondary offering	—	—	—	—	781	—	—	—	—	781
Unrealized loss on available-for-sale securities	—	—	—	—	—	—	—	(16,907)	—	(16,907)
Net income	—	—	—	—	—	—	—	—	1,141,255	1,141,255
Balance at December 31, 2017	—	\$ —	9,481,992	\$ 961	\$ 89,907,766	\$ (1,257,100)	\$ —	\$ (16,907)	\$ (42,409,741)	\$ 46,224,979

*See accompanying notes to the financial statements.*

**Airgain, Inc.**  
**Statements of Cash Flows**

	For the Year Ended December 31,		
	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 1,141,255	\$ 3,733,707	\$ (270,342)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	436,247	495,347	458,734
Amortization	581,386	373,350	14,013
Fair market value adjustment - warrants	—	(460,289)	(85,325)
Exercise and expiration of warrants	—	—	(15,145)
Amortization of discounts on investments, net	(91,485)	—	—
Stock-based compensation	736,066	298,535	341,554
Forgiveness of note to employee	—	—	266,282
Deferred tax liability	1,805	6,166	—
Changes in operating assets and liabilities:			
Trade accounts receivable	(2,678,746)	(1,422,998)	210,140
Inventory	(161,972)	(27,082)	(119,733)
Prepaid expenses and other assets	(525,919)	(120,567)	(36,265)
Accounts payable	(101,801)	1,075,534	298,918
Accrued bonus	475,966	413,051	516,409
Accrued liabilities	49,591	411,255	361,067
Deferred obligation under operating lease	(117,049)	(106,732)	(91,482)
Net cash provided by (used in) operating activities	(254,656)	4,669,277	1,848,825
<b>Cash flows from investing activities:</b>			
Purchases of available-for-sale securities	(21,962,486)	—	—
Maturities of available-for-sale securities	750,000	—	—
Cash paid for acquisition	(6,348,730)	—	(4,000,000)
Purchases of property and equipment	(263,063)	(275,649)	(132,854)
Net cash used in investing activities	(27,824,279)	(275,649)	(4,132,854)
<b>Cash flows from financing activities:</b>			
Proceeds from notes payable	—	—	4,000,000
Repayment of notes payable	(1,388,563)	(1,624,999)	(273,175)
Proceeds from initial public offering and issuance of warrants to underwriters	—	13,600,800	—
Costs related to initial public offering	781	(2,657,604)	—
Proceeds from secondary public offering	—	26,797,094	—
Costs related to secondary public offering	—	(820,832)	—
Proceeds from exercise of warrants	—	—	225,000
Common stock repurchases	(1,257,100)	—	—
Proceeds from exercise of stock options	588,482	137,403	77,372
Net cash provided by (used in) financing activities	(2,056,400)	35,431,862	4,029,197
Net increase (decrease) in cash and cash equivalents	(30,135,335)	39,825,490	1,745,168
Cash and cash equivalents, beginning of period	45,161,403	5,335,913	3,590,745
Cash and cash equivalents, end of period	\$ 15,026,068	\$ 45,161,403	\$ 5,335,913
<b>Supplemental disclosure of cash flow information</b>			
Interest paid	\$ 98,711	\$ 177,460	\$ 39,489
Taxes paid	\$ 102,819	\$ —	\$ 6,171
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
Accretion of Series E, F, and G preferred redeemable convertible stock to redemption amount	\$ —	\$ 1,356,707	\$ 2,157,549
Conversion of warrants	\$ —	\$ 249,215	\$ —
Conversion of preferred stock into common stock	\$ —	\$ 50,432,162	\$ —

*See accompanying notes to the financial statements.*

**Airgain, Inc.**  
**Notes to Financial Statements**

**(1) Significant Accounting Policies**

**(a) Description of Business**

Airgain, Inc. (the Company) was incorporated in the State of California on March 20, 1995 and reincorporated in the State of Delaware on August 15, 2016. The Company is a leading provider of advanced antenna technologies used to enable high performance wireless networking across a broad range of devices and markets, including connected home, enterprise, automotive, and Internet of Things, (IoT). The Company designs, develops, and engineers its antenna products for original equipment and design manufacturers worldwide. The Company's headquarters is in San Diego, California with office space and research facilities in San Diego, California, Rancho Santa Fe, California, Poway, California, Melbourne, Florida, Taipei, Taiwan, Gyeonggi-do, Korea, Shenzhen and Jiangsu, China and Cambridgeshire, United Kingdom and a design and manufacturing plant/facility in Scottsdale, Arizona.

**(b) Basis of Presentation**

The financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP).

**(c) Recently Issued Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09 is effective for reporting periods beginning after December 15, 2018, and interim periods in fiscal years beginning after December 15, 2019. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Company has not yet selected a transition method, nor has the Company determined the effect of the standard on the Company's ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and interim periods in fiscal years beginning after December 15, 2020. The Company is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on the Company's ongoing financial reporting.

**(d) 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 Scottsdale, Arizona. The Company operates in one segment related to the sale of antenna products. The Company's chief operating decision-maker is its chief executive officer, who reviews operating results on an aggregate basis and manages the Company's operations as a single operating segment.

**(e) Cash Equivalents and Short-Term Investments**

Cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less at the date of purchase.

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Short-term investments consist predominantly of commercial paper, corporate debt securities, U.S. Treasury securities and asset backed securities. The Company classifies short-term investments based on the facts and circumstances surrounding the investments at the time of purchase and evaluates such classification as of each balance sheet date. All short-term investments are classified as available-for-sale securities as of December 31, 2017 and are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income, a component of stockholders' equity. Realized gains and losses are included in other (income) expense, in the statement of operations. The Company evaluates its investments to determine whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered to be other than temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before recovery of their cost basis.

**(f) Trade Accounts Receivable**

Trade accounts receivable is adjusted for all known uncollectible accounts. The policy for determining when receivables are past due or delinquent is based on the contractual terms agreed upon. Accounts are written off once all collection efforts have been exhausted. An allowance for doubtful accounts is established when, in the opinion of management, collection of the account is doubtful. The allowance for doubtful accounts was \$0 as of December 31, 2017 and December 31, 2016.

**(g) Inventory**

The majority 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 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. 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 balance sheet. With the acquisition of substantially all of the assets of Antenna Plus, LLC ("Antenna Plus"), in April 2017, the Company began manufacturing products at its Scottsdale, Arizona and Shullsburg, Wisconsin locations. In July 2017, the Company relocated all of its product manufacturing operations in Shullsburg, Wisconsin to the Scottsdale, Arizona facility. See Note 4 for additional information relating to the Company's acquisition of the Antenna Plus assets.

Inventory is stated at the lower of cost or market. For items manufactured by the Company, 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. As of December 31, 2017, the Company's inventories consist primarily of raw materials. Provisions for excess and obsolete inventories are estimated based on product life cycles, quality issues, and historical experience. As of December 31, 2017, there is no provision for excess and obsolete inventories.

**(h) 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 years. The estimated useful lives for leasehold improvements is determined as either the estimated useful life of the asset or the lease term, whichever is shorter. Amortization of assets that are recorded under capital leases are included in depreciation expense. Maintenance and repairs 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 sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included as an operating expense.

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**(i) Goodwill**

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. The change in the carrying value of goodwill during the year ended December 31, 2017, was due to an acquisition during 2017. See Note 5.

The Company reviews goodwill for impairment annually on December 1st and whenever events or changes in circumstances indicate that goodwill may be impaired. The Company completed its annual assessment for goodwill impairment in December 2017 and determined that goodwill is not impaired as of December 31, 2017.

**(j) Long-lived Assets**

The Company's identifiable intangible assets are comprised of acquired developed technologies, customer relationships, tradenames and non-compete agreements. The cost of the identifiable intangible assets with finite lives is amortized on a straight-line basis over the assets' respective estimated useful lives. The Company periodically re-evaluates the original assumptions and rationale utilized in the establishment of the carrying value and estimated lives of long-lived assets and finite-lived intangible assets. Long-lived assets and finite-lived intangibles are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an asset is considered to be impaired, the impairment recognized is equal to the amount by which the carrying value of the asset exceeds its fair value.

**(k) Revenue Recognition**

The Company generates revenue primarily from the sale of its antenna products. The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Title and risk of loss transfer 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.

A portion of the Company's sales are made through distributors under agreements allowing for pricing credits and/or rights of return under certain circumstances. To date, pricing credits and returns under these provisions have been insignificant; accordingly, the Company recognizes revenue upon shipment to the distributor and the Company's allowance for sales returns and pricing credits was insignificant for the years ended December 31, 2017, 2016 and 2015.

**(l) Shipping and Transportation Costs**

Shipping and other transportation costs are expensed as incurred. Shipping and other transportation costs were \$462,297, \$321,093 and \$221,974 for the years ended December 31, 2017, 2016 and 2015, respectively. These costs are included in general and administrative expenses in the accompanying statements of operations.

**(m) Research and Development Costs**

Costs incurred in connection with research and development are expensed as incurred.

**(n) Income Taxes**

The Company records income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on

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deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When applicable, a valuation allowance is established to reduce any deferred tax asset when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses.

**(o) Stock-Based Compensation**

The Company recognizes all employee stock-based compensation as a cost in the financial statements. Equity classified awards are measured at the grant-date fair value of the award. The Company estimates the grant-date fair value using the Black-Scholes-Merton option-pricing model. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized for all stock-based compensation. Compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. Stock-based compensation expense for the years ended December 31, 2017, 2016 and 2015 was \$736,066, \$298,535 and \$341,554, respectively.

**(p) Fair Value Measurements**

The carrying values of the Company's financial instruments, including cash, trade accounts receivable, accounts payable, and accrued liabilities 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.

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended December 31, 2017 and 2016.

The following table provides a rollforward of the Company's Level 3 fair value measurements during the years ended December 31, 2017 and 2016:

	As of December 31,	
	2017	2016
Beginning balance	\$ —	\$ 709,504
Change in fair value of warrant liability	—	(460,289)
Conversion of warrants	—	(249,215)
Ending balance	\$ —	\$ —



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**(q) 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include valuation of the preferred redeemable convertible stock warrant liability, stock- based compensation and intangible assets.

**(r) Accumulated Other Comprehensive Income (Loss)**

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Accumulated other comprehensive loss on the balance sheet at December 31, 2017 includes unrealized gains and losses on the Company's available-for-sale securities.

**(s) Net Income or Loss Per Share**

Basic net income or loss per share is calculated by dividing net income or loss available to common stockholders by the weighted average shares of common stock outstanding for the period. Diluted net income or loss per share is calculated by dividing net income or 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. Preferred dividends are deducted from net income or loss in arriving at net income or loss attributable to common stockholders. The Company calculates diluted earnings or loss per common share using the treasury stock method and the as-if-converted method, as applicable.

The following table presents the computation of net income or loss per share:

	For the Year Ended December 31,		
	2017	2016	2015
<b>Numerator:</b>			
Net income (loss)	\$ 1,141,255	\$ 3,733,707	\$ (270,342)
Accretion of dividends on preferred stock	—	(1,537,021)	(2,444,954)
Net income attributable to common stockholders - basic	\$ 1,141,255	\$ 2,196,686	\$ (2,715,296)
Accretion of dividends on preferred stock	—	125,205	—
Adjustment for change in fair value of warrant liability	—	(460,289)	(85,325)
Net income (loss) attributable to common stockholders - diluted	<u>\$ 1,141,255</u>	<u>\$ 1,861,602</u>	<u>\$ (2,800,621)</u>
<b>Denominator:</b>			
Weighted average common shares outstanding			
Basic	9,485,271	3,373,316	651,593
Diluted	10,361,373	4,667,503	651,593
<b>Net income (loss) per share:</b>			
Basic	\$ 0.12	\$ 0.65	\$ (4.17)
Diluted	\$ 0.11	\$ 0.40	\$ (4.30)

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Diluted weighted average common shares outstanding for the year ended December 31, 2017 includes 1,532 warrants and 874,571 options outstanding. Diluted weighted average common shares outstanding for the year ended December 31, 2016 includes 577,529 options outstanding and 716,658 preferred shares.

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

	For the Year Ended December 31,		
	2017	2016	2015
Preferred redeemable convertible stock, including accumulated dividends	—	2,406,894	4,891,205
Employee stock options	513,869	—	756,692
Warrants outstanding	—	51,003	—
Series G preferred stock warrants outstanding	—	—	788,338
<b>Total</b>	<b>513,869</b>	<b>2,457,897</b>	<b>6,436,235</b>

**(2) Cash, Cash Equivalents and Short-Term Investments**

The following table shows the Company's cash and cash equivalents and short-term investments by significant investment category as of December 31, 2017:

	December 31, 2017				
	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Short-Term Investments
Cash	\$ 3,040,696	\$ —	\$ 3,040,696	\$ 3,040,696	\$ —
Level 1 (1):					
Money market funds	8,234,751	—	8,234,751	8,234,751	—
U.S. treasury securities	2,490,799	(5,540)	2,485,259	—	2,485,259
Subtotal	10,725,550	(5,540)	10,720,010	8,234,751	2,485,259
Level 2 (2):					
Commercial paper	9,716,093	—	9,716,093	—	9,716,093
Corporate debt obligations	6,829,191	(9,414)	6,819,777	—	6,819,777
Repurchase agreements	3,000,233	—	3,000,233	3,000,233	—
Asset-backed securities	3,018,276	(1,953)	3,016,323	750,388	2,265,935
Subtotal	22,563,793	(11,367)	22,552,426	3,750,621	18,801,805
<b>Total</b>	<b>\$36,330,039</b>	<b>\$ (16,907)</b>	<b>\$36,313,132</b>	<b>\$15,026,068</b>	<b>\$21,287,064</b>

(1) Level 1 fair value estimates are based on quoted prices in active markets for identical assets or liabilities.

(2) Level 2 fair value estimates are based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

The Company's investments were primarily valued based upon one or more valuations reported by its investment accounting and reporting service provider. The investment service provider values the securities using a hierarchical security pricing models that relies primarily on valuations provided by a third-party pricing vendor. Such valuations may be based on trade prices in active markets for identical assets or liabilities (Level 1 inputs) or valuation models using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for underlying instruments or debt,

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broker and dealer quotes, as well as other relevant economic measures. The Company performs certain procedures to corroborate the fair value of its holdings, including comparing valuations obtained from its investment service provider with other pricing sources to validate the reasonableness of the valuations.

The Company typically invests in highly-rated securities, and its investment policy limits the amount of credit exposure to any one issuer. The policy requires investments in fixed income instruments denominated and payable in U.S. dollars only and requires investments to be investment grade, with a primary objective of minimizing the potential risk of principal loss.

The following table presents the Company's short-term investments with unrealized losses by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2017:

Description of Securities	Less Than 12 Months	
	Estimated Fair Value	Unrealized Losses
December 31, 2017		
U.S. treasury securities	\$ 2,485,259	\$ (5,540)
Corporate debt obligations	6,819,777	(9,414)
Asset-backed securities	2,265,935	(1,953)
Total	<u>\$ 11,570,971</u>	<u>\$ (16,907)</u>

The Company considers the declines in market value of its short-term investments to be temporary in nature. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. As of December 31, 2017, the Company does not consider any of its investments to be other-than temporarily impaired.

Contractual maturities of short-term investments as of December 31, 2017 are as follows:

	Estimated Fair Value
Due within one year	\$ 21,287,064
Total	<u>\$ 21,287,064</u>

**(3) Property and Equipment**

Depreciation and amortization of property and equipment is calculated on the straight-line method based on estimated useful lives of six to ten years for tenant improvements and three to five years for all other property and equipment. Property and equipment consist of the following:

	As of December 31,	
	2017	2016
Lab equipment	\$ 1,914,911	\$ 1,314,060
Computer equipment	169,366	165,415
Computer software	299,227	299,227
Furniture and fixtures	202,218	184,233
Tenant improvements	763,898	763,898
Other office equipment	63,825	20,591
	<u>3,413,445</u>	<u>2,747,424</u>
Less accumulated depreciation	<u>(2,376,585)</u>	<u>(1,940,338)</u>
	<u>\$ 1,036,860</u>	<u>\$ 807,086</u>

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Depreciation expense was \$436,247, \$495,347 and \$458,734 for the years ended December 31, 2017, 2016 and 2015, respectively.

**(4) Acquisitions**

*Antenna Plus*

On April 27, 2017, the Company completed the acquisition of substantially all of the assets of Antenna Plus. Antenna Plus is a supplier of antenna-based solutions for mobile and automotive fleet applications for government, public safety, and industrial Internet of Things (IOT) markets. The acquisition provides leverage for the Company's existing products into several new markets, including the fast-growing automotive fleet and industrial IOT space.

The transaction was completed pursuant to an Asset Purchase Agreement with MCA Financial Group, Ltd., acting as the court-appointed receiver for Antenna Plus. Upon the closing of the transaction, the Company paid to Antenna Plus total consideration of approximately \$6.3 million in cash, net of post-closing working capital adjustments. In addition, the Company assumed certain contracts and other liabilities of Antenna Plus, as expressly set forth in the Asset Purchase Agreement.

The following table shows the allocation of the purchase price for Antenna Plus to the acquired identifiable assets, liabilities assumed and goodwill:

<b>Consideration:</b>	
Cash	\$ 6,383,500
Working capital adjustments	(34,770)
Fair value of total consideration transferred	\$ 6,348,730
<b>Recognized amounts of identifiable assets acquired and liabilities assumed:</b>	
Accounts receivable	\$ 584,390
Inventory	432,770
Fixed assets	402,958
Intangible assets	2,600,000
Current liabilities	(121,879)
Total identifiable net assets acquired	3,898,239
Goodwill	2,450,491
Total	\$ 6,348,730

Goodwill was primarily attributable to the anticipated synergies and economies of scale expected from the operations of the combined business. The synergies include certain cost savings, operating efficiencies, and other strategic benefits projected to be achieved as a result of the acquisition. Goodwill is expected to be deductible for tax purposes.

Revenue associated with the acquired Antenna Plus assets since the date of acquisition was \$5.2 million for the year ended December 31, 2017. Cost of goods sold associated with the acquired Antenna Plus assets since the date of acquisition was \$2.3 million for the year ended December 31, 2017. Net income associated with the acquired Antenna Plus assets since the date of acquisition was net income of \$0.4 million.

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*Unaudited Pro Forma Information*

The following unaudited pro forma financial information presents combined results of operations for each of the periods presented, as if Antenna Plus had been acquired as of the beginning of the fiscal year 2015. The pro forma information includes adjustments to amortization and depreciation for intangible assets and property, plant and equipment acquired. The pro forma data are for informational purposes only and are not necessarily indicative of the consolidated results of operations of the combined business had the acquisition actually occurred at the beginning of fiscal year 2015 or of the results of future operations of the combined business. Consequently, actual results will differ from the unaudited pro forma information presented below:

	For the Year Ended December 31,		
	2017	2016	2015
Pro forma sales	\$ 51,789,215	\$ 50,940,773	\$ 34,112,518
Pro forma income from operations	\$ 1,539,538	\$ 4,436,281	\$ 458,075
Pro forma net income	\$ 1,711,598	\$ 4,717,872	\$ 518,387

*Skycross*

On December 17, 2015, the Company executed and entered into an asset purchase agreement for certain North American assets of Skycross, a manufacturer of advanced antenna and radio- frequency solutions. As a result of the acquisition, the Company expects to benefit from the acquisition primarily through the addition of new customers. The goodwill of \$1,249,956 arising from the acquisition relates to expected synergies and cost reductions through economies of scale. The amount of goodwill expected to be deductible for tax purposes is \$1,249,956.

In addition to the \$4.0 million paid up front, the purchase price also includes a contingent consideration arrangement. The \$1.0 million of deferred consideration is payable upon the later of (i) the expiration of the Transition Services Agreement between the Company and Skycross which defines transition services to be provided by Skycross to the Company, and (ii) the date on which the Company has received copies of third party approvals with respect to each customer and program that was purchased. The potential undiscounted amount of all future payments that could be required to be paid under the contingent consideration arrangement is between \$0 and \$1.0 million. The fair value of the contingent consideration was estimated by applying the income approach. The income approach is based on estimating the value of the present worth of future net cash flow.

The following table summarizes the consideration paid and the estimated fair value of the assets acquired and liabilities assumed at the acquisition date.

<b>Consideration:</b>	
Cash	\$ 4,000,000
Contingent consideration arrangement	1,000,000
Fair value of total consideration transferred	\$ 5,000,000
<b>Recognized amounts of identifiable assets acquired and liabilities assumed:</b>	
Accounts receivable	\$ 429,267
Intangible assets	3,497,000
Current liabilities	(176,223)
Total identifiable net assets acquired	3,750,044
Goodwill	1,249,956
Total	\$ 5,000,000

The fair value of accounts receivable is \$429,267. The contingent consideration of \$1.0 million is included in the deferred purchase price balance on the accompanying balance sheets as of December 31, 2017 and 2016.

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Revenue associated with the acquired Skycross assets since the date of acquisition was \$5.2 million and \$5.0 million for the year ended December 31, 2017 and 2016, respectively. Cost of goods sold associated with the acquired Skycross assets since the date of acquisition was \$1.7 million and \$1.7 million for the year ended December 31, 2017 and 2016, respectively. The acquired assets were not managed as a discrete business by the previous owner. Accordingly, the historical financial information for the assets acquired was impracticable to obtain, and inclusion of pro forma information would require the Company to make estimates and assumptions regarding these assets' historical financial results that may not be reasonable or accurate. As a result, pro forma results are not presented. It is not practicable to determine net income included in the Company's operating results relating to Skycross assets since the date of acquisition because the assets have been fully integrated into the Company's operations, and the operating results of the Skycross assets can therefore not be separately identified.

**(5) Goodwill**

Changes to the Company's goodwill balance during the year ended December 31, 2017 and 2016 are as follows:

Balance at December 31, 2015	\$ 1,249,956
Current period adjustments	—
Balance at December 31, 2016	\$ 1,249,956
Acquisition of Antenna Plus Assets	2,450,491
Balance at December 31, 2017	<u>\$ 3,700,447</u>

**(6) Intangible Assets**

The following is a summary of the Company's acquired intangible assets:

As of December 31, 2017				
	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Customer relationships	10	\$ 4,830,000	\$ 754,082	\$ 4,075,918
Developed technologies	9	1,080,000	142,477	937,523
Tradename	3	120,000	26,667	93,333
Non-compete agreement	3	67,000	45,523	21,477
Total intangible assets, net	10	<u>\$ 6,097,000</u>	<u>\$ 968,749</u>	<u>\$ 5,128,251</u>

  

As of December 31, 2016				
	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Customer relationships	10	\$ 3,150,000	\$ 327,082	\$ 2,822,918
Developed technologies	5	280,000	37,091	242,909
Non-compete agreement	3	67,000	23,190	43,810
Total intangible assets, net	10	<u>\$ 3,497,000</u>	<u>\$ 387,363</u>	<u>\$ 3,109,637</u>

In September 2016, the Company re-evaluated the useful life of the developed technologies intangible asset and determined the useful life should be reduced from 10 years to 5 years.

The estimated annual amortization of intangible assets for the next five years and thereafter is shown in the following table. Actual amortization expense to be reported in future periods could differ from these estimates as a results of acquisitions, divestitures, asset impairments, among other factors.

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	Estimated Future Amortization
2018	\$ 676,529
2019	655,052
2020	627,667
2021	598,420
2022	563,000
Thereafter	2,007,583
Total	<u>\$ 5,128,251</u>

Amortization expense was \$581,386, \$373,350 and \$14,013 for the years ended December 31, 2017, 2016 and 2015, respectively.

**(7) Long-term Notes Payable (including current portion) and Line of Credit**

In June 2012, the Company amended its line of credit with Silicon Valley Bank. The amended revolving line of credit facility allows for an advance up to \$3.0 million. The facility bears an interest rate of prime (4.50% as of December 31, 2017) plus 1.25%. The revolving credit facility is available as long as the Company maintains a liquidity ratio of cash and cash equivalents plus accounts receivable to outstanding debt under the facility of 1.25 to 1.00; otherwise, the facility reverts to its previous eligible receivables financing arrangement. The amended facility matures in April 2018. In January 2018, the Company amended and restated the revolving line of credit to increase the amount from \$3.0 million to \$10.0 million and extend the maturity date to January 31, 2020. See Note 17 for additional details. The bank has a first security interest in all the Company's assets excluding intellectual property, for which the bank has received a negative pledge. There was no balance owed on the line of credit as of December 31, 2017 and 2016.

In December 2013, the Company further amended its revolving line of credit under the amended and restated loan and security with Silicon Valley Bank to include a growth capital term loan of up to \$750,000. The growth capital term loan required interest only payments through June 30, 2014 at which point it was to be repaid in 32 equal monthly installments of interest and principal. The growth capital term loan matured on February 1, 2017, at which time \$55,230 in principal and accrued interest was paid. The growth capital term loan interest rate was 6.5%. As of December 31, 2017 there was no balance owed under this loan.

In December 2015, the Company further amended its amended and restated loan and security agreement with Silicon Valley Bank to include a term loan in the amount of \$4.0 million. The loan requires 36 monthly installments of interest and principal. The loan matures on December 1, 2018. Effective September 2017, the Company further amended its amended and restated loan and security agreement with Silicon Valley Bank to update the financial covenants. The amended and restated loan and security agreement requires the Company to maintain, at all times, measured as of the last day of each month (unless otherwise specified) either (i) a minimum cash balance of unrestricted cash at Silicon Valley Bank or its affiliate of not less than \$25.0 million or (ii) a liquidity ratio of 1.25 to 1.00 and a minimum EBITDA, measured as of the last day of each fiscal quarter for the previous six month period (for December 31, 2017 the minimum EBITDA is 750,000). The interest rate is fixed at 5%. As of December 31, 2017 and 2016, \$1,333,333 and \$2,666,666 was outstanding under this loan, respectively.

The remaining principal payments on the \$4.0 million term loan subsequent to December 31, 2017 are as follows:

Year ending:	
2018	\$ 1,333,333
	<u>\$ 1,333,333</u>

The Company was in compliance with all financial term loan and revolving line of credit financial covenants as of December 31, 2017 and 2016.

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**(8) Treasury Stock**

In August 2017, the Company's Board of Directors approved a share repurchase program pursuant to which the Company may purchase up to \$7 million of shares of its common stock over the twelve month period following the establishment of the program. The repurchases under the new share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from the Company's working capital. Repurchases will be made in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, subject to market conditions, available liquidity, cash flow, applicable legal requirements and other factors. All shares of common stock repurchased under the Company's new share repurchase program will be returned to the status of authorized but unissued shares of common stock.

As of December 31, 2017, the Company repurchased 135,000 shares of common stock under the repurchase program. These shares were repurchased at an average price per share of \$9.40, for a total cost of \$1,257,100.00.

**(9) Income Taxes**

**(a) Income Taxes**

The December 31, 2017, 2016 and 2015 income tax provision is as follows:

	For the Year Ended December 31,		
	2017	2016	2015
<b>Current:</b>			
U.S. federal	\$ 21,272	\$ —	\$ —
State and local	2,608	2,015	622
Total current provision	23,880	2,015	622
<b>Deferred:</b>			
U.S. federal	483	6,124	—
State and local	1,322	42	—
Total deferred provision	1,805	6,166	—
Total tax provision	<u>\$ 25,685</u>	<u>\$ 8,181</u>	<u>\$ 622</u>



**Airgain, Inc.**  
**Notes to Financial Statements**

**(b) Tax Rate Reconciliation**

A reconciliation of the total income tax provision tax rate to the statutory federal income tax rate of 34% for the years ended December 31, 2017, 2016 and 2015 is as follows:

	For the Year Ended December 31,		
	2017	2016	2015
Income taxes at statutory rates	\$ 396,760	\$ 1,272,242	\$ (91,705)
State income tax, net of federal benefit	3,910	2,054	411
Permanent items	(5,060)	68,944	32,530
Meals and entertainment	74,755	54,375	40,796
Equity based compensation	(645,512)	48,385	98,637
Warrant liability	—	(156,498)	(34,160)
Corporate tax rate change - impact on deferred income taxes	2,768,458	—	—
Research and development credit	206,801	(141,494)	628,573
Federal NOL adjustment	(386,441)	(206,133)	—
Federal return to provision	53,265	11,104	—
Other federal credits	112,262	—	—
Other	15,695	—	—
Change in federal valuation allowance	(2,569,208)	(944,798)	(674,460)
	<u>\$ 25,685</u>	<u>\$ 8,181</u>	<u>\$ 622</u>

**(c) Significant Components of Current and Deferred Taxes**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2017 and 2016 are as follows:

	For the Year Ended December 31,	
	2017	2016
Deferred tax assets:		
Net operating loss carryforwards	\$ 4,584,606	\$ 6,786,922
Capitalization of patent costs, goodwill and amortization	221,593	332,901
Capitalization of acquisition costs	84,640	43,523
Research and AMT credits	1,447,479	1,689,883
Stock based compensation	82,085	160,182
Deferred lease obligation	91,017	182,550
Other timing differences	72,787	51,314
	<u>6,584,207</u>	<u>9,247,275</u>
Less valuation allowance	(6,453,466)	(9,028,241)
Total deferred tax assets, net of allowance	<u>\$ 130,741</u>	<u>\$ 219,034</u>
Deferred tax liabilities:		
Fixed assets	(104,324)	(219,034)
Goodwill	(34,388)	(6,166)
Total deferred tax liabilities	<u>\$ (138,712)</u>	<u>\$ (225,200)</u>
Total deferred tax liabilities	<u>\$ (7,971)</u>	<u>\$ (6,166)</u>

The Company has established a valuation allowance against its net deferred tax assets due to the uncertainty surrounding the realization of such assets. The Company periodically evaluates the recoverability of the deferred tax assets. At such time it is determined that it is more likely than not that deferred assets are realizable, the valuation allowance will be reduced. The Company has recorded a valuation allowance of \$6,453,466 as of December 31, 2017 as it does not believe it is more likely than not that certain deferred tax assets will be realized due to the recent history of both pre-tax book income

**Airgain, Inc.**  
**Notes to Financial Statements**

and losses, the lack of taxable income available in carryback periods or feasible tax-planning strategies, the limited existing taxable temporary differences, and the subjective nature of forecasting future taxable income into the future. Should the Company continue to achieve substantial pre-tax book income during 2018 or be better able to forecast taxable income into the future, the Company may need to release a portion of their federal valuation allowance during 2018. Due to the Company's relatively low apportionment in California, a release of state-related valuation allowance is unlikely. The Company decreased its valuation allowance by approximately \$2,574,764 during the year ended December 31, 2017.

At December 31, 2017, the Company had federal and California tax loss carryforwards of approximately \$19,152,650, and \$5,715,729, respectively. The federal and state net operating loss carry forwards begin to expire in 2020 and 2028, respectively, if unused.

At December 31, 2017, the Company had federal and state tax credit carry forwards of approximately \$936,228, and \$1,192,688, respectively, after reduction for uncertain tax positions. The Company has not performed a formal research and development credit study with respect to certain of these credits. The federal credits will begin to expire in 2026, if unused, and the state credits carry forward indefinitely.

Pursuant to the Internal Revenue Code of 1986, as amended (IRC), specifically IRC §382 and IRC §383, the Company's ability to use net operating loss and research and development tax credit carry forwards ("tax attribute carry forwards") to offset future taxable income is limited if the Company experiences a cumulative change in ownership of more than 50% within a three-year testing period. The Company has not completed an ownership change analysis pursuant to IRC Section 382 for taxable years ended after December 31, 2012. If ownership changes within the meaning of IRC Section 382 are identified as having occurred subsequent to 2012, the amount of remaining tax attribute carry forwards available to offset future taxable income and income tax expense in future years may be significantly restricted or eliminated. Further, the Company's deferred tax assets associated with such tax attributes could be significantly reduced upon realization of an ownership change within the meaning of IRC §382.

In December 2017, the Tax Cuts and Jobs Act (the 2017 Tax Act) was enacted. The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning December 31, 2018. The 2017 Tax Act also provides for the acceleration of depreciation for certain assets placed in service after September 27, 2017 as well as prospective changes beginning in 2018, including additional limitations on executive compensation, limitations on the deductibility of interest and capitalization of research and development expenditures.

Reduction of the U.S. Corporate Income Tax Rate: The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, the Company's deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from the graduated tax rate of 34 percent to a 21 percent flat tax, which resulted in \$2.8 million increase in tax expense for the year ended December 31, 2017 and a corresponding \$2.8 million decrease in net deferred tax assets as of December 31, 2017. The impact was offset by the Company's valuation allowance except to the extent of indefinite lived intangibles.

The following table summarizes the reconciliation of the unrecognized tax benefits activity during the years ended December 31, 2017 and 2016:

	For the Year Ended December 31,	
	2017	2016
Beginning unrecognized tax benefits	\$ 1,532,000	\$ 1,408,000
Decreases related to prior year tax positions	(1,001,000)	(53,000)
Increases related to current year tax positions	179,000	177,000
Ending unrecognized tax benefits	\$ 710,000	\$ 1,532,000

**Airgain, Inc.**  
**Notes to Financial Statements**

The unrecognized tax benefit amounts are reflected in the determination of the Company's deferred tax assets. The Company does not foresee material changes to its uncertain tax benefits within the next twelve months.

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company has an accrual for interest or penalties of \$785 and \$0 on the Company's balance sheets as of December 31, 2017 and 2016, respectively, and has recognized interest and/or penalties in the Statement of Operations for the year ended December 31, 2017 in the amount of \$785.

Due to the existence of federal and state net operating loss and credit carryovers, the Company's tax years that remain open and subject to examination by tax jurisdiction are years 2000 and forward for federal and years 2006 and forward for the state of California.

**(10) Stockholders' Equity (Deficit)**

**(a) Preferred Convertible Stock**

In June 2000, the Company sold 313,500 shares of Series A preferred convertible stock (Series A Preferred Stock) at \$3.84 per share for gross proceeds of \$1.2 million.

In March 2001, the Company sold 290,993 shares of Series B preferred convertible stock (Series B Preferred Stock) at \$4.39 per share for gross proceeds of \$1.3 million in cash. At various times during 2003 the company issued a total of 866,613 additional shares of Series B Preferred Stock for cash and as compensation for services received and to satisfy debt obligations totaling approximately \$1.2 million.

In September 2003, the Company sold 682,000 shares of Series C preferred convertible stock (Series C Preferred Stock) at \$1.00 per share for gross proceeds of \$0.7 million.

In November 2003, the Company sold 4,091,068 shares of Series D Preferred Convertible Stock (Series D Preferred Stock) at \$0.542 per share for gross proceeds of \$2.2 million.

The holders of the Series A, B, C and D Preferred Stock (collectively, Junior Preferred Stock), were entitled to receive cumulative dividends at a rate of \$0.0488, \$0.00, \$0.00 and \$0.0488 per share, per annum, respectively, and were payable upon liquidation, redemption or conversion in order of their preference prior to any dividends on common stock.

The holders of the Junior Preferred Stock were entitled to receive liquidation preferences upon certain deemed liquidation events at the rate equal to their purchase price per share plus all accrued and unpaid dividends. Upon completion of this distribution, any remaining assets were distributed to the holders of the common stock and to holders of the Junior Preferred Stock and to the holders of the Series E, F, and G Preferred Stock (collectively, Senior Preferred Stock) (on an as converted basis) until all amounts received by the holders of the Series A Preferred Stock were equal to \$19.20 per share, the Series D Preferred Stock were equal to \$2.168 per share, Series E Preferred Stock were equal to \$4.44 per share, Series F Preferred Stock were equal to \$5.20 per share, and Series G Preferred Stock were equal to \$5.20 per share, the remaining assets were distributed among holders of shares of the common stock. The holders of the Senior Preferred Stock had priority and were made in preference to any payments to the Junior Preferred Stock up to the Senior Preferred Stock's liquidation preference. The holders of the Junior Preferred Stock had priority and were made in preference to any payments to the holders of the common stock up to the Junior Preferred Stock's liquidation preference. After distribution of both the Senior Preferred Stock and Junior Preferred Stock's liquidation preferences, any remaining assets of the Company were distributed to the holders of the common stock.

Each share of Junior Preferred Stock was convertible, at the option of the holder, at any time, into a number of shares of common stock at a conversion price of \$21.70, \$24.23, \$8.59, \$5.42 for the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, respectively, subject to adjustments for stock dividends, combinations, subdivisions, reclassifications and reorganizations. Each share of Junior Preferred Stock was automatically convertible into common

**Airgain, Inc.**  
**Notes to Financial Statements**

stock immediately upon the earlier of (i) the Company's sale of its common stock in a firm commitment, underwritten public offering registered under the Securities Act of 1933, as amended, in which aggregate proceeds to the Company are at least \$15.0 million and at a per share offering price of at least \$76.80 per share, as adjusted for any stock dividends, combinations, reclassifications, recapitalizations or splits, or (ii) the date specified by written consent or agreement by the holders of the majority of the then outstanding shares voting together as a single class on an as-converted basis (without giving effect to the conversion dividends).

As long as 1,678,450 shares of Junior Preferred Stock remained outstanding, the Company was prohibited from certain transactions without the consent of at least 50% of the then outstanding shares of Junior Preferred Stock or the majority of the Board of Directors.

The holders of the Junior Preferred Stock were entitled to the number of votes equal to the number of shares of common stock into which such shares of preferred stock could be converted and had voting rights and powers equal to the voting rights and powers of the common stock.

In connection with the completion of the Company's initial public offering (IPO), all 6,244,174 outstanding shares of the Company's preferred convertible stock automatically converted into an aggregate of 753,611 shares of common stock. In addition, the Company issued 505,576 shares of its common stock in satisfaction of accumulated dividends on such preferred stock as the completion of the IPO.

**(b) Shares Reserved for Future Issuance**

The following common stock is reserved for future issuance at December 31, 2017 and December 31, 2016:

	As of December 31,	
	2017 (1)	2016
Warrants issued and outstanding	51,003	51,003
Stock option awards issued and outstanding	1,203,627	1,040,387
Authorized for grants under the 2016 Equity Incentive Plan	633,052	709,750
Authorized for grants under the 2016 Employee Stock Purchase Plan	100,000	100,000
	<u>1,987,682</u>	<u>1,901,140</u>

(1) Treasury stock in the amount of 135,000 are excluded from the table above.

**(11) Preferred Redeemable Convertible Stock**

In June 2005 and February 2006, the Company sold a total of 7,984,727 shares of Series E Preferred Redeemable Convertible Stock (Series E Preferred Stock) at \$1.11 per share for gross proceeds of \$8.8 million in cash.

In February 2007, the Company sold 4,734,374 shares of Series F Preferred Redeemable Convertible Stock (Series F Preferred Stock) at \$1.30 per share for gross proceeds of \$6.2 million in cash.

In March 2008 and June 2009, the Company completed an offering of Series G Preferred Stock at \$1.30 per share for gross proceeds of \$4.3 million in cash. In June 2012, the then outstanding convertible promissory notes and accrued interest thereon in the amount of \$7.1 million converted to 6,216,607 and 463,856 shares of Series G Preferred Stock at the conversion price of \$1.04 or \$1.30 per share, respectively.

The holders of the Senior Preferred Stock were entitled to receive cumulative dividends at a rate of 8% of the original purchase price, per annum and were payable in cash or common shares, at the option of the Company upon liquidation, redemption or conversion in order of their preference prior to any dividends on common stock or Junior Preferred Stock.

**Airgain, Inc.**  
**Notes to Financial Statements**

The holders of the Senior Preferred Stock were entitled to receive liquidation preferences upon certain deemed liquidation events at the rate equal to their conversion price per share plus all accrued and unpaid dividends.

Each share of Senior Preferred Stock was convertible, at the option of the holder, at any time, into a number of shares of common stock at a conversion price of \$11.11, \$13.00, and \$13.00 for the Series E Preferred Stock, Series F Preferred Stock, and Series G Preferred Stock, respectively, subject to adjustments for stock dividends, combinations, subdivisions, reclassifications and reorganizations.

Each share of Senior Preferred Stock was automatically convertible into common stock immediately upon the earlier of (i) the Company's sale of its common stock in a firm commitment, underwritten public offering registered under the Securities Act of 1933, as amended, in which aggregate proceeds to the Company are at least \$15.0 million, and at a per share offering price of at least \$76.80 per share, as adjusted for any stock dividends, combinations, reclassifications, recapitalizations or splits, or (ii) the date specified by written consent or agreement by the holders of the majority of the then outstanding shares voting together as a single class, provided that the Junior Preferred Stock will also concurrently convert.

As long as 4,875,000 shares of Senior Preferred Stock remained outstanding, the Company was prohibited from certain transactions without the consent of at least 50% of the then outstanding shares of Senior Preferred Stock or the majority of the Board of Directors.

The holders of the Senior Preferred Stock were entitled to the number of votes equal to the number of shares of common stock into which such shares of preferred stock could be converted and have voting rights and powers equal to the voting rights and powers of the common stock.

The following table provides a rollforward of the preferred redeemable convertible stock during the year ended December 31, 2016:

	Preferred redeemable convertible stock	
	Shares	Amount
Balance at December 31, 2015	23,271,702	\$ 43,106,906
Effect of accretion to redemption value	—	1,356,707
Conversion of preferred redeemable convertible stock into common stock	(23,271,702)	(44,463,613)
Balance at December 31, 2016	—	\$ —

In connection with the completion of the IPO, all 23,271,702 outstanding shares of the Company's preferred redeemable convertible stock automatically converted to 2,327,122 shares of common stock. In addition, the Company issued 1,451,631 shares of its common stock in satisfaction of accumulated dividends on such preferred stock as of the completion of the IPO. There was no preferred redeemable convertible stock activity in the year ended December 31, 2017.

**(12) Stock Options**

In August 2016, the Company's board of directors adopted the 2016 Equity Incentive Plan (the 2016 Plan) for employees, directors, and consultants. As of December 31, 2017, 633,052 shares are available for issuance under the 2016 Plan, of which 429,750 shares were rolled from the 2013 Equity Incentive Plan (the 2013 Plan) into the 2016 Plan.

In 2013, the Company's board of directors adopted the 2013 Plan for employees, directors, and consultants. The common stock authorized under the 2013 Plan is 1,200,000 shares. Under the Plan, the administrator shall have authority to determine which service providers will receive awards, to grant awards and to set all terms and conditions of awards (including, but not limited to, vesting, exercise and forfeiture provisions). Vested options are canceled 90 days after termination of employment and become available for reissuance under the Plan. As of December 31, 2017 and December 31, 2016, no shares were available for issuance under the 2013 Plan.

The service period for stock options granted to employees is generally 1 to 4 years.

**Airgain, Inc.**  
**Notes to Financial Statements**

The grant-date fair value of each option award is estimated on the date of grant using the Black- Scholes-Merton option-pricing model. The weighted average assumptions for December 31, 2017, 2016 and 2015 grants are provided in the following table. The Company's lack of historical share option exercise experience does not provide it a reasonable basis upon which to estimate an expected term because of a lack of sufficient data.

Therefore, the Company estimates the expected term by using the simplified method, which calculates the expected term as the average of the time-to-vesting and the contractual life of the options. Since the Company's shares have only been publicly traded since August 12, 2016 and its shares were rarely traded privately, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant.

	As of December 31,		
	2017	2016	2015
Valuation assumptions:			
Expected dividend yield	0%	0%	0%
Expected volatility	39.37%	41.82%	56.74%
Expected term (years)	6.06	6.07	5.42
Risk-free interest rate	1.9%	1.6%	1.7%

Stock option activity during the periods indicated is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term
Balance at December 31, 2014	504,550	\$ 2.60	5.8
Granted	512,402	2.00	9.2
Exercised	(24,260)	3.19	—
Expired/Forfeited	(236,000)	2.77	—
Balance at December 31, 2015	756,692	\$ 2.10	7.6
Granted	359,319	2.60	9.4
Exercised	(58,155)	2.36	3.5
Expired/Forfeited	(17,469)	2.13	2.6
Balance at December 31, 2016	1,040,387	\$ 2.25	7.8
Granted	471,144	14.72	9.1
Exercised	(284,455)	2.07	5.2
Expired/Forfeited	(23,449)	8.22	—
Balance at December 31, 2017	1,203,627	\$ 7.06	8.1
Vested and exercisable at December 31, 2017	523,566	\$ 2.21	7.0
Vested and expected to vest at December 31, 2017	1,203,627	\$ 7.06	8.1

The weighted average grant-date fair value of options granted during the years ended December 31, 2017, 2016 and 2015 was \$6.02, \$1.23 and \$0.84, respectively. For fully vested stock options the aggregate intrinsic value was \$3,596,624 and \$7,770,086 as of December 31, 2017 and 2016, respectively. For stock options expected to vest the aggregate intrinsic value was \$1,469,154 and \$4,569,243 as of December 31, 2017 and 2016, respectively. At December 31, 2015, the aggregate intrinsic value for fully vested stock options and stock options expected to vest was immaterial. The total grant date fair value of shares vested during the years ended December 31, 2017, 2016 and 2015 was \$322,804, \$176,597 and \$345,174, respectively.

During the year ended December 31, 2016, a total of 57,475 shares of restricted common stock with a fair value of \$2.00 per share were issued to the Company's Chief Financial Officer and Chief Operating Officer of which 100% of the shares vested in the year ended December 31, 2017.

**Airgain, Inc.**  
**Notes to Financial Statements**

At December 31, 2017, 2016 and 2015, there was \$2,453,342, \$522,818 and \$214,304, respectively, of total unrecognized compensation cost related to unvested stock options and restricted stock granted under the plans. That cost is expected to be recognized over the next three years.

The Company currently uses authorized and unissued shares to satisfy share award exercises.

**(13) Commitments and Contingencies**

**(a) Operating Leases**

The Company has entered into lease agreements for office space and research facilities in San Diego, California; Rancho Santa Fe, California; Poway, California; Melbourne, Florida; Scottsdale, Arizona; Taipei, Taiwan; Shenzhen and Jiangsu, China; and Cambridgeshire, United Kingdom. Rent expense was \$805,271, \$742,829 and \$672,526, for the years ended December 31, 2017, 2016 and 2015, respectively. The longest lease expires in December 2020. The Company moved into its new facility in San Diego, California during the year ended December 31, 2014. The new San Diego facility lease agreement included a tenant improvement allowance which provided for the landlord to pay for tenant improvements on behalf of the Company up to \$515,000. Based on the terms of this landlord incentive and involvement of the Company in the construction process, the leasehold improvements purchased under the landlord incentive were determined to be property of the Company.

The future minimum lease payments required under operating leases in effect at December 31, 2017 were as follows:

Year ending:	
2018	\$ 978,873
2019	825,193
2020	502,461
2021	134,529
2022	22,527
	<u>\$ 2,463,583</u>

**(b) 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 financial statements.

**(c) Employment Agreements**

During 2014 the Company entered into employment agreements with its Chief Executive Officer and certain members of its management team. These agreements provide severance in the aggregate amount of \$575,000 for termination without cause as defined in the agreements.

**Airgain, Inc.**  
**Notes to Financial Statements**

**(14) Concentration of Credit Risk**

**(a) Concentration of Sales and Accounts Receivable**

The following represents customers that accounted for 10% or more of total revenue during the years ended December 31, 2017, 2016 and 2015 and customers that accounted for 10% or more of total trade accounts receivable at December 31, 2017 and 2016:

	For the Year Ended December 31,		
	2017	2016	2015
Percentage of net revenue			
Customer A	21%	20%	15%
Customer B	13	31	28
Customer C	10	8	1

  

	As of December 31,	
	2017	2016
Percentage of gross trade accounts receivable		
Customer A	19%	13%
Customer B	13	18
Customer C	10	13
Customer D	9	16

**(b) Revenue by Geography**

Net revenue by geographic area are as follows. Revenue is attributed by geographic location based on the bill-to location of the Company's customers.

	For the Year Ended December 31,		
	2017	2016	2015
Percentage of net revenue			
China	67%	74%	64%
Other Asia	10	11	21
North America	18	10	9
Europe	5	5	6

Although the Company ships the majority of antennas to its customers in China (primarily ODM's and distributors), the end-users of the Company's products are much more geographically diverse.

**(c) Concentration of Purchases**

During the year ended December 31, 2017, all of the Company's products were manufactured in our Shullsburg, Wisconsin and Scottsdale, Arizona facilities and by two vendors in China. Manufacturing completed in our Shullsburg, Wisconsin facility was transferred to the Scottsdale, Arizona facility once the facility was closed in July 2017. During the year ended December 31, 2016 and 2015, all of the Company's products were manufactured by two vendors in China.

**(15) Related-Party Transactions**

During the year ended December 31, 2014, the Company provided its Chief Executive Officer a loan of \$266,282 for the payment of federal and state income taxes payable by him as the result of issuance of restricted stock. During the year ended December 31, 2015, the Company forgave the loan and incurred \$266,282 of expense for the loan forgiveness and an additional \$236,414 of expense related to the Chief Executive Officer's taxes on the loan forgiveness.



**Airgain, Inc.**  
**Notes to Financial Statements**

**(16) Employee Benefit Plan**

The Company established a discretionary 401(k) plan effective January 2005. The 401(k) plan was amended and restated in May 2006. The 401(k) plan covers substantially all employees who have attained age 21. The participants may elect to defer a percentage of their compensation as allowable by law. The Company can make discretionary matching contributions, but so far has not done so.

**(17) Subsequent Events**

On January 31, 2018, the Company entered into a second amended and restated loan and security agreement (the Amended Loan Agreement) with Silicon Valley Bank. The Amended Loan Agreement modified the amended and restated loan and security agreement to, among other things, increase the aggregate principal amount available under the revolving line of credit from \$3.0 million to \$10.0 million and modify certain existing financial covenants.

Under the Amended Loan Agreement, the Company may borrow up to \$10.0 million under the line of credit, subject to a borrowing base limit of 80% of the aggregate face amount of all eligible receivables. The Amended Loan Agreement removed the minimum EBITDA requirement previously applicable to the line of credit and term loan, and maintained the liquidity ratio financial covenant such that the Company must maintain a ratio of cash and cash equivalents plus accounts receivable outstanding debt under the Amended Loan Agreement minus deferred revenue of 1.25 to 1.00.

The Company will be required to pay interest on borrowings outstanding, if any, under the revolving line of credit at a floating rate per annum equal to 1% above the Wall Street Journal prime rate (or, if unavailable, the Silicon Valley Bank prime rate) on a monthly basis, so long as the Company maintains a liquidity ratio of cash and cash equivalents plus accounts receivable to outstanding debt under the Amended Loan Agreement minus deferred revenue of 1.50 to 1.00. If this liquidity ratio is not met, the Company will be subject to a minimum interest charge of \$3,000 per month and borrowings outstanding, if any, under the revolving line of credit will accrue interest at a floating rate per annum equal to 2% above the Wall Street Journal prime rate (or, if unavailable, the Silicon Valley Bank prime rate) prime rate on a monthly basis.

Borrowings outstanding under the term loan under the amended and restated loan and security agreement will continue to be repaid in equal monthly installments of interest and principal and matures on December 1, 2018. The revolving line of credit matures on January 31, 2020.

Silicon Valley Bank maintains a first security interest over the Company's assets, excluding intellectual property, for which Silicon Valley Bank has received a negative pledge. The Amended Loan Agreement contains customary affirmative and negative covenants and events of default applicable to us and any subsidiaries.

**(18) Quarterly Financial Information (unaudited)**

The following is a summary of the quarterly results of operations for the years ended December 31, 2017 and 2016:

**Airgain, Inc.**  
**Notes to Financial Statements**

	For the Three Months Ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Revenues	\$ 12,807,175	\$ 12,448,436	\$ 13,013,143	\$ 11,252,417
Gross Profit	5,888,332	6,003,892	6,121,524	5,288,458
Total operating expenses	5,418,089	5,803,260	6,248,678	4,862,979
Net income	591,933	234,353	(70,121)	385,090
Basic net income (loss) per share	\$ 0.06	\$ 0.02	\$ (0.01)	\$ 0.04
Diluted net income (loss) per share	\$ 0.06	\$ 0.02	\$ (0.01)	\$ 0.04

	For the Three Months Ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Revenues	\$ 12,625,966	\$ 12,439,279	\$ 9,856,317	\$ 8,512,305
Gross Profit	5,476,403	5,576,287	4,546,761	3,677,624
Total operating expenses	4,345,198	4,345,965	3,572,915	3,560,830
Net income (loss)	1,100,302	1,183,044	1,311,209	139,153
Basic net loss per share	\$ 0.14	\$ 0.21	\$ 0.97	\$ (0.70)
Diluted net loss per share	\$ 0.12	\$ 0.16	\$ 0.15	\$ (0.82)

## EXHIBIT INDEX

Exhibit Number	Description of Exhibit
<a href="#"><u>3.1(1)</u></a>	<a href="#"><u>Amended and Restated Certificate of Incorporation, as amended (currently in effect)</u></a>
<a href="#"><u>3.2(1)</u></a>	<a href="#"><u>Bylaws, as amended (currently in effect)</u></a>
<a href="#"><u>4.1(2)</u></a>	<a href="#"><u>Specimen stock certificate evidencing the shares of common stock</u></a>
<a href="#"><u>4.2(3)</u></a>	<a href="#"><u>Fourth Amended and Restated Investors' Rights Agreement, dated May 7, 2008</u></a>
<a href="#"><u>4.3(2)</u></a>	<a href="#"><u>Form of Warrant issued to Northland Securities, Inc. in connection with the Registrant's initial public offering</u></a>
<a href="#"><u>10.1(3)</u></a>	<a href="#"><u>Office Lease, dated June 13, 2013, by and between Kilroy Realty, L.P. and the Registrant</u></a>
<a href="#"><u>10.2(2)</u></a>	<a href="#"><u>Form of Indemnity Agreement for Directors and Officers</u></a>
<a href="#"><u>10.3#(3)</u></a>	<a href="#"><u>Airgain, Inc. 2003 Equity Incentive Plan</u></a>
<a href="#"><u>10.4#(3)</u></a>	<a href="#"><u>Form of Stock Option Agreement under the Airgain, Inc. 2003 Equity Incentive Plan</u></a>
<a href="#"><u>10.5#(3)</u></a>	<a href="#"><u>Airgain, Inc. 2013 Equity Incentive Plan</u></a>
<a href="#"><u>10.6#(3)</u></a>	<a href="#"><u>Form of Stock Option Grant Notice and Stock Option Agreement under the Airgain, Inc. 2013 Equity Incentive Plan</u></a>
<a href="#"><u>10.7#(3)</u></a>	<a href="#"><u>Restricted Stock Grant Notice and Restricted Stock Agreement under the Airgain, Inc. 2013 Equity Incentive Plan dated March 1, 2014, by and between Charles Myers and the Registrant</u></a>
<a href="#"><u>10.8#(2)</u></a>	<a href="#"><u>Airgain, Inc. 2016 Incentive Award Plan</u></a>
<a href="#"><u>10.9#(2)</u></a>	<a href="#"><u>Form of Stock Option Agreement under the Airgain, Inc. 2016 Incentive Award Plan</u></a>
<a href="#"><u>10.10#(2)</u></a>	<a href="#"><u>Airgain, Inc. 2016 Employee Stock Purchase Plan</u></a>
<a href="#"><u>10.11#(2)</u></a>	<a href="#"><u>Non-Employee Director Compensation Policy</u></a>
<a href="#"><u>10.12#(3)</u></a>	<a href="#"><u>Employment Agreement, dated October 28, 2013, by and between Charles A. Myers and the Registrant</u></a>
<a href="#"><u>10.13#(3)</u></a>	<a href="#"><u>Employment Agreement, dated July 28, 2014, by and between Leo Johnson and the Registrant</u></a>
<a href="#"><u>10.14#(3)</u></a>	<a href="#"><u>Services Agreement, dated December 4, 2012, by and between Leo Johnson and the Registrant</u></a>
<a href="#"><u>10.15#(3)</u></a>	<a href="#"><u>Employment Agreement, dated January 1, 2014, by and between Glenn Selbo and the Registrant</u></a>
<a href="#"><u>10.16(4)</u></a>	<a href="#"><u>Asset Purchase Agreement, dated as of April 7, 2017, by and between the Registrant and MCA Financial Group, Inc. acting as the appointed receiver for Antenna Plus, LLC.</u></a>
<a href="#"><u>10.17</u></a>	<a href="#"><u>Second Amended and Restated Loan and Security Agreement, dated January 31, 2018, by and between Silicon Valley Bank and the Registrant</u></a>
<a href="#"><u>10.18#(5)</u></a>	<a href="#"><u>Employment Agreement, dated February 5, 2018, by and between Anil Doradla and the Registrant</u></a>
<a href="#"><u>23.1</u></a>	<a href="#"><u>Consent of KPMG LLP, independent registered public accounting firm</u></a>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended</u></a>
<a href="#"><u>32.1*</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>32.2*</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
(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 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.
(3)	Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 212542), filed with the SEC on July 15, 2016.
(4)	Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, filed with the SEC on May 12, 2017.
(5)	Incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the SEC on February 9, 2018.
#	Indicates management contract or compensatory plan.
*	These certifications are being furnished solely to accompany this annual 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.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

### AIGAIN, INC.

/s/ Charles Myers  
Charles Myers  
President and Chief Executive Officer

Date: March 15, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Charles Myers</u> <b>Charles Myers</b>	President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2018
<u>/s/ Leo Johnson</u> <b>Leo Johnson</b>	Principal Financial Officer and Principal Accounting Officer	March 15, 2018
<u>/s/ James K. Sims</u> <b>James K. Sims</b>	Chairman of the Board	March 15, 2018
<u>/s/ Joan Gillman</u> <b>Joan Gillman</b>	Director	March 15, 2018
<u>/s/ Frances Kordyback</u> <b>Frances Kordyback</b>	Director	March 15, 2018
<u>/s/ Thomas A. Munro</u> <b>Thomas A. Munro</b>	Director	March 15, 2018
<u>/s/ Arthur M. Toscanini</u> <b>Arthur M. Toscanini</b>	Director	March 15, 2018

## SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

**THIS SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT** (this “**Agreement**”) dated as of January 31, 2018 (the “**Effective Date**”) between **SILICON VALLEY BANK**, a California corporation (“**Bank**”), and **AIRGAIN, INC.**, a Delaware corporation (“**Borrower**”) amends and restates the terms of that certain Amended and Restated Loan and Security Agreement, dated as of May 21, 2012 by and between Borrower and Bank (as amended from time to time, the “**Original Agreement**”) and provides the terms on which Bank shall lend to Borrower and Borrower shall repay Bank. The parties agree as follows:

**1                    ACCOUNTING AND OTHER TERMS**

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP; provided that if at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either Borrower or Bank shall so request, Borrower and Bank shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided, further, that, until so amended, (a) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (b) Borrower shall provide Bank financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

**2                    LOAN AND TERMS OF PAYMENT**

**2.1                    Promise to Pay.** Borrower hereby unconditionally promises to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

**2.2                    Revolving Line.**

(a)                    Availability. Subject to the terms and conditions of this Agreement and to deduction of Reserves, Bank may, in its good faith business discretion, make Advances not exceeding the Availability Amount. Amounts borrowed under the Revolving Line may be repaid and, prior to the Revolving Line Maturity Date, reborrowed, subject to the applicable terms and conditions precedent herein.

(b)                    Termination; Repayment. The Revolving Line terminates on the Revolving Line Maturity Date, when the principal amount of all Advances, the unpaid interest thereon, and all other Obligations relating to the Revolving Line shall be immediately due and payable.

**2.3                    Term Loan.**

(a)                    Availability. As of the Effective Date, the aggregate principal amount of the outstanding Term Loan owing from Borrower to Bank under the Original Agreement is One Million Two Hundred Twenty-Two Thousand Two Hundred Twenty-Two Dollars and Twenty-Five Cents (\$1,222,222.25) (the “**Term Loan**”). Borrower will continue to repay the Term Loan pursuant to the terms set forth in Section 2.3(b) below. No additional Term Loans shall be made from Bank to Borrower.

(b)                    Repayment. Borrower shall continue to repay the Term Loan in (i) equal monthly installments of principal, plus (ii) monthly payments of accrued interest (each, a “**Term Loan Payment**”) at the rate set forth in Section 2.5(a) on the first day of each month through the Term Loan Maturity Date. Borrower’s final Term Loan Payment, due on the Term Loan Maturity Date shall include all outstanding principal and accrued and unpaid interest under the Term Loan. Once repaid, the Term Loan may not be reborrowed.

(c)                    Prepayment.

(i) Permitted Prepayment. So long as no Event of Default has occurred and is continuing, Borrower shall have the option to prepay in whole or in part the Term Loan advanced by Bank under this Agreement, provided Borrower (i) delivers written notice to Bank of its election to prepay the Term Loan at least thirty (30) days prior to such prepayment, and (ii) pays, on the date of such prepayment (a) all outstanding principal, plus accrued and unpaid interest with respect to the prepaid Term Loan, (b) the applicable portion of the Final Payment and (c) all other sums, if any, that shall have become due and payable hereunder in connection with the prepaid Term Loan. Any partial prepayment of the Term Loan paid by Borrower shall be applied to prepay amounts owing under the Term Loan in inverse order of maturity.

(ii) Mandatory Prepayment Upon an Acceleration. If the Term Loan is accelerated following the occurrence and during the continuance of an Event of Default, Borrower shall immediately pay to Bank an amount equal to the sum of (i) all outstanding principal, plus accrued and unpaid interest thereon, (ii) the Final Payment and (iii) all other sums, if any, that shall have become due and payable hereunder in connection with the Term Loan.

**2.4 Overadvances.** If, at any time, the outstanding principal amount of any Advances exceeds the lesser of either the Revolving Line or the Borrowing Base, Borrower shall immediately pay to Bank in cash the amount of such excess (such excess, the “**Overadvance**”). Without limiting Borrower’s obligation to repay Bank any Overadvance, Borrower agrees to pay Bank interest on the outstanding amount of any Overadvance, on demand, at a per annum rate equal to the rate that is otherwise applicable to Advances plus five percent (5.0%).

**2.5 Payment of Interest on the Credit Extensions.**

(a) Interest Rates.

(i) Advances. Subject to Section 2.5(b), the principal amount outstanding under the Revolving Line shall accrue interest at a floating per annum rate equal to (i) one percentage point (1.0%) above the Prime Rate at all times when a Streamline Period is in effect, and (ii) two percentage points (2.0%) above the Prime Rate at all times when a Streamline Period is not in effect, which interest shall be payable monthly in accordance with Section 2.5(e) below.

(ii) Term Loan. Subject to Section 2.5(b), the principal amount outstanding under the Term Loan shall accrue interest at a fixed per annum rate equal to five percentage points (5.0%), which interest shall be payable monthly in accordance with Section 2.5(e) below.

(b) Default Rate. Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is five percent (5.0%) above the rate that is otherwise applicable thereto (the “**Default Rate**”) unless the Bank otherwise elects from time to time in its sole discretion to impose a smaller increase. Fees and expenses which are required to be paid by Borrower pursuant to the Loan Documents (including, without limitation, Bank Expenses) but are not paid when due shall bear interest until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of the increased interest rate provided in this Section 2.5(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

(c) Adjustment to Interest Rate. Changes to the interest rate of any Credit Extension based on changes to the Prime Rate shall be effective on the effective date of any change to the Prime Rate and to the extent of any such change.

(d) Minimum Interest. Unless a Streamline Period is in effect, in the event the aggregate amount of interest earned by Bank in connection with the Revolving Line in any month (such period, the “**Minimum Interest Period**,” which period shall begin on the Effective Date and continue with each month thereafter until the earlier of the Revolving Line Maturity Date or the date this Agreement is terminated) is less than Three Thousand Dollars (\$3,000) (inclusive of any float charges, and exclusive of any other fees and charges hereunder) (“**Minimum Interest**”), Borrower shall pay to Bank, upon demand by Bank, an amount equal to the (i) Minimum Interest minus (ii) the aggregate amount of all interest earned by Bank (inclusive of any float charges, and

exclusive of any other fees and charges hereunder) in such Minimum Interest Period. The amount of Minimum Interest charged shall be prorated for any partial Minimum Interest Period. Borrower shall not be entitled to any credit, rebate, or repayment of any Minimum Interest pursuant to this Section 2.5(d) notwithstanding any termination of this Agreement or the suspension or termination of Bank's obligation to make loans and advances hereunder. Bank may deduct amounts owing by Borrower under this Section 2.5(d) pursuant to the terms of Section 2.7(c). Bank shall provide Borrower written notice of deductions made from the Designated Deposit Account pursuant to the terms of this Section 2.5(d).

(e) Payment; Interest Computation. Interest is payable monthly on the Payment Date of each month and shall be computed on the basis of a 360-day year for the actual number of days elapsed. In computing interest, (i) all payments received after 12:00 p.m. Pacific time on any day shall be deemed received at the opening of business on the next Business Day, and (ii) the date of the making of any Credit Extension shall be included and the date of payment shall be excluded; provided, however, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension. In addition, so long as any principal with respect to any Advance remains outstanding, Bank shall be entitled to charge Borrower a "float" charge in an amount equal to three (3) Business Days interest, at the interest rate applicable to the Advances, on all payments received by Bank. Such float charge is included in interest for purposes of computing Minimum Interest.

**2.6 Fees.** Borrower shall pay to Bank:

(a) Revolving Line Commitment Fee. A fully earned, non-refundable commitment fee of Fifteen Thousand Dollars (\$15,000), on the Effective Date;

(b) Anniversary Fee. A fully earned, non-refundable anniversary fee of Fifteen Thousand Dollars (\$15,000) (the "Anniversary Fee") is earned as of the Effective Date and is due and payable annually on each anniversary of the Effective Date, or the earliest to occur of (i) the termination of this Agreement or (ii) the occurrence of an Event of Default;

(c) Early Termination Fee. If the Revolving Line is terminated prior to the Revolving Line Maturity Date, Borrower shall pay to Bank a termination fee in an amount equal to Three Thousand Dollars (\$3,000) multiplied by the number of months remaining prior to the Revolving Line Maturity Date (the "Early Termination Fee"). The Early Termination Fee shall not apply if Borrower refinances this facility, or enters into a new facility, with Bank or any of Bank's Affiliates.

(d) Final Payment. The Final Payment, when due hereunder;

(e) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due (or, if no stated due date, upon demand by Bank).

(f) Fees Fully Earned. Unless otherwise provided in this Agreement or in a separate writing by Bank, Borrower shall not be entitled to any credit, rebate, or repayment of any fees earned by Bank pursuant to this Agreement notwithstanding any termination of this Agreement or the suspension or termination of Bank's obligation to make loans and advances hereunder. Bank may deduct amounts owing by Borrower under the clauses of this Section 2.6 pursuant to the terms of Section 2.7(c). Bank shall provide Borrower written notice of deductions made from the Designated Deposit Account pursuant to the terms of the clauses of this Section 2.6.

**2.7 Payments; Application of Payments; Debit of Accounts.**

(a) All payments to be made by Borrower under any Loan Document shall be made in immediately available funds in Dollars, without setoff or counterclaim, before 12:00 p.m. Pacific time on the date when due. Payments of principal and/or interest received after 12:00 p.m. Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid.



(b) Bank has the exclusive right to determine the order and manner in which all payments with respect to the Obligations may be applied. Borrower shall have no right to specify the order or the accounts to which Bank shall allocate or apply any payments required to be made by Borrower to Bank or otherwise received by Bank under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

(c) Bank may debit any of Borrower's deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes Bank when due. These debits shall not constitute a set-off.

**2.8 Withholding.** Payments received by Bank from Borrower under this Agreement will be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority (including any interest, additions to tax or penalties applicable thereto). Specifically, however, if at any time any Governmental Authority, applicable law, regulation or international agreement requires Borrower to make any withholding or deduction from any such payment or other sum payable hereunder to Bank, Borrower hereby covenants and agrees that the amount due from Borrower with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that, after the making of such required withholding or deduction, Bank receives a net sum equal to the sum which it would have received had no withholding or deduction been required, and Borrower shall pay the full amount withheld or deducted to the relevant Governmental Authority. Borrower will, upon request, furnish Bank with proof reasonably satisfactory to Bank indicating that Borrower has made such withholding payment; provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate and timely proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this Section 2.8 shall survive the termination of this Agreement.

### **3 CONDITIONS OF LOANS**

**3.1 Conditions Precedent to Initial Credit Extension.** Bank's obligation to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

- (a) duly executed original signatures to the Loan Documents;
- (b) the Operating Documents and long-form good standing certificates of Borrower certified by the Secretary of State (or equivalent agency) of Borrower's jurisdiction of organization or formation and each jurisdiction in which Borrower is qualified to conduct business, each as of a date no earlier than thirty (30) days prior to the Effective Date;
- (c) duly executed original signatures to the completed Borrowing Resolutions for Borrower;
- (d) certified copies, dated as of a recent date, of financing statement searches, as Bank may request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;
- (e) the Perfection Certificate of Borrower, together with the duly executed original signature thereto;
- (f) evidence satisfactory to Bank that the insurance policies and endorsements required by Section 6.7 hereof are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses or endorsements in favor of Bank;

(g) with respect to the initial Advance, a completed Borrowing Base Report (and any schedules related thereto and including any other information requested by Bank with respect to Borrower's Accounts); and

(h) payment of the fees and Bank Expenses then due as specified in Section 2.6 hereof.

**3.2 Conditions Precedent to all Credit Extensions.** Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) timely receipt of the Credit Extension request and any materials and documents required by Section 3.4;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the proposed Credit Extension and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and

(c) Bank determines, in its good faith business judgment, that there has not been a Material Adverse Change.

**3.3 Covenant to Deliver.** Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

**3.4 Procedures for Borrowing.** Subject to the prior satisfaction of all other applicable conditions to the making of an Advance set forth in this Agreement, to obtain an Advance, Borrower (via an individual duly authorized by an Administrator) shall notify Bank (which notice shall be irrevocable) by electronic mail by 12:00 p.m. Pacific time on the Funding Date of the Advance. Such notice shall be made by Borrower through Bank's online banking program, provided, however, if Borrower is not utilizing Bank's online banking program, then such notice shall be in a written format acceptable to Bank that is executed by an Authorized Signer. Bank shall have received satisfactory evidence that the Board has approved that such Authorized Signer may provide such notices and request Advances. In connection with any such notification, Borrower must promptly deliver to Bank by electronic mail or through Bank's online banking program such reports and information, including without limitation, sales journals, cash receipts journals, accounts receivable aging reports, as Bank may request in its sole discretion. Bank shall credit proceeds of an Advance to the Designated Deposit Account. Bank may make Advances under this Agreement based on instructions from an Authorized Signer or without instructions if the Advances are necessary to meet Obligations which have become due.

#### **4 CREATION OF SECURITY INTEREST**

**4.1 Grant of Security Interest.** Borrower hereby grants Bank, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof.

Borrower acknowledges that it previously has entered, and/or may in the future enter, into Bank Services Agreements with Bank. Regardless of the terms of any Bank Services Agreement, Borrower agrees that any amounts Borrower owes Bank thereunder shall be deemed to be Obligations hereunder and that it is the intent of Borrower and Bank to have all such Obligations secured by the first priority perfected security interest in the Collateral granted herein (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien in this Agreement).

If this Agreement is terminated, Bank's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall, at the sole cost and expense of Borrower, release its Liens in the Collateral and all rights therein shall revert to Borrower. In the event (x) all Obligations (other than inchoate indemnity obligations), except for Bank Services, are satisfied in full, and (y) this Agreement is terminated, Bank shall terminate the security interest granted herein upon Borrower providing cash collateral acceptable to Bank in its good faith business judgment for Bank Services, if any. In the event such Bank Services consist of outstanding Letters of Credit, Borrower shall provide to Bank cash collateral in an amount equal to (x) if such Letters of Credit are denominated in Dollars, then at least one hundred five percent (105.0%); and (y) if such Letters of Credit are denominated in a Foreign Currency, then at least one hundred ten percent (110.0%), of the Dollar Equivalent of the face amount of all such Letters of Credit plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its business judgment), to secure all of the Obligations relating to such Letters of Credit.

**4.2 Priority of Security Interest.** Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien under this Agreement). If Borrower shall acquire a commercial tort claim with an expected value in excess of One Hundred Thousand Dollars (\$100,000), Borrower shall promptly notify Bank in a writing signed by Borrower of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.

**4.3 Authorization to File Financing Statements.** Borrower hereby authorizes Bank to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate the rights of Bank under the Code. Such financing statements may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in Bank's discretion.

## **5 REPRESENTATIONS AND WARRANTIES**

Borrower represents and warrants as follows:

**5.1 Due Organization, Authorization; Power and Authority.** Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business. In connection with this Agreement, Borrower has delivered to Bank a completed certificate/completed certificates signed by Borrower, entitled "Perfection Certificate" (the "**Perfection Certificate**"). Borrower represents and warrants to Bank that (a) Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) Borrower is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Borrower's organizational identification number or accurately states that Borrower has none; (d) the Perfection Certificate accurately sets forth Borrower's place of business, or, if more than one, its chief executive office as well as Borrower's mailing address (if different than its chief executive office); (e) Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to Borrower and each of its Subsidiaries is accurate and complete (it being

understood and agreed that Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date to the extent permitted by one or more specific provisions in this Agreement). If Borrower is not now a Registered Organization but later becomes one, Borrower shall promptly notify Bank of such occurrence and provide Bank with Borrower's organizational identification number.

The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect), or (v) conflict with, contravene, constitute a default or breach under, or result in or permit the termination or acceleration of, any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on Borrower's business.

**5.2 Collateral.** Borrower has good title to, rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Borrower has no Collateral Accounts at or with any bank or financial institution other than Bank or Bank's Affiliates except for the Collateral Accounts described in the Perfection Certificate delivered to Bank in connection herewith and which Borrower has taken such actions as are necessary to give Bank a perfected security interest therein, pursuant to the terms of Section 6.8(b). The Accounts are bona fide, existing obligations of the Account Debtors.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

All Inventory is in all material respects of good and marketable quality, free from material defects.

Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) non-exclusive licenses granted to its customers or contract manufacturers in the ordinary course of business or such other licenses as are permitted hereunder, (b) over-the-counter software that is commercially available to the public, and (c) material Intellectual Property licensed to Borrower and noted on the Perfection Certificate. Each Patent which it owns or purports to own and which is material to Borrower's business is valid and enforceable, and no part of the Intellectual Property which Borrower owns or purports to own and which is material to Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a material adverse effect on Borrower's business.

Except as noted on the Perfection Certificate, Borrower is not a party to, nor is it bound by, any Restricted License.

**5.3 Accounts Receivable; Inventory.**

(a) For each Account with respect to which Advances are requested, on the date each Advance is requested and made, such Account shall be an Eligible Account.

(b) All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing the Eligible Accounts are and shall be true and correct and all such invoices, instruments and other documents, and all of Borrower's Books are genuine and in all respects what they purport to be. All sales and other transactions underlying or giving rise to each Eligible Account shall comply in all material respects with all applicable laws and governmental rules and regulations. Borrower has no knowledge of any actual or imminent Insolvency Proceeding of any Account Debtor whose accounts are Eligible Accounts in any Borrowing

Base Report. To the best of Borrower's knowledge, all signatures and endorsements on all documents, instruments, and agreements relating to all Eligible Accounts are genuine, and all such documents, instruments and agreements are legally enforceable in accordance with their terms.

**5.4                    Litigation.** There are no actions or proceedings pending or, to the knowledge of any Responsible Officer, threatened in writing by or against Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, One Hundred Thousand Dollars (\$100,000).

**5.5                    Financial Statements; Financial Condition.** All consolidated financial statements for Borrower and any of its Subsidiaries delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

**5.6                    Solvency.** The fair salable value of Borrower's consolidated assets (including goodwill minus disposition costs) exceeds the fair value of Borrower's liabilities; Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

**5.7                    Regulatory Compliance.** Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower (a) has complied in all material respects with all Requirements of Law, and (b) has not violated any Requirements of Law the violation of which could reasonably be expected to have a material adverse effect on its business. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted.

**5.8                    Subsidiaries; Investments.** Borrower does not own any stock, partnership, or other ownership interest or other equity securities except for Permitted Investments.

**5.9                    Tax Returns and Payments; Pension Contributions.** Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except to the extent such taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor.

To the extent Borrower defers payment of any contested taxes, Borrower shall (i) notify Bank in writing of the commencement of, and any material development in, the proceedings, and (ii) post bonds or take any other steps required to prevent the Governmental Authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "Permitted Lien." Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

**5.10                  Use of Proceeds.** Borrower shall use the proceeds of the Credit Extensions solely as working capital and to fund its general business requirements and not for personal, family, household or agricultural purposes.

**5.11 Full Disclosure.** No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

**5.12 Definition of “Knowledge.”** For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower’s knowledge or awareness, to the “best of” Borrower’s knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of any Responsible Officer.

**6 AFFIRMATIVE COVENANTS**

Borrower shall do all of the following:

**6.1 Government Compliance.**

(a) Maintain its and all its Subsidiaries’ legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on Borrower’s business or operations. Borrower shall comply, and have each Subsidiary comply, in all material respects, with all laws, ordinances and regulations to which it is subject.

(b) Obtain all of the Governmental Approvals necessary for the performance by Borrower of its obligations under the Loan Documents to which it is a party and the grant of a security interest to Bank in all of its property. Borrower shall promptly provide copies of any such obtained Governmental Approvals to Bank.

**6.2 Financial Statements, Reports, Certificates.** Provide Bank with the following:

(a) a Borrowing Base Report (and any schedules related thereto and including any other information requested by Bank with respect to Borrower’s Accounts) within thirty (30) days after the end of each month;

(b) within thirty (30) days after the end of each month, (A) monthly accounts receivable agings, aged by invoice date, (B) monthly accounts payable agings, aged by invoice date, and outstanding or held check registers, if any, and (C) monthly reconciliations of accounts receivable agings (aged by invoice date), transaction reports, Deferred Revenue report, and general ledger;

(c) as soon as available, but no later than thirty (30) days after the last day of each month, a company prepared consolidated balance sheet and income statement covering Borrower’s consolidated operations for such month certified by a Responsible Officer and in a form acceptable to Bank (the “**Monthly Financial Statements**”);

(d) within thirty (30) days after the last day of each month and together with the Monthly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Bank may reasonably request, including, without limitation, a statement that at the end of such month there were no held checks;

(e) within thirty (30) days following the end of Borrower’s fiscal year, and contemporaneously with any updates or amendments thereto, (A) annual operating budgets (including income statements, balance sheets and cash flow statements, by month) for the then-current fiscal year of Borrower, and (B)

annual financial projections for the then-current fiscal year (on a quarterly basis), in each case as approved by the Board, together with any related business forecasts used in the preparation of such annual financial projections;

(f) as soon as available, and in any event within one hundred eighty (180) days following the end of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm reasonably acceptable to Bank;

(g) in the event that Borrower becomes subject to the reporting requirements under the Exchange Act within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower and/or any Guarantor with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the internet at Borrower's website address; provided, however, Borrower shall promptly notify Bank in writing (which may be by electronic mail) of the posting of any such documents;

(h) within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt;

(i) prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could result in damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, One Hundred Thousand Dollars (\$100,000) or more; and

(j) promptly, from time to time, such other information regarding Borrower or compliance with the terms of any Loan Documents as reasonably requested by Bank.

### 6.3 Accounts Receivable.

(a) Schedules and Documents Relating to Accounts. Borrower shall deliver to Bank transaction reports and schedules of collections, as provided in Section 6.2, on Bank's standard forms; provided, however, that Borrower's failure to execute and deliver the same shall not affect or limit Bank's Lien and other rights in all of Borrower's Accounts, nor shall Bank's failure to advance or lend against a specific Account affect or limit Bank's Lien and other rights therein. If requested by Bank, Borrower shall furnish Bank with copies (or, at Bank's request, originals) of all contracts, orders, invoices, and other similar documents, and all shipping instructions, delivery receipts, bills of lading, and other evidence of delivery, for any goods the sale or disposition of which gave rise to such Accounts. In addition, Borrower shall deliver to Bank, on its request, the originals of all instruments, chattel paper, security agreements, guarantees and other documents and property evidencing or securing any Accounts, in the same form as received, with all necessary indorsements, and copies of all credit memos.

(b) Disputes. Borrower shall promptly notify Bank of all disputes or claims relating to Accounts. Borrower may forgive (completely or partially), compromise, or settle any Account for less than payment in full, or agree to do any of the foregoing so long as (i) Borrower does so in good faith, in a commercially reasonable manner, in the ordinary course of business, in arm's-length transactions, and reports the same to Bank in the regular reports provided to Bank; (ii) no Event of Default has occurred and is continuing; and (iii) after taking into account all such discounts, settlements and forgiveness, the total outstanding Advances will not exceed the lesser of the Revolving Line or the Borrowing Base.

(c) Collection of Accounts. Borrower shall direct Account Debtors to deliver or transmit all proceeds of Accounts into a lockbox account, or via electronic deposit capture into a "blocked account" as specified by Bank (either such account, the "**Cash Collateral Account**"). Whether or not an Event of Default has occurred and is continuing, Borrower shall immediately deliver all payments on and proceeds of Accounts to the Cash Collateral Account. Subject to Bank's right to maintain a reserve pursuant to Section 6.3(d), all amounts received in

the Cash Collateral Account shall be (i) when a Streamline Period is not in effect, applied to immediately reduce the Obligations under the Revolving Line (unless Bank, in its sole discretion, at times when an Event of Default exists, elects not to so apply such amounts), or (ii) when a Streamline Period is in effect transferred on a daily basis to Borrower's operating account with Bank. Borrower hereby authorizes Bank to transfer to the Cash Collateral Account any amounts that Bank reasonably determines are proceeds of the Accounts (provided that Bank is under no obligation to do so and this allowance shall in no event relieve Borrower of its obligations hereunder).

(d) Reserves. Notwithstanding any terms in this Agreement to the contrary, at times when an Event of Default exists, Bank may hold any proceeds of the Accounts and any amounts in the Cash Collateral Account that are not applied to the Obligations pursuant to Section 6.3(c) above (including amounts otherwise required to be transferred to Borrower's operating account with Bank when a Streamline Period is in effect) as a reserve to be applied to any Obligations regardless of whether such Obligations are then due and payable.

(e) Returns. Provided no Event of Default has occurred and is continuing, if any Account Debtor returns any Inventory with a value in excess of One Hundred Thousand Dollars (\$100,000) to Borrower, Borrower shall promptly (i) determine the reason for such return, (ii) issue a credit memorandum to the Account Debtor in the appropriate amount, and (iii) provide a copy of such credit memorandum to Bank, upon request from Bank. In the event any attempted return occurs after the occurrence and during the continuance of any Event of Default, Borrower shall hold the returned Inventory in trust for Bank, and immediately notify Bank of the return of the Inventory.

(f) Verifications; Confirmations; Credit Quality; Notifications. Bank may, from time to time, (i) verify and confirm directly with the respective Account Debtors the validity, amount and other matters relating to the Accounts, either in the name of Borrower or Bank or such other name as Bank may choose, and notify any Account Debtor of Bank's security interest in such Account and/or (ii) conduct a credit check of any Account Debtor to approve any such Account Debtor's credit. In addition, Bank may notify Account Debtors to make payments in respect of Accounts directly to Bank.

(g) No Liability. Bank shall not be responsible or liable for any shortage or discrepancy in, damage to, or loss or destruction of, any goods, the sale or other disposition of which gives rise to an Account, or for any error, act, omission, or delay of any kind occurring in the settlement, failure to settle, collection or failure to collect any Account, or for settling any Account in good faith for less than the full amount thereof, nor shall Bank be deemed to be responsible for any of Borrower's obligations under any contract or agreement giving rise to an Account. Nothing herein shall, however, relieve Bank from liability for its own gross negligence or willful misconduct.

**6.4 Remittance of Proceeds.** Deliver, in kind, all proceeds arising from the disposition of any Collateral to Bank in the original form in which received by Borrower not later than the following Business Day after receipt by Borrower, to be applied to the Obligations (a) prior to an Event of Default, pursuant to the terms of Section 6.3(c) hereof, and (b) after the occurrence and during the continuance of an Event of Default, pursuant to the terms of Section 9.4 hereof; provided that, if no Event of Default has occurred and is continuing, Borrower shall not be obligated to remit to Bank the proceeds of the sale of worn out or obsolete Equipment disposed of by Borrower in good faith in an arm's length transaction for an aggregate purchase price of Twenty Five Thousand Dollars (\$25,000) or less (for all such transactions in any fiscal year). Borrower agrees that it will not commingle proceeds of Collateral with any of Borrower's other funds or property, but will hold such proceeds separate and apart from such other funds and property and in an express trust for Bank. Nothing in this Section 6.4 limits the restrictions on disposition of Collateral set forth elsewhere in this Agreement.

**6.5 Taxes; Pensions.** Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.9 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.



**6.6 Access to Collateral; Books and Records.** At reasonable times, on one (1) Business Day's notice (provided no notice is required if an Event of Default has occurred and is continuing), Bank, or its agents, shall have the right to inspect the Collateral and the right to audit and copy Borrower's Books. The foregoing inspections and audits shall be conducted no more often than once every twelve (12) months (or more frequently as Bank in its sole discretion determines that conditions warrant) unless an Event of Default has occurred and is continuing in which case such inspections and audits shall occur as often as Bank shall determine is necessary. The foregoing inspections and audits shall be conducted at Borrower's expense and the charge therefor shall be One Thousand Dollars (\$1,000) per person per day (or such higher amount as shall represent Bank's then-current standard charge for the same), plus reasonable out-of-pocket expenses. In the event Borrower and Bank schedule an audit more than ten (10) days in advance, and Borrower cancels or seeks to or reschedules the audit with less than ten (10) days written notice to Bank, then (without limiting any of Bank's rights or remedies) Borrower shall pay Bank a fee of One Thousand Dollars (\$1,000) plus any out-of-pocket expenses incurred by Bank to compensate Bank for the anticipated costs and expenses of the cancellation or rescheduling.

**6.7 Insurance.**

(a) Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with financially sound and reputable insurance companies that are not Affiliates of Borrower, and in amounts that are satisfactory to Bank. All property policies shall have a lender's loss payable endorsement showing Bank as an additional lender loss payee. All liability policies shall show, or have endorsements showing, Bank as an additional insured. Bank shall be named as lender loss payee and/or additional insured with respect to any such insurance providing coverage in respect of any Collateral.

(b) Ensure that proceeds payable under any property policy are, at Bank's option, payable to Bank on account of the Obligations.

(c) At Bank's request, Borrower shall deliver certified copies of insurance policies and evidence of all premium payments. Each provider of any such insurance required under this Section 6.7 shall agree, by endorsement upon the policy or policies issued by it or by independent instruments furnished to Bank, that it will give Bank thirty (30) days prior written notice before any such policy or policies shall be materially altered or canceled. If Borrower fails to obtain insurance as required under this Section 6.7 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.7, and take any action under the policies Bank deems prudent.

**6.8 Accounts.**

(a) To permit Bank to monitor Borrower's financial performance and condition, Borrower, and all Borrower's Subsidiaries, shall maintain Borrower's and such Subsidiaries' primary depository, operating and securities accounts with Bank and Bank's Affiliates, which accounts shall represent at least eighty five percent (85%) of the dollar value of Borrower's and such Subsidiaries' accounts at all financial institutions.

(b) In addition to and without limiting the restrictions in (a), Borrower shall provide Bank five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank's Affiliates. For each Collateral Account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank. The provisions of the previous sentence shall not apply to deposit accounts exclusively used for payroll, payroll taxes, and other employee wage and benefit payments to or for the benefit of Borrower's employees and identified to Bank by Borrower as such.

**6.9 Financial Covenant.** Maintain at all times, subject to periodic reporting as of the last day of each month, an Adjusted Quick Ratio of at least 1.25 to 1.00.

**6.10 Protection of Intellectual Property Rights.**

(a) (i) Protect, defend and maintain the validity and enforceability of its Intellectual Property; (ii) promptly advise Bank in writing of material infringements or any other event that could reasonably be expected to materially and adversely affect the value of its Intellectual Property; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent.

(b) Provide written notice to Bank within thirty (30) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public). Borrower shall take such steps as Bank requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed "Collateral" and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License, whether now existing or entered into in the future, and (ii) Bank to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Bank's rights and remedies under this Agreement and the other Loan Documents.

**6.11 Litigation Cooperation.** From the date hereof and continuing through the termination of this Agreement, make available to Bank, without expense to Bank, Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank with respect to any Collateral or relating to Borrower.

**6.12 Online Banking.**

(a) Utilize Bank's online banking platform for all matters requested by Bank which shall include, without limitation (and without request by Bank for the following matters), uploading information pertaining to Accounts and Account Debtors, requesting approval for exceptions, requesting Credit Extensions, and uploading financial statements and other reports required to be delivered by this Agreement (including, without limitation, those described in Section 6.2 of this Agreement).

(b) Comply with the terms of the "Banking Terms and Conditions" and ensure that all persons utilizing the online banking platform are duly authorized to do so by an Administrator. Bank shall be entitled to assume the authenticity, accuracy and completeness on any information, instruction or request for a Credit Extension submitted via the online banking platform and to further assume that any submissions or requests made via the online banking platform have been duly authorized by an Administrator.

**6.13 Formation or Acquisition of Subsidiaries.** Notwithstanding and without limiting the negative covenants contained in Sections 7.3 and 7.7 hereof, at the time that Borrower or any Guarantor forms any direct or indirect Subsidiary or acquires any direct or indirect Subsidiary after the Effective Date, Borrower and such Guarantor shall (a) cause such new Subsidiary to provide to Bank a joinder to this Agreement to become a co-borrower hereunder or a Guaranty to become a Guarantor hereunder, together with such appropriate financing statements and/or Control Agreements, all in form and substance satisfactory to Bank (including being sufficient to grant Bank a first priority Lien (subject to Permitted Liens) in and to the assets of such newly formed or acquired Subsidiary), (b) provide to Bank appropriate certificates and powers and financing statements, pledging all of the direct or beneficial ownership interest in such new Subsidiary, in form and substance satisfactory to Bank; and (c) provide to Bank all other documentation in form and substance satisfactory to Bank, including one or more opinions of counsel satisfactory to Bank, which in its opinion is appropriate with respect to the execution and delivery of the applicable documentation referred to above. Any document, agreement, or instrument executed or issued pursuant to this Section 6.13 shall be a Loan Document.

**6.14 Further Assurances.** Execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's Lien in the Collateral or to effect the purposes of this Agreement. Deliver to Bank, within five (5) days after the same are sent or received, copies of all correspondence, reports, documents and other filings with any Governmental Authority regarding compliance with or maintenance of Governmental

Approvals or Requirements of Law or that could reasonably be expected to have a material effect on any of the Governmental Approvals or otherwise on the operations of Borrower or any of its Subsidiaries.

**7                    NEGATIVE COVENANTS**

Borrower shall not do any of the following without Bank's prior written consent:

**7.1                    Dispositions.** Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "**Transfer**"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of worn-out or obsolete Equipment that is, in the reasonable judgment of Borrower, no longer economically practicable to maintain or useful in the ordinary course of business of Borrower; (c) consisting of Permitted Liens and Permitted Investments; and (d) of non-exclusive licenses for the use of the property of Borrower or its Subsidiaries in the ordinary course of business and licenses that could not result in a legal transfer of title of the licensed property but that may be exclusive in respects other than territory and that may be exclusive as to territory only as to discreet geographical areas outside of the United States.

**7.2                    Changes in Business, Management, Control, or Business Locations.** (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; (c) fail to provide notice to Bank when a Key Person departs from or ceases to be employed by Borrower and a replacement satisfactory to Borrower's Board of Directors is not made within ninety (90) days after their departure from Borrower; or (d) permit or suffer any Change in Control.

Borrower shall not, without at least thirty (30) days prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than Twenty-Five Thousand Dollars (\$25,000) in Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Twenty-Five Thousand Dollars (\$25,000) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Twenty-Five Thousand Dollars (\$25,000) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which Borrower intends to deliver the Collateral, then Borrower will first receive the written consent of Bank, and such bailee shall execute and deliver a bailee agreement in form and substance satisfactory to Bank.

**7.3                    Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person (including, without limitation, by the formation of any Subsidiary) except for Permitted Acquisitions provided that the total cash and non-cash consideration paid by Borrower in connection with all such Permitted Acquisitions does not exceed Ten Million Dollars (\$10,000,000) in the aggregate in any fiscal year. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

**7.4                    Indebtedness.** Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

**7.5                    Encumbrance.** Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, permit any Collateral not to be subject to the first priority security interest granted herein, or enter into any agreement, document, instrument or other arrangement (except with or in favor of Bank) with any Person which directly or indirectly prohibits or has the effect of prohibiting Borrower or any Subsidiary from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of Borrower's or any Subsidiary's Intellectual Property, except as is otherwise permitted in Section 7.1 hereof and the definition of "Permitted Liens" herein.

**7.6 Maintenance of Collateral Accounts.** Maintain any Collateral Account except pursuant to the terms of Section 6.8(b) hereof.

**7.7 Distributions; Investments.** (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock provided that Borrower may (i) convert any of its convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) pay dividends solely in common stock; and (iii) repurchase the stock of former employees or consultants pursuant to stock repurchase agreements so long as an Event of Default does not exist at the time of any such repurchase and would not exist after giving effect to any such repurchase, provided that the aggregate amount of all such repurchases does not exceed One Hundred Thousand Dollars (\$100,000) per fiscal year; or (b) directly or indirectly make any Investment (including, without limitation, by the formation of any Subsidiary) other than Permitted Investments, or permit any of its Subsidiaries to do so.

**7.8 Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

**7.9 Subordinated Debt.** (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof, provide for earlier or greater principal, interest, or other payments thereon, or adversely affect the subordination thereof to Obligations owed to Bank.

**7.10 Compliance.** Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

## **8 EVENTS OF DEFAULT**

Any one of the following shall constitute an event of default (an "**Event of Default**") under this Agreement:

**8.1 Payment Default.** Borrower fails to (a) make any payment of principal or interest on any Credit Extension when due, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Revolving Line Maturity Date or the Term Loan Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

### **8.2 Covenant Default.**

(a) Borrower fails or neglects to perform any obligation in Section 6 of this Agreement or violates any covenant in Section 7 of this Agreement or (b) fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents and as to any default (other than those specified in clause (a)) under such other term, provision, condition, covenant or

agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, grace and cure periods provided under this Section 8.2 shall not apply, among other things, to financial covenants or any other covenants that are required to be satisfied, completed or tested by a date certain or any covenants set forth in clause (a);

(b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Cure periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in clause (a) above;

**8.3 Material Adverse Change.** A Material Adverse Change occurs;

**8.4 Attachment; Levy; Restraint on Business.**

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or of any entity under the control of Borrower (including a Subsidiary), or (ii) a notice of lien or levy is filed against any of Borrower's assets by any Governmental Authority, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; or

(b) (i) any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower from conducting all or any material part of its business;

**8.5 Insolvency.** (a) Borrower or any of its Subsidiaries is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower or any of its Subsidiaries begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower or any of its Subsidiaries and is not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

**8.6 Other Agreements.** There is, under any agreement to which Borrower or any Guarantor is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of One Hundred Thousand Dollars (\$100,000); or (b) any breach or default by Borrower or Guarantor, the result of which could have a material adverse effect on Borrower's or any Guarantor's business;

**8.7 Judgments; Penalties.** One or more fines, penalties or final judgments, orders or decrees for the payment of money in an amount, individually or in the aggregate, of at least One Hundred Thousand Dollars (\$100,000) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower by any Governmental Authority, and the same are not, within ten (10) days after the entry, assessment or issuance thereof, discharged, satisfied, or paid, or after execution thereof, stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the satisfaction, payment, discharge, stay, or bonding of such fine, penalty, judgment, order or decree);

**8.8 Misrepresentations.** Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank

or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

**8.9 Subordinated Debt.** Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement or any applicable subordination or intercreditor agreement;

**8.10 Guaranty.** (a) Any guaranty of any Obligations terminates or ceases for any reason to be in full force and effect; (b) any Guarantor does not perform any obligation or covenant under any guaranty of the Obligations; (c) any circumstance described in Sections 8.3, 8.4, 8.5, 8.6, 8.7, or 8.8 of this Agreement occurs with respect to any Guarantor, (d) the death, liquidation, winding up, or termination of existence of any Guarantor; or (e) (i) a material impairment in the perfection or priority of Bank's Lien in the collateral provided by Guarantor or in the value of such collateral or (ii) a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations occurs with respect to any Guarantor; or

**8.11 Governmental Approvals.** Any Governmental Approval shall have been (a) revoked, rescinded, suspended, modified in an adverse manner or not renewed in the ordinary course for a full term or (b) subject to any decision by a Governmental Authority that designates a hearing with respect to any applications for renewal of any of such Governmental Approval or that could result in the Governmental Authority taking any of the actions described in clause (a) above, and such decision or such revocation, rescission, suspension, modification or non-renewal (i) causes, or could reasonably be expected to cause, a Material Adverse Change, or (ii) adversely affects the legal qualifications of Borrower or any of its Subsidiaries to hold such Governmental Approval in any applicable jurisdiction and such revocation, rescission, suspension, modification or non-renewal could reasonably be expected to affect the status of or legal qualifications of Borrower or any of its Subsidiaries to hold any Governmental Approval in any other jurisdiction.

## **9 BANK'S RIGHTS AND REMEDIES**

**9.1 Rights and Remedies.** Upon the occurrence and during the continuance of an Event of Default, Bank may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) demand that Borrower (i) deposit cash with Bank in an amount equal to at least (A) one hundred five percent (105.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in Dollars remaining undrawn, and (B) one hundred ten percent (110.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in a Foreign Currency remaining undrawn (plus, in each case, all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment)), to secure all of the Obligations relating to such Letters of Credit, as collateral security for the repayment of any future drawings under such Letters of Credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all letter of credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit;

(d) terminate any FX Contracts;

(e) verify the amount of, demand payment of and performance under, and collect any Accounts and General Intangibles, settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, and notify any Person owing Borrower money of Bank's

security interest in such funds. Borrower shall collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the Account Debtor, with proper endorsements for deposit;

(f) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(g) apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) amount held by Bank owing to or for the credit or the account of Borrower;

(h) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit;

(i) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(j) demand and receive possession of Borrower's Books; and

(k) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

**9.2 Power of Attorney.** Borrower hereby irrevocably appoints Bank as its lawful attorney-in-fact to: (a) exercisable following the occurrence and during the continuance of an Event of Default, (i) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (ii) demand, collect, sue, and give releases to any Account Debtor for monies due, settle and adjust disputes and claims about the Accounts directly with Account Debtors, and compromise, prosecute, or defend any action, claim, case, or proceeding about any Collateral (including filing a claim or voting a claim in any bankruptcy case in Bank's or Borrower's name, as Bank chooses); (iii) make, settle, and adjust all claims under Borrower's insurance policies; (iv) pay, contest or settle any Lien, charge, encumbrance, security interest, or other claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; (v) transfer the Collateral into the name of Bank or a third party as the Code permits; and (vi) receive, open and dispose of mail addressed to Borrower; and (b) regardless of whether an Event of Default has occurred, (i) endorse Borrower's name on any checks, payment instruments, or other forms of payment or security; and (ii) notify all Account Debtors to pay Bank directly. Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and the Loan Documents have been terminated. Bank's foregoing appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and the Loan Documents have been terminated.

**9.3 Protective Payments.** If Borrower fails to obtain the insurance called for by Section 6.7 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document or which may be required to preserve the Collateral, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Bank will make reasonable efforts to provide Borrower with notice of Bank obtaining such insurance at the time it is

**9.4 Application of Payments and Proceeds.** Bank shall have the right to apply in any order any funds in its possession, whether from Borrower account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations. Bank shall pay any surplus to Borrower by credit to the Designated Deposit Account or to other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency. If Bank, directly or indirectly, enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.

**9.6 No Waiver; Remedies Cumulative.** Bank's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election and shall not preclude Bank from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.

10 NOTICES

If to Borrower: AIRGAIN, INC.  
1930 Palomar Point Way, Suite 107  
Carlsbad, CA 92008  
Attn: Charles Myers, President and CEO  
Fax: (760) 579-0802  
Email: [cmyers@airgain.com](mailto:cmyers@airgain.com)

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**CHOICE OF LAW, VENUE, JURY TRIAL WAIVER AND JUDICIAL REFERENCE**

Except as otherwise expressly provided in any of the Loan Documents, California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

**TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.**

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure Sections 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure Section 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

This Section 11 shall survive the termination of this Agreement.

**12.1 Termination Prior to Maturity Date; Survival.** All covenants, representations and warranties made in this Agreement shall continue in full force until this Agreement has terminated pursuant to its terms and all Obligations have been satisfied. So long as Borrower has satisfied the Obligations (other than inchoate indemnity obligations, and any other obligations which, by their terms, are to survive the termination of this Agreement, and any Obligations under Bank Services Agreements that are cash collateralized in accordance with Section 4.1 of this Agreement), this Agreement may be terminated prior to the Revolving Line Maturity Date and the Term Loan Maturity Date by Borrower, effective at least five (5) Business Days after written notice of termination is given to Bank. Those obligations that are expressly specified in this Agreement as surviving this Agreement's termination shall continue to survive notwithstanding this Agreement's termination.

**12.2 Successors and Assigns.** This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents.

**12.3 Indemnification.** Borrower agrees to indemnify, defend and hold Bank and its directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank (each, an **"Indemnified Person"**) harmless against: (i) all obligations, demands, claims, and liabilities (collectively, **"Claims"**) claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (ii) all losses or expenses (including Bank Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions between Bank and Borrower (including reasonable attorneys' fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person's gross negligence or willful misconduct.

This Section 12.3 shall survive until all statutes of limitation with respect to the Claims, losses, and expenses for which indemnity is given shall have run.

**12.4 Time of Essence.** Time is of the essence for the performance of all Obligations in this Agreement.

**12.5 Severability of Provisions.** Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

**12.6 Correction of Loan Documents.** Bank may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties.

**12.7 Amendments in Writing; Waiver; Integration.** No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents.

**12.8 Counterparts.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

**12.9 Confidentiality.** In handling any confidential information, Bank shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (such Subsidiaries and Affiliates, together with Bank, collectively, "**Bank Entities**"); (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, Bank shall use its best efforts to obtain any prospective transferee's or purchaser's agreement to the terms of this provision); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. Confidential information does not include information that is either: (i) in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain (other than as a result of its disclosure by Bank in violation of this Agreement) after disclosure to Bank; or (ii) disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

Bank Entities may use anonymous forms of confidential information for aggregate datasets, for analyses or reporting, and for any other uses not expressly prohibited in writing by Borrower. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

**12.10 Attorneys' Fees, Costs and Expenses.** In any action or proceeding between Borrower and Bank arising out of or relating to the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

**12.11 Electronic Execution of Documents.** The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

**12.12 Right of Setoff.** Borrower hereby grants to Bank a Lien and a right of setoff as security for all Obligations to Bank, whether now existing or hereafter arising upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity under the control of Bank (including a subsidiary of Bank) or in transit to any of them. At any time after the occurrence and during the continuance of an Event of Default, without demand or notice, Bank may setoff the same or any part thereof and apply the same to any liability or Obligation of Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

**12.13 Captions.** The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

**12.14 Construction of Agreement.** The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

**12.15 Relationship.** The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

**12.16 Third Parties.** Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

**12.16 Effect of Amendment and Restatement.** Except as otherwise set forth herein, this Agreement is intended to and does completely amend and restate, without novation, the Original Agreement. All security interests granted under the Original Agreement are hereby confirmed and ratified and shall continue to secure all Obligations under this Agreement.

**13 DEFINITIONS**

**13.1 Definitions.** As used in the Loan Documents, the word “shall” is mandatory, the word “may” is permissive, the word “or” is not exclusive, the words “includes” and “including” are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

“**Account**” is, as to any Person, any “**account**” of such Person as “account” is defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to such Person.

“**Account Debtor**” is any “**account debtor**” as defined in the Code with such additions to such term as may hereafter be made.

“**Adjusted Quick Ratio**” is a ratio of Borrower’s Quick Assets to Current Liabilities minus Deferred Revenue.

“**Administrator**” is an individual that is named:

(a) as an “Administrator” in the “SVB Online Services” form completed by Borrower with the authority to determine who will be authorized to use SVB Online Services (as defined in the “Banking Terms and Conditions”) on behalf of Borrower; and

(b) as an Authorized Signer of Borrower in an approval by the Board.

“**Advance**” or “**Advances**” means a revolving credit loan (or revolving credit loans) under the Revolving Line.

“**Affiliate**” is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person’s senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person’s managers and members. For purposes of the definition of Eligible Accounts, Affiliate shall include a Specified Affiliate.

“**Agreement**” is defined in the preamble hereof.

“**Anniversary Fee**” is defined in Section 2.6(b).

“**Authorized Signer**” is any individual listed in Borrower’s Borrowing Resolution who is authorized to execute the Loan Documents, including making (and executing if applicable) any Credit Extension request, on behalf of Borrower.

“**Availability Amount**” is (a) the lesser of (i) the Revolving Line or (ii) the amount available under the Borrowing Base minus (b) the outstanding principal balance of any Advances.

“**Bank**” is defined in the preamble hereof.

“**Bank Entities**” is defined in Section 12.9.

“**Bank Expenses**” are all audit fees and expenses, costs, and expenses (including reasonable attorneys’ fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower or any Guarantor.

“**Bank Services**” are any products, credit services, and/or financial accommodations previously, now, or hereafter provided to Borrower or any of its Subsidiaries by Bank or any Bank Affiliate, including, without limitation, any letters of credit, cash management services (including, without limitation, merchant services, direct deposit of payroll, business credit cards, and check cashing services), interest rate swap arrangements, and foreign exchange services as any such products or services may be identified in Bank’s various agreements related thereto (each, a “**Bank Services Agreement**”).

“**Bank Services Agreement**” is defined in the definition of Bank Services.

“**Board**” is Borrower’s board of directors.

“**Borrower**” is defined in the preamble hereof.

“**Borrower’s Books**” are all Borrower’s books and records including ledgers, federal and state tax returns, records regarding Borrower’s assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

“**Borrowing Base**” is eighty percent (80%) of Eligible Accounts, as determined by Bank from Borrower’s most recent Borrowing Base Report (and as may subsequently be updated by Bank based upon information received by Bank including, without limitation, Accounts that are paid and/or billed following the date of the Borrowing Base Report); provided, however, that Bank has the right to decrease the foregoing percentage in its good faith business judgment to mitigate the impact of events, conditions, contingencies, or risks which may adversely affect the Collateral or its value.

“**Borrowing Base Report**” is that certain report of the value of certain Collateral in the form specified by Bank to Borrower from time to time.

“**Borrowing Resolutions**” are, with respect to any Person, those resolutions adopted by such Person’s board of directors (and, if required under the terms of such Person’s Operating Documents, stockholders) and delivered by such Person to Bank approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its secretary on behalf of such Person certifying (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that set forth as a part of or attached as an exhibit to such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents, including making (and executing if applicable) any Credit Extension request, on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Bank may conclusively rely on such certificate unless and until such Person shall have delivered to Bank a further certificate canceling or amending such prior certificate.

“**Business Day**” is any day that is not a Saturday, Sunday or a day on which Bank is closed.

“**Cash Collateral Account**” is defined in Section 6.3(c).

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.; (c) Bank’s certificates of deposit issued maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent

(95.0%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

**“Change in Control”** means (a) at any time, any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), shall become, or obtain rights (whether by means of warrants, options or otherwise) to become, the “beneficial owner” (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of forty-nine percent (49.0%) or more of the ordinary voting power for the election of directors of Borrower (determined on a fully diluted basis) other than by the sale of Borrower’s equity securities in a public offering or to venture capital or private equity investors so long as Borrower identifies to Bank the venture capital or private equity investors at least seven (7) Business Days prior to the closing of the transaction and provides to Bank a description of the material terms of the transaction; (b) during any period of twelve (12) consecutive months, a majority of the members of the board of directors or other equivalent governing body of Borrower cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body; or (c) at any time, Borrower shall cease to own and control, of record and beneficially, directly or indirectly, one hundred percent (100.0%) of each class of outstanding capital stock of each subsidiary of Borrower free and clear of all Liens (except Liens created by this Agreement).

**“Claims”** is defined in Section 12.3.

**“Code”** is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Bank’s Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term “Code” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

**“Collateral”** is any and all properties, rights and assets of Borrower described on Exhibit A.

**“Collateral Account”** is any Deposit Account, Securities Account, or Commodity Account.

**“Commodity Account”** is any “commodity account” as defined in the Code with such additions to such term as may hereafter be made.

**“Compliance Certificate”** is that certain certificate in the form attached hereto as Exhibit B.

**“Contingent Obligation”** is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but “Contingent Obligation” does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“**Control Agreement**” is any control agreement entered into among the depository institution at which Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower maintains a Securities Account or a Commodity Account, Borrower, and Bank pursuant to which Bank obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

“**Copyrights**” are any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

“**Credit Extension**” is any Advance, any Overadvance, the Term Loan, or any other extension of credit by Bank for Borrower’s benefit.

“**Current Liabilities**” are all obligations and liabilities of Borrower to Bank, plus, without duplication, the aggregate amount of Borrower’s Total Liabilities that mature within one (1) year.

“**Default Rate**” is defined in Section 2.5(b).

“**Deferred Revenue**” is all amounts received or invoiced in advance of performance under contracts and not yet recognized as revenue.

“**Deposit Account**” is any “**deposit account**” as defined in the Code with such additions to such term as may hereafter be made.

“**Designated Deposit Account**” is the account number ending XXXXXX173 maintained by Borrower with Bank (provided, however, if no such account number is included, then the Designated Deposit Account shall be any deposit account of Borrower maintained with Bank as chosen by Bank).

“**Dollars**,” “**dollars**” or use of the sign “\$” means only lawful money of the United States and not any other currency, regardless of whether that currency uses the “\$” sign to denote its currency or may be readily converted into lawful money of the United States.

“**Dollar Equivalent**” is, at any time, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in a Foreign Currency, the equivalent amount therefor in Dollars as determined by Bank at such time on the basis of the then-prevailing rate of exchange in San Francisco, California, for sales of the Foreign Currency for transfer to the country issuing such Foreign Currency.

“**Effective Date**” is defined in the preamble hereof.

“**Eligible Accounts**” means Accounts owing to Borrower which arise in the ordinary course of Borrower’s business that meet all Borrower’s representations and warranties in Section 5.3, that have been, at the option of Bank, confirmed in accordance with Section 6.3(f) of this Agreement, and are due and owing from Account Debtors deemed creditworthy by Bank in its sole discretion. Bank reserves the right, at any time after the Effective Date, in its sole discretion in each instance, to either (i) adjust any of the criteria set forth below and to establish new criteria or (ii) deem any Accounts owing from a particular Account Debtor or Account Debtors to not meet the criteria to be Eligible Accounts. Unless Bank otherwise agrees in writing, Eligible Accounts shall not include:

- |                        |     |                                                                                                                            |
|------------------------|-----|----------------------------------------------------------------------------------------------------------------------------|
| intercompany Accounts; | (a) | Accounts (i) for which the Account Debtor is Borrower’s Affiliate, officer, employee, investor, or agent, or (ii) that are |
| period terms;          | (b) | Accounts that the Account Debtor has not paid within ninety (90) days of invoice date regardless of invoice payment        |
|                        | (c) | Accounts with credit balances over ninety (90) days from invoice date;                                                     |

- (d) Accounts owing from an Account Debtor if fifty percent (50%) or more of the Accounts owing from such Account Debtor have not been paid within ninety (90) days of invoice date;
- (e) Accounts owing from an Account Debtor (i) which does not have its principal place of business in the United States or (ii) whose billing address (as set forth in the applicable invoice for such Account) is not in the United States, unless in the case of both (i) and (ii) such Accounts are approved by Bank, in advance, in writing, on a case by case basis, in Bank's sole discretion;
- (f) Accounts billed from and/or payable to Borrower outside of the United States (sometimes called foreign invoiced accounts);
- (g) Accounts in which Bank does not have a first priority, perfected security interest under all applicable laws;
- (h) Accounts billed and/or payable in a Currency other than Dollars;
- (i) Accounts owing from an Account Debtor to the extent that Borrower is indebted or obligated in any manner to the Account Debtor (as creditor, lessor, supplier or otherwise - sometimes called "contra" accounts, accounts payable, customer deposits or credit accounts);
- (j) Accounts with or in respect of accruals for marketing allowances, incentive rebates, price protection, cooperative advertising and other similar marketing credits, unless otherwise approved by Bank in writing;
- (k) Accounts owing from an Account Debtor which is a United States government entity or any department, agency, or instrumentality thereof unless Borrower has assigned its payment rights to Bank and the assignment has been acknowledged under the Federal Assignment of Claims Act of 1940, as amended;
- (l) Accounts with customer deposits and/or with respect to which Borrower has received an upfront payment, to the extent of such customer deposit and/or upfront payment;
- (m) Accounts for demonstration or promotional equipment, or in which goods are consigned, or sold on a "sale guaranteed", "sale or return", "sale on approval", or other terms if Account Debtor's payment may be conditional;
- (n) Accounts owing from an Account Debtor where goods or services have not yet been rendered to the Account Debtor (sometimes called memo billings or pre-billings);
- (o) Accounts subject to contractual arrangements between Borrower and an Account Debtor where payments shall be scheduled or due according to completion or fulfillment requirements (sometimes called contracts accounts receivable, progress billings, milestone billings, or fulfillment contracts);
- (p) Accounts owing from an Account Debtor the amount of which may be subject to withholding based on the Account Debtor's satisfaction of Borrower's complete performance (but only to the extent of the amount withheld; sometimes called retainage billings);
- (q) Accounts subject to trust provisions, subrogation rights of a bonding company, or a statutory trust;
- (r) Accounts owing from an Account Debtor that has been invoiced for goods that have not been shipped to the Account Debtor unless Bank, Borrower, and the Account Debtor have entered into an agreement acceptable to Bank wherein the Account Debtor acknowledges that (i) it has title to and has ownership of the goods wherever located, (ii) a bona fide sale of the goods has occurred, and (iii) it owes payment for such goods in accordance with invoices from Borrower (sometimes called "bill and hold" accounts);



- (s) Accounts for which the Account Debtor has not been invoiced;
- (t) Accounts that represent non-trade receivables or that are derived by means other than in the ordinary course of Borrower's business;
- (u) Accounts for which Borrower has permitted Account Debtor's payment to extend beyond ninety (90) days (including Accounts with a due date that is more than ninety (90) days from invoice date);
- (v) Accounts arising from chargebacks, debit memos or other payment deductions taken by an Account Debtor;
- (w) Accounts arising from product returns and/or exchanges (sometimes called "warranty" or "RMA" accounts);
- (x) Accounts in which the Account Debtor disputes liability or makes any claim (but only up to the disputed or claimed amount), or if the Account Debtor is subject to an Insolvency Proceeding (whether voluntary or involuntary), or becomes insolvent, or goes out of business;
- (y) Accounts owing from an Account Debtor with respect to which Borrower has received Deferred Revenue (but only to the extent of such Deferred Revenue); and
- (z) Accounts for which Bank in its good faith business judgment determines collection to be doubtful, including, without limitation, accounts represented by "refreshed" or "recycled" invoices.

**"Equipment"** is all **"equipment"** as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

**"ERISA"** is the Employee Retirement Income Security Act of 1974, and its regulations.

**"Event of Default"** is defined in Section 8.

**"Exchange Act"** is the Securities Exchange Act of 1934, as amended.

**"Final Payment"** is a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) due on the earliest to occur of (a) the Term Loan Maturity Date, (b) the acceleration of the Term Loan, or (c) the prepayment of the Term Loan, equal to Sixty Thousand Dollars (\$60,000).

**"Foreign Currency"** means lawful money of a country other than the United States.

**"Funding Date"** is any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

**"FX Contract"** is any foreign exchange contract by and between Borrower and Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency on a specified date.

**"GAAP"** is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

**"General Intangibles"** is all "general intangibles" as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to

purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

“**Governmental Approval**” is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

“**Governmental Authority**” is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

“**Guarantor**” is any Person providing a Guaranty in favor of Bank.

“**Guaranty**” is any guarantee of all or any part of the Obligations, as the same may from time to time be amended, restated, modified or otherwise supplemented.

“**Indebtedness**” is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations, and (d) Contingent Obligations.

“**Indemnified Person**” is defined in Section 12.3.

“**Insolvency Proceeding**” is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“**Intellectual Property**” means, with respect to any Person, all of such Person’s right, title, and interest in and to the following:

- (a) its Copyrights, Trademarks and Patents;
- (b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how and operating manuals;
- (c) any and all source code;
- (d) any and all design rights which may be available to such Person;
- (e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and
- (f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

“**Inventory**” is all “**inventory**” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

“**Investment**” is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

“**Key Person**” is Borrower’s Chief Executive Officer, who is Charles Meyers as of the Effective Date.

“**Letter of Credit**” is a standby or commercial letter of credit issued by Bank upon request of Borrower based upon an application, guarantee, indemnity, or similar agreement.

“**Lien**” is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

“**Loan Documents**” are, collectively, this Agreement and any schedules, exhibits, certificates, notices, and any other documents related to this Agreement, any Bank Services Agreement, any subordination agreement, any note, or notes or guaranties executed by Borrower or any Guarantor, and any other present or future agreement by Borrower and/or any Guarantor with or for the benefit of Bank, all as amended, restated, or otherwise modified.

“**Material Adverse Change**” is (a) a material impairment in the perfection or priority of Bank’s Lien in the Collateral or in the value of such Collateral; (b) a material adverse change in the business, operations, or condition (financial or otherwise) of Borrower; or (c) a material impairment of the prospect of repayment of any portion of the Obligations.

“**Minimum Interest**” is defined in Section 2.5(d).

“**Minimum Interest Period**” is defined in Section 2.5(d).

“**Monthly Financial Statements**” is defined in Section 6.2(c).

“**Obligations**” are Borrower’s obligations to pay when due any debts, principal, interest, fees, Bank Expenses, the Anniversary Fee, the Early Termination Fee, the Final Payment, and other amounts Borrower owes Bank now or later, whether under this Agreement, the other Loan Documents, or otherwise, including, without limitation, all obligations relating to Bank Services and interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and to perform Borrower’s duties under the Loan Documents.

“**Operating Documents**” are, for any Person, such Person’s formation documents, as certified by the Secretary of State (or equivalent agency) of such Person’s jurisdiction of organization on a date that is no earlier than thirty (30) days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

“**Overadvance**” is defined in Section 2.4.

“**Patents**” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“**Payment Date**” is (a) with respect to the Term Loan, the first (1st) calendar day of each month and (b) with respect to Advances, the last calendar day of each month.

“**Perfection Certificate**” is defined in Section 5.1.

“**Permitted Acquisition**” is any acquisition that complies with the following criteria: (a) no Event of Default exists at the time of such acquisition or would exist after giving effect to such acquisition; (b) the acquisition is non-hostile in nature; (c) the Person, division, product line or line of business acquired in such acquisition shall be in the same or substantially similar line of business as Borrower or in an adjacent line of business; (d) immediately after giving effect to the acquisition, Borrower continues to have cash on hand in an amount not less than Fifteen Million Dollars (\$15,000,000); (e) Borrower and such acquired entity comply with the provisions of Section 6.13

hereof in connection therewith; and (f) Borrower demonstrates pro-forma compliance with Section 6.9 of this Agreement before and after giving effect to such acquisition.

**“Permitted Indebtedness” is:**

- (a) Borrower’s Indebtedness to Bank under this Agreement and the other Loan Documents;
- (b) Indebtedness existing on the Effective Date which is shown on the Perfection Certificate;
- (c) Subordinated Debt;
- (d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;
- (e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;
- (f) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of “Permitted Liens” hereunder;
- (g) Indebtedness of Borrower to any Subsidiary and Indebtedness of any Subsidiaries to Borrower in an aggregate principal amount not to exceed One Hundred Thousand Dollars (\$100,000) or any other Subsidiary;
- (h) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (g) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

**“Permitted Investments” are:**

- (a) Investments (including, without limitation, Subsidiaries) existing on the Effective Date which are shown on the Perfection Certificate;
- (b) Investments consisting of Cash Equivalents;
- (c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;
- (d) Investments consisting of deposit accounts (but only to the extent that Borrower is permitted to maintain such accounts pursuant to Section 6.8 of this Agreement) in which Bank has a first priority perfected security interest;
- (e) Investments accepted in connection with Transfers permitted by Section 7.1;
- (f) Investments consisting of the creation of a Subsidiary for the purpose of consummating a merger transaction permitted by Section 7.3 of this Agreement, which is otherwise a Permitted Investment;
- (g) Investments (i) by Borrower in Subsidiaries not to exceed One Hundred Thousand Dollars (\$100,000) in the aggregate in any fiscal year and (ii) by Subsidiaries in other Subsidiaries not to exceed One Hundred Thousand Dollars (\$100,000) in the aggregate in any fiscal year or in Borrower;
- (h) Investments consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (ii) loans to employees, officers or directors relating to the purchase of equity securities of Borrower or its Subsidiaries pursuant to employee stock purchase plans or agreements approved by the Board;

(i) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business; and

(j) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (j) shall not apply to Investments of Borrower in any Subsidiary.

**“Permitted Liens” are:**

(a) Liens existing on the Effective Date which are shown on the Perfection Certificate or arising under this Agreement or the other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which Borrower maintains adequate reserves on Borrower’s Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment securing no more than Two Hundred Fifty Thousand Dollars (\$250,000) in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory, securing liabilities in the aggregate amount not to exceed One Hundred Thousand Dollars (\$100,000) and which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens to secure payment of workers’ compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

(f) Liens incurred in the extension, renewal or refinancing of the Indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

(g) leases or subleases of real property granted in the ordinary course of Borrower’s business (or, if referring to another Person, in the ordinary course of such Person’s business), and leases, subleases, non-exclusive licenses or sublicenses of personal property (other than Intellectual Property) granted in the ordinary course of Borrower’s business (or, if referring to another Person, in the ordinary course of such Person’s business), if the leases, subleases, licenses and sublicenses do not prohibit granting Bank a security interest therein;

(h) non-exclusive licenses of Intellectual Property granted to third parties in the ordinary course of business, and licenses of Intellectual Property that could not result in a legal transfer of title of the licensed property that may be exclusive in respects other than territory and that may be exclusive as to territory only as to discreet geographical areas outside of the United States;

(i) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default under Sections 8.4 and 8.7; and

(j) Liens in favor of other financial institutions arising in connection with Borrower’s deposit and/or securities accounts held at such institutions, provided that (i) Bank has a first priority perfected security interest in the amounts held in such deposit and/or securities accounts (ii) such accounts are permitted to be maintained pursuant to Section 6.8 of this Agreement.

“**Person**” is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

“**Prime Rate**” is the rate of interest per annum from time to time published in the money rates section of The Wall Street Journal or any successor publication thereto as the “prime rate” then in effect; provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement; and provided further that if such rate of interest, as set forth from time to time in the money rates section of The Wall Street Journal, becomes unavailable for any reason as determined by Bank, the “Prime Rate” shall mean the rate of interest per annum announced by Bank as its prime rate in effect at its principal office in the State of California (such Bank announced Prime Rate not being intended to be the lowest rate of interest charged by Bank in connection with extensions of credit to debtors); provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“**Quick Assets**” is, on any date, Borrower’s unrestricted and unencumbered cash and Cash Equivalents maintained with Bank, plus Borrower’s accounts receivable.

“**Registered Organization**” is any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“**Requirement of Law**” is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“**Reserves**” means, as of any date of determination, such amounts as Bank may from time to time establish and revise in its good faith business judgment, reducing the amount of Advances and other financial accommodations which would otherwise be available to Borrower (a) to reflect events, conditions, contingencies or risks which, as determined by Bank in its good faith business judgment, do or may adversely affect (i) the Collateral or any other property which is security for the Obligations or its value (including without limitation any increase in delinquencies of Accounts), (ii) the assets, business or prospects of Borrower or any Guarantor, or (iii) the security interests and other rights of Bank in the Collateral (including the enforceability, perfection and priority thereof); or (b) to reflect Bank’s reasonable belief that any collateral report or financial information furnished by or on behalf of Borrower or any Guarantor to Bank is or may have been incomplete, inaccurate or misleading in any material respect; or (c) in respect of any state of facts which Bank determines constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default.

“**Responsible Officer**” is any of the Chief Executive Officer, President, Chief Financial Officer and Controller of Borrower.

“**Restricted License**” is any material license or other agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower’s interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with Bank’s right to sell any Collateral.

“**Revolving Line**” is an aggregate principal amount equal to Ten Million Dollars (\$10,000,000).

“**Revolving Line Maturity Date**” is January 31, 2020.

“**SEC**” shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

“**Securities Account**” is any “**securities account**” as defined in the Code with such additions to such term as may hereafter be made.

“**Specified Affiliate**” is any Person (a) more than ten percent (10.0%) of whose aggregate issued and outstanding equity or ownership securities or interests, voting, non-voting or both, are owned or held directly or indirectly, beneficially or of record, by Borrower, and/or (ii) whose equity or ownership securities or interests representing more than ten percent (10.0%) of such Person’s total outstanding combined voting power are owned or held directly or indirectly, beneficially or of record, by Borrower.

“**Streamline Ratio**” is defined in the definition of Streamline Period.

“**Streamline Period**” is, on and after the Effective Date, provided no Event of Default has occurred and is continuing, the period (a) commencing on the first day of the month following the day that Borrower provides to Bank a written report that Borrower has, for each consecutive day in the immediately preceding month maintained an Adjusted Quick Ratio, as determined by Bank in its discretion, in an amount at all times greater than or equal to 1.50:1.00 (the “**Streamline Ratio**”); and (b) terminating on the earlier to occur of (i) the occurrence of an Event of Default, and (ii) the first day thereafter in which Borrower fails to maintain the Streamline Ratio, as determined by Bank in its discretion. Upon the termination of a Streamline Period, Borrower must maintain the Streamline Ratio each consecutive day for one (1) fiscal quarter as determined by Bank in its discretion, prior to entering into a subsequent Streamline Period. Borrower shall give Bank prior written notice of Borrower’s election to enter into any such Streamline Period, and each such Streamline Period shall commence on the first day of the monthly period following the date Bank determines, in its reasonable discretion, that the Streamline Ratio has been achieved.

“**Subordinated Debt**” is indebtedness incurred by Borrower subordinated to all of Borrower’s now or hereafter indebtedness to Bank (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Bank entered into between Bank and the other creditor), on terms acceptable to Bank.

“**Subsidiary**” is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower or Guarantor.

“**Term Loan**” is defined in Section 2.3 of this Agreement.

“**Term Loan Maturity Date**” is December 1, 2018.

“**Total Liabilities**” is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower’s consolidated balance sheet, including, without duplication, all Indebtedness.

“**Trademarks**” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

“**Transfer**” is defined in Section 7.1.

*[Balance of Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

**BORROWER:**

**AIRGAIN, INC.**

By /s/Leo Johnson

Name: Leo Johnson

Title: CFO

**BANK:**

**SILICON VALLEY BANK**

By /s/Kadie Sobel

Name: Kadie Sobel

Title: Director

*[Signature Page to Second Amended and Restated Loan and Security Agreement]*



## **EXHIBIT A - COLLATERAL DESCRIPTION**

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except as provided below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, certificates of deposit, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located.

all Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include any Intellectual Property; provided, however, the Collateral shall include all Accounts and all proceeds of Intellectual Property. If a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds of Intellectual Property, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property to the extent necessary to permit perfection of Bank's security interest in such Accounts and such other property of Borrower that are proceeds of the Intellectual Property.

Pursuant to the terms of a certain negative pledge arrangement with Bank, Borrower has agreed not to encumber any of its Intellectual Property without Bank's prior written consent.

**EXHIBIT B**

**COMPLIANCE CERTIFICATE**

TO: SILICON VALLEY BANK  
FROM: AIRGAIN, INC. Date:

The undersigned authorized officer of AIRGAIN, INC. ("**Borrower**") certifies that under the terms and conditions of the Second Amended and Restated Loan and Security Agreement between Borrower and Bank (the "**Agreement**"), (1) Borrower is in complete compliance for the period ending \_\_\_\_\_ with all required covenants except as noted below, (2) there are no Events of Default, (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement, and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries, if any, relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank. Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under "Complies" column.

<u>Reporting Covenants</u>	<u>Required</u>	<u>Complies</u>
Monthly financial statements with Compliance Certificate	Monthly within 30 days	Yes No
Annual financial statements (CPA Audited)	FYE within 180 days	Yes No
10-Q, 10-K and 8-K	Within 5 days after filing with SEC	Yes No
A/R & A/P Agings and Deferred Revenue Report	Monthly within 30 days	Yes No
Borrowing Base Reports	Monthly within 30 days	Yes No
Board approved projections	FYE within 30 days and as amended/updated	Yes No

<u>Financial Covenant</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>
Maintain as indicated:			
Adjusted Quick Ratio	1.25:1.00	_____:1.00	Yes No

Performance Pricing		Applies
AQR ≥ 1.50:1.00	Prime + 1.0%	Yes No
AQR < 1.50:1.00	Prime + 2.0%	Yes No

The following financial covenant analyses and information set forth in Schedule 1 attached hereto are true and accurate as of the date of this Certificate.

The following are the exceptions with respect to the certification above: (If no exceptions exist, state “No exceptions to note.”)

-----

AIRGAIN, INC.

BANK USE ONLY

By:

Received by:

Name:

Date:

Title:

Verified:

Date:

Compliance Status:Yes No

AUTHORIZED SIGNER

AUTHORIZED SIGNER

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**Schedule 1 to Compliance Certificate**

**Financial Covenants of Borrower**

In the event of a conflict between this Schedule and the Loan Agreement, the terms of the Loan Agreement shall govern.

Dated: \_\_\_\_\_

**I. Adjusted Quick Ratio (Section 6.9)**

Required: 1.25:1.00

A.	Aggregate value of the unrestricted and unencumbered cash and cash equivalents of Borrower at Bank	\$
B.	Aggregate value of the net billed accounts receivable of Borrower	\$
C.	Quick Assets (the sum of lines A and B)	\$
D.	Aggregate value of Obligations to Bank	\$
E.	Aggregate value of liabilities of Borrower and its Subsidiaries (including all Indebtedness) that matures within one (1) year	\$
F.	Current Liabilities (the sum of lines D and E)	\$
G.	Aggregate value of all amounts received or invoiced by Borrower in advance of performance under contracts and not yet recognized as revenue	\$
H.	Line F minus line G	\$
I.	Adjusted Quick Ratio (line C divided by line H)	

Is line I equal to or greater than 1:25:1:00?

No, not in compliance

Yes, in compliance

CORPORATE BORROWING CERTIFICATE

BORROWER: AIRGAIN, INC.
 DATE: January 31, 2018
 BANK:SILICON VALLEY BANK

- I hereby certify as follows, as of the date set forth above:
- I am the Secretary, Assistant Secretary or other officer of Borrower. My title is as set forth below.
  - Borrower’s exact legal name is set forth above. Borrower is a corporation existing under the laws of the State of Delaware.
  - Attached hereto are true, correct and complete copies of Borrower’s Certificate of Incorporation (including amendments), as filed with the Secretary of State of the state in which Borrower is incorporated as set forth above. Such Certificate of Incorporation have not been amended, annulled, rescinded, revoked or supplemented, and remain in full force and effect as of the date hereof.
  - The following resolutions were duly and validly adopted by Borrower’s Board of Directors at a duly held meeting of such directors (or pursuant to a unanimous written consent or other authorized corporate action). Such resolutions are in full force and effect as of the date hereof and have not been in any way modified, repealed, rescinded, amended or revoked, and Silicon Valley Bank (“Bank”) may rely on them until Bank receives written notice of revocation from Borrower.

RESOLVED, that **any one** of the following officers or employees of Borrower, whose names, titles and signatures are below, may act on behalf of Borrower:

Name	Title	Signature	Authorized to Add or Remove Signatories
			<input type="checkbox"/>
			<input type="checkbox"/>
			<input type="checkbox"/>
			<input type="checkbox"/>

RESOLVED FURTHER, that **any one** of the persons designated above with a checked box beside his or her name may, from time to time, add or remove any individuals to and from the above list of persons authorized to act on behalf of Borrower.

RESOLVED FURTHER, that such individuals may, on behalf of Borrower:

- Borrow Money.** Borrow money from Bank.
- Execute Loan Documents.** Execute any loan documents Bank requires.
- Grant Security.** Grant Bank a security interest in any of Borrower’s assets.
- Negotiate Items.** Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Borrower has an interest and receive cash or otherwise use the proceeds.
- Apply for Letters of Credit.** Apply for letters of credit from Bank.

**Enter Derivative Transactions.** Execute spot or forward foreign exchange contracts, interest rate swap agreements, or other derivative transactions.  
**Further Acts.** Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreement that waive Borrower's right to a jury trial) they believe to be necessary to effect these resolutions.

**RESOLVED FURTHER,** that all acts authorized by the above resolutions and any prior acts relating thereto are ratified.

5. The persons listed above are Borrower's officers or employees with their titles and signatures shown next to their names.

By:

Name:

Title:

\*\*\* If the Secretary, Assistant Secretary or other certifying officer executing above is designated by the resolutions set forth in paragraph 4 as one of the authorized signing officers, this Certificate must also be signed by a second authorized officer or director of Borrower.

I, the \_\_\_\_\_ of Borrower, hereby certify as to paragraphs 1 through 5 above, as of the date set forth above.

By:

Name:

Title:

## Marketing Consent Form

SVB Financial Group is proud of our business relationships and occasionally likes to promote these relationships. We would like to use your company's information and logo for promotional and marketing purposes in SVB Financial Group member businesses (collectively "SVB") materials. While we would appreciate your consent to all of the uses listed below, please review and select all of the uses that you consent to below.

Indicate your selection(s) by checking the boxes below

- ☒ **Marketing:** You consent to SVB's use of Company's name, logo and images provided to us in written and oral presentations, advertising, marketing and PR materials, professional lists and websites.
- ☐ **Deal Terms:** You consent to SVB's inclusion of the size and type of any loan or credit facility alongside your company's name in any oral presentations, advertising, marketing and PR materials, customer lists, and websites.
- ☐ **Reference:** You consent to SVB's use of Company and representatives' names as a reference for SVB.
- ☐ **Testimonial:** You consent to SVB's use of Company and representatives' names and quotations in written and oral presentations, marketing and PR materials, and websites. Our practice is to send you a draft of any quotation concerning Company prior to publishing.
- ☐ **75565057721500News release:** You consent to SVB's use of Company's name, trademarks, service marks, quotations and images provided to us in the SVB's news releases concerning Company. Our practice is to send you a draft of any news release concerning Company prior to publishing.

In order to maintain the integrity of your logos, please provide them in:

- Full color and black and white versions, with or without taglines
- At least 300 dpi in PNG, EPS, TIF, or JPG formats (please do not send PDF or website logos).

Please make sure to print the Company name, and any individual names and titles as you would like them displayed in materials or lists.

Company name	AIRGAIN, INC.
Additional names	

You grant to SVB a limited license to use the information for the limited purposes above, which you can revoke upon written notice to SVB. The signer below acknowledges that he or she has authority to bind the Company to this consent. SVB will not be responsible for versions that were printed prior to receiving notice revoking any such consent. Company is solely responsible for defense and maintenance of its intellectual property.

Please contact your Relationship Advisor or SVB representative if you have any questions.

Accepted or Agreed on Behalf Of Company or Yourself			
Name		Title	
Signature		Today's date	January 31, 2018
Address			
Phone number		Email	

**Return this completed form and any attachments to your Relationship Advisor or SVB via email at [logo@svb.com](mailto:logo@svb.com).**

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**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Airgain, Inc.

We consent to the incorporation by reference in the registration statement (No. 333-213770) on Form S-8 of Airgain, Inc. of our report dated March 15, 2018, with respect to the balance sheets of Airgain, Inc. as of December 31, 2017 and 2016, and the related statements of operations, comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the “financial statements”), which report appears in the December 31, 2017 annual report on Form 10-K of Airgain, Inc..

/s/ KPMG LLP

San Diego, California  
March 15, 2018



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

I, Charles Myers, certify that:

1. I have reviewed this annual report on Form 10-K 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)) 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: March 15, 2018

/s/ Charles Myers

Charles Myers  
President and Chief Executive Officer  
(principal executive officer)

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

I, Leo Johnson, certify that:

1. I have reviewed this annual report on Form 10-K 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)) 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: March 15, 2018

/s/ Leo Johnson

Leo Johnson

Principal Financial and Accounting Officer

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 annual report of Airgain, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Myers, 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: March 15, 2018

/s/ Charles Myers

Charles Myers

President and Chief 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.

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 annual report of Airgain, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leo Johnson, 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: March 15, 2018

/s/ Leo Johnson

Leo Johnson

Principal Financial and Accounting 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.