

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from _____ to _____

Commission File No. 001-35300

UBIQUITI INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

32-0097377

(I.R.S. Employer
Identification No.)

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

(Address of principal executive offices, Zip Code)

(646) 780-7958

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input 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 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. ☐

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock, \$0.001 par value per share

UI

New York Stock Exchange

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

As of November 4, 2020, 62,787,967 shares of Common Stock, par value \$0.001, were issued and outstanding.

UBIQUITI INC.
INDEX TO
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020

	<u>Page</u>
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	<u>3</u>
Consolidated Balance Sheets	<u>3</u>
Consolidated Statements of Operations and Comprehensive Income	<u>4</u>
Consolidated Statements of Stockholders' Deficit	<u>5</u>
Consolidated Statements of Cash Flows	<u>6</u>
Notes to Consolidated Financial Statements	<u>7</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>20</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>29</u>
Item 4. Controls and Procedures	<u>29</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. Legal Proceedings	<u>29</u>
Item 1A. Risk Factors	<u>29</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>51</u>
Item 3. Defaults Upon Senior Securities	<u>51</u>
Item 4. Mine Safety Disclosures	<u>51</u>
Item 5. Other Information	<u>51</u>
Item 6. Exhibits	<u>52</u>
Signatures	<u>53</u>

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

UBIQUITI INC.

Consolidated Balance Sheets (In thousands, except share data) (Unaudited)

	September 30, 2020	June 30, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 128,427	\$ 142,617
Investments — short-term	1,013	925
Accounts receivable, net of allowance for doubtful accounts of \$211 and \$203 at September 30, 2020 and June 30, 2020, respectively	196,022	142,160
Inventories	256,038	285,943
Vendor deposits	4,935	5,934
Prepaid income taxes	33	34
Prepaid expenses and other current assets	15,483	9,034
Total current assets	601,951	586,647
Property and equipment, net	78,481	78,522
Operating lease right-of-use assets, net	24,827	24,444
Deferred tax assets — long-term	3,682	4,102
Investments — long-term	—	513
Other long-term assets	42,923	43,223
Total assets	\$ 751,864	\$ 737,451
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 68,968	\$ 155,547
Income taxes payable	42,406	30,961
Debt — short-term	24,067	24,067
Other current liabilities	131,609	53,722
Total current liabilities	267,050	264,297
Income taxes payable — long-term	107,039	115,330
Operating lease liabilities — long-term	19,512	18,533
Debt — long-term	612,429	628,437
Other long-term liabilities	7,696	6,312
Total liabilities	1,013,726	1,032,909
Commitments and contingencies (Note 10)		
Stockholders' deficit:		
Preferred stock—\$0.001 par value; 50,000,000 shares authorized; none issued	—	—
Common stock—\$0.001 par value; 500,000,000 shares authorized:		
63,096,850 and 63,687,891 outstanding as of September 30, 2020 and June 30, 2020, respectively	63	64
Additional paid-in capital	—	447
Accumulated other comprehensive income	8	9
Retained earnings (deficit)	(261,933)	(295,978)
Total stockholders' deficit	(261,862)	(295,458)
Total liabilities and stockholders' deficit	\$ 751,864	\$ 737,451

See notes to consolidated financial statements.

UBIQUITI INC.

Consolidated Statements of Operations and Comprehensive Income (In thousands, except per share amounts) (Unaudited)

	Three Months Ended September 30,	
	2020	2019
Revenues	\$ 473,533	\$ 323,277
Cost of revenues	245,417	171,886
Gross profit	228,116	151,391
Operating expenses:		
Research and development	25,813	20,252
Sales, general and administrative	12,350	10,450
Total operating expenses	38,163	30,702
Income from operations	189,953	120,689
Interest expense and other, net	(3,917)	(4,653)
Income before income taxes	186,036	116,036
Provision for income taxes	29,527	17,890
Net income	\$ 156,509	\$ 98,146
Net income per share of common stock:		
Basic	\$ 2.46	\$ 1.44
Diluted	\$ 2.46	\$ 1.43
Weighted average shares used in computing net income per share of common stock:		
Basic	63,612	68,390
Diluted	63,673	68,484
Other comprehensive income:		
Unrealized (losses) on available-for-sale securities	\$ (1)	\$ (153)
Other Comprehensive (loss)	(1)	(153)
Comprehensive income	\$ 156,508	\$ 97,993

See notes to consolidated financial statements.

UBIQUITI INC.

Consolidated Statements of Stockholders' Deficit (In thousands, except per share amounts) (Unaudited)

Three Months Ended September 30, 2020

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Amount	Amount	Amount	Amount
Balance at June 30, 2020	63,687,891	\$ 64	\$ 447	\$ (295,978)	\$ 9	\$ (295,458)
Net Income	—	—	—	156,509	—	156,509
Other comprehensive income (loss)	—	—	—	—	(1)	(1)
Stock options exercised	2,194	—	21	—	—	21
Restricted stock units issued, net of tax withholdings	8,768	—	(615)	—	—	(615)
Repurchases of Common Stock	(602,003)	(1)	(593)	(96,994)	—	(97,588)
Stock-based compensation expense	—	—	740	—	—	740
Dividends Paid on Common Stock (\$0.40 per share)	—	—	—	(25,470)	—	(25,470)
Balances at September 30, 2020	63,096,850	\$ 63	\$ —	\$ (261,933)	\$ 8	\$ (261,862)

Three Months Ended September 30, 2019

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Amount	Amount	Amount	Amount
Balance at June 30, 2019	69,472,568	\$ 69	\$ —	\$ 98,815	\$ 393	\$ 99,277
Net Income	—	—	—	98,146	—	98,146
Other comprehensive income (loss)	—	—	—	—	(153)	(153)
Stock options exercised	678	—	3	—	—	3
Restricted stock units issued, net of tax withholdings	9,743	—	(501)	—	—	(501)
Repurchases of Common Stock	(3,635,534)	(3)	(191)	(416,025)	—	(416,219)
Stock-based compensation expense	—	—	689	—	—	689
Dividends Paid on Common Stock (\$0.30 per share)	—	\$ —	\$ —	\$ (20,669)	\$ —	\$ (20,669)
Balances at September 30, 2019	65,847,455	\$ 66	\$ —	\$ (239,733)	\$ 240	\$ (239,427)

See notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2020	2019
Cash Flows from Operating Activities:		
Net income	\$ 156,509	\$ 98,146
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,634	1,849
Amortization of debt issuance costs	464	304
Non-cash lease expense	64	732
Premium amortization and (discount accretion), net	2	(65)
Write off unamortized debt issuance costs	—	105
Provision for inventory obsolescence	180	697
Provision for loss on vendor deposits and purchase commitments	2,553	1,112
Stock-based compensation	740	689
Deferred Taxes	420	(76)
Other, net	299	572
Changes in operating assets and liabilities:		
Accounts receivable	(53,870)	(18,676)
Inventories	29,960	19,616
Vendor deposits	579	3,803
Prepaid income taxes	1	(14)
Prepaid expenses and other assets	(3,919)	(8,035)
Accounts payable	(86,562)	25,955
Income taxes payable	3,154	(7,232)
Deferred revenues	3,069	925
Accrued and other liabilities	60,684	(757)
Net cash provided by operating activities	116,961	119,650
Cash Flows from Investing Activities:		
Purchase of property and equipment and other long-term assets	(2,836)	(18,333)
Advance of loan to third party	(2,497)	—
Purchase of investments	—	(18,361)
Proceeds from sale of investments	—	59,715
Proceeds from maturities of investments	422	8,577
Net cash provided by (used in) investing activities	(4,911)	31,598
Cash Flows from Financing Activities:		
Proceeds from borrowing under the credit facility — Term	—	37,500
Proceeds from borrowing under the credit facility — Revolver	—	120,000
Repayment against credit facility — Revolver	(10,000)	—
Repayment against credit facility — Term	(6,250)	(6,250)
Debt Issuance Costs	—	(3,138)
Repurchases of common stock	(83,926)	(396,599)
Payment of common stock cash dividends	(25,470)	(20,669)
Proceeds from exercise of stock options	21	3
Tax withholdings related to net share settlements of restricted stock units	(615)	(501)
Net cash (used in) financing activities	(126,240)	(269,654)
Net (decrease) in cash and cash equivalents	(14,190)	(118,406)
Cash and cash equivalents at beginning of period	142,617	238,147
Cash and cash equivalents at end of period	\$ 128,427	\$ 119,741
Supplemental Disclosure of Cash Flow Information:		
Income taxes paid, net of refunds	\$ 26,062	\$ 25,244
Interest paid	\$ 3,226	\$ 4,768
Non-Cash Investing and Financing Activities:		
Right-of-use asset recognized	\$ 2,533	\$ 1,093
Unpaid stock repurchases	\$ 13,662	\$ 21,844
Unpaid property and equipment and other long-term assets	\$ 133	\$ —
Net unsettled investment purchases (sales and maturities)	\$ —	\$ 521

See notes to consolidated financial statements.

UBIQUITI INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1—BUSINESS AND BASIS OF PRESENTATION

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

The Company operates on a fiscal year ending June 30. In this Quarterly Report, the fiscal year ending June 30, 2021 is referred to as “fiscal 2021” and the fiscal year ended June 30, 2020 is referred to as “fiscal 2020”.

Basis of Presentation— The Company’s consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) related to interim financial statements based on applicable Securities and Exchange Commission (“SEC”) rules and regulations. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. These consolidated financial statements reflect all adjustments, which are, in the opinion of the Company, of a normal and recurring nature and those necessary to state fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The June 30, 2020 balance sheet was derived from the audited financial statements as of that date. All significant intercompany transactions and balances have been eliminated.

These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended June 30, 2020, included in its Annual Report on Form 10-K, as filed with the SEC on August 21, 2020 (the “Annual Report”). The results of operations for the three months ended September 30, 2020 are not necessarily indicative of the results to be expected for any future periods.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company’s significant accounting policies are disclosed in its audited consolidated financial statements for the year ended June 30, 2020, included in the Annual Report on Form 10-K. Except as noted below, there have been no other changes to the Company’s significant accounting policies as discussed in the Annual Report.

Use of Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and the accompanying notes. Those estimated assumptions include, but are not limited to, revenue recognition and deferred revenue; allowance for doubtful accounts and sales return reserves; inventory valuation and vendor deposits; accounting for income taxes, including the valuation allowance on deferred tax assets and reserves for uncertain tax positions; determinations of fair value for stock-based awards; estimate of incremental borrowing rate for determining the present value of future lease payments; and valuation of warranty accruals. We evaluate our estimates and assumptions based on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ materially from those estimates.

Recently Adopted Accounting Pronouncements

Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 replaces the existing incurred loss impairment model with a forward-looking expected credit loss model which will result in earlier recognition of credit losses for certain financial instruments and financial assets. For trade receivables, we are required to estimate lifetime expected credit losses. For available-for-sale debt securities, we will recognize an allowance for credit losses rather than a reduction to the carrying value of the asset. ASU 2016-13 is effective for the Company’s fiscal year beginning July 1, 2020 on a modified retrospective basis.

As of July 1, 2020, the Company adopted the new standard, including identifying, evaluating and quantifying the impact on its consolidated financial statements. We concluded that the expected credit loss impact to the opening balance of fiscal 2021 retained earnings was deemed immaterial, and as a result the adoption did not have a material impact the Company’s consolidated financial position, results of operations, or cash flow.

Recent Accounting Pronouncements Not Yet Effective

Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740), which amends the existing guidance relating to the accounting for income taxes. ASU 2019-12 is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles of accounting for income taxes and to improve the consistent application of GAAP for other areas of accounting for income taxes by clarifying and amending existing guidance. ASU 2019-12 is effective for the Company's fiscal year beginning July 1, 2021. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

NOTE 3—REVENUES

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

Disaggregation of Revenue

See Note 15 of Notes to Consolidated Financial Statements "Segment Information" for disaggregation of revenue by product category and geography.

Contract Balances

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

As of September 30, 2020 and June 30, 2020, the Company's customer deposits were \$2.6 million and \$2.1 million, respectively.

As of September 30, 2020, the Company's deferred revenue, included in other current liabilities and other long-term liabilities, was \$18.2 million and \$7.6 million, respectively.

As of June 30, 2020, the Company's deferred revenue, included in other current liabilities and other long-term current liabilities, was \$16.5 million and \$6.3 million, respectively.

NOTE 4—FAIR VALUE OF FINANCIAL INSTRUMENTS

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The accounting guidance establishes a three-tier fair value hierarchy that requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

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

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

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

The Company records securities available-for-sale at fair value on a recurring basis. We classify our investments within Level 1 or 2 because they are valued using either quoted market prices or inputs other than quoted prices which are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded. Our fixed income available-for-sale securities consist of high-quality investment grade securities from diverse issuers. The valuation techniques used to measure the fair value of our marketable securities incorporate bond terms and conditions, current performance data, proprietary pricing models, real time quotes from contributing dealers, trade prices and other market data.

The Company held no Level 3 financial instruments as of September 30, 2020 and June 30, 2020.

The following tables summarize the Company's financial instruments' adjusted cost, gross unrealized gains and losses, and fair value by significant investment category as of September 30, 2020 and June 30, 2020 (in thousands):

September 30, 2020							
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents (1)	Short-Term Investments	Long-Term Investments
Level 1							
Money market funds	\$ 1,478	\$ —	\$ —	\$ 1,478	\$ 1,478	\$ —	\$ —
Subtotal	\$ 1,478	\$ —	\$ —	\$ 1,478	\$ 1,478	\$ —	\$ —
Level 2							
Corporate securities	1,005	8	—	1,013	—	1,013	—
Subtotal	\$ 1,005	\$ 8	\$ —	\$ 1,013	\$ —	\$ 1,013	\$ —
Total	\$ 2,483	\$ 8	\$ —	\$ 2,491	\$ 1,478	\$ 1,013	\$ —

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

June 30, 2020							
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents (1)	Short-Term Investments	Long-Term Investments
Level 1							
Money market funds	\$ 1,055	\$ —	\$ —	\$ 1,055	\$ 1,055	\$ —	\$ —
Subtotal	\$ 1,055	\$ —	\$ —	\$ 1,055	\$ 1,055	\$ —	\$ —
Level 2							
Corporate securities	1,429	9	—	1,438	—	925	513
Subtotal	\$ 1,429	\$ 9	\$ —	\$ 1,438	\$ —	\$ 925	\$ 513
Total	\$ 2,484	\$ 9	\$ —	\$ 2,493	\$ 1,055	\$ 925	\$ 513

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

For the three months ended September 30, 2020, the Company did not recognize any net gains or losses from accumulated other comprehensive income related to unrealized gains or losses. During the three months ended September 30, 2019, the Company reclassified realized net gain of \$0.2 million to earnings from accumulated other comprehensive income related to unrealized gains or losses.

During the three months ended September 30, 2020, interest income on our investment securities was immaterial. During the three months ended September 30, 2019, we had \$0.5 million of interest income on our investment securities.

The Company had no continuous unrealized loss position from marketable securities as of September 30, 2020 and June 30, 2020.

The following table represents the adjusted costs and fair value of cash equivalents and investments by contractual maturity as of September 30, 2020 (in thousands):

	Available-For-Sale	
	Adjusted Cost	Fair Value
Due within 1 year and money market funds	\$ 2,483	\$ 2,491
Total	\$ 2,483	\$ 2,491

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

As of September 30, 2020 and June 30, 2020, the Company had outstanding loans associated with its credit facilities, which are carried at historical cost. The fair value of the Company's debt disclosed below was estimated based on the current rates offered to the Company for debt with similar terms and remaining maturities and was a Level 2 measurement. As of September 30, 2020 and June 30, 2020, the fair value of the Company's debt, which is carried at historical cost, was \$638.8 million and \$655.0 million, respectively.

NOTE 5—EARNINGS PER SHARE

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

	Three Months Ended September 30,	
	2020	2019
Numerator:		
Net income	\$ 156,509	\$ 98,146
Denominator:		
Weighted-average shares used in computing basic earnings per share	63,612	68,390
Add—dilutive potential common shares:		
Stock options	20	41
Restricted stock units	41	53
Weighted-average shares used in computing diluted net income per share	63,673	68,484
Net income per share of common stock:		
Basic	\$ 2.46	\$ 1.44
Diluted	\$ 2.46	\$ 1.43

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

	Three Months Ended September 30,	
	2020	2019
Restricted stock units	—	11

NOTE 6—BALANCE SHEET COMPONENTS

Inventories

Inventories consisted of the following (in thousands):

	September 30, 2020	June 30, 2020
Finished goods	\$ 252,620	\$ 282,381
Raw materials	3,418	3,562
Total	\$ 256,038	\$ 285,943

Property and Equipment, Net

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

	September 30, 2020	June 30, 2020
Testing equipment	\$ 12,903	\$ 12,476
Tooling equipment	14,091	13,601
Leasehold improvements	13,073	12,944
Computer and other equipment	7,792	7,676
Software	7,267	7,266
Furniture and fixtures	2,365	2,147
Corporate aircraft	65,807	64,659
Property and Equipment, Gross	123,298	120,769
Less: Accumulated depreciation	(44,817)	(42,247)
Property and Equipment, net	\$ 78,481	\$ 78,522

Other Long-term Assets

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

	September 30, 2020	June 30, 2020
Hong Kong Tax deposit ⁽¹⁾	\$ 35,495	\$ 35,495
Intangible assets, net ⁽²⁾	3,019	3,063
Other long-term assets, net	4,409	4,665
Total	\$ 42,923	\$ 43,223

(1) The Company made a total of \$35.5 million of deposits with the Hong Kong Inland Revenue Department ("IRD") in connection with extending the statute of limitation for income tax examinations currently under audit for the 2010-2014 tax years. These deposits were made during fiscal years 2020, 2019, and 2018 in the amounts of \$15.5 million, \$13.4 million and \$6.6 million, respectively. We expect the \$35.5 million of deposits made with the IRD to be refunded upon completion of the audit. See Note 14 to the consolidated financial statements for additional details regarding this ongoing tax audit.

(2) Accumulated amortization was \$1.9 million and \$1.8 million as September 30, 2020 and June 30, 2020, respectively.

Other Current Liabilities

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

	September 30, 2020	June 30, 2020
Deferred revenue — short-term	\$ 18,150	16,464
Accrued expenses	16,793	12,148
Lease liability— current	6,524	7,056
Warranty accrual	4,484	4,538
Accrued compensation and benefits	4,220	4,084
Customer deposits	2,580	2,061
Reserve for sales returns	1,801	1,275
Other payables	77,057	6,096
Total	\$ 131,609	\$ 53,722

Other Long-Term Liabilities

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

	September 30, 2020	June 30, 2020
Deferred Revenue — long-term	\$ 7,637	\$ 6,254
Other long-term liabilities	59	58
Total	<u>\$ 7,696</u>	<u>\$ 6,312</u>

NOTE 7—ACCRUED WARRANTY

The Company offers warranties on certain products, generally a period of one year, and records a liability for the estimated future costs associated with potential warranty claims. The warranty costs are reflected in the Company's consolidated statements of operations and comprehensive income within cost of revenues. The warranties are typically in effect for twelve months from the distributor's purchase date of the product. The Company assesses the adequacy of its accrued warranty liabilities and adjusts the amounts as necessary based on historical experience factors and changes in future estimates. Historical factors include product failure rates, material usage and service delivery costs incurred in correcting product failures. In certain circumstances, the Company may have recourse from its contract manufacturers for replacement cost of defective products, which it also factors into its warranty liability assessment.

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

	Three Months Ended September 30,	
	2020	2019
Beginning balance	\$ 4,538	\$ 4,518
Accruals for warranties issued during the period	2,142	2,486
Changes in liability for pre-existing warranties during the period	(585)	(112)
Settlements made during the period	(1,611)	(2,099)
Ending balance	<u>\$ 4,484</u>	<u>\$ 4,793</u>

NOTE 8—DEBT

On September 9, 2019, Ubiquiti Inc., as borrower, Ubiquiti International Holding Company Limited (the "Cayman Borrower"), as a released party, and certain subsidiaries entered into the Third Amendment (the "Third Amendment") to the Second Amended & Restated Credit Agreement, dated January 17, 2018 (as amended by the First Amendment, dated as of June 19, 2018, and the Second Amendment dated as of March 15, 2019, the "Second A&R Credit Agreement", and as further amended by the Third Amendment, the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), the other financial institutions named as lenders therein, and Wells Fargo as administrative agent and collateral agent for the lenders, that provides for a \$700 million senior secured revolving credit facility (the "Revolving Facility") and a \$500 million senior secured term loan facility (the "Term Facility", together with the Revolving Facility, the "Facilities"), with an option to request increases in the amounts of such credit facilities by up to an additional \$400 million in the aggregate. The maturity date for the Facilities remains at January 17, 2023.

In addition, the Third Amendment (a) released the Cayman Borrower from its obligations as a borrower under the Second A&R Credit Agreement, (b) released all of the foreign subsidiaries that were previously party to the Second A&R Credit Agreement as guarantors of the obligations of the released Cayman Borrower and (c) made conforming amendments to the provisions of the Second A&R Credit Agreement and other loan documents to reflect the release from the Second A&R Credit Agreement. The Third Amendment also modified certain definitions and certain covenants relating to indebtedness and investments.

Our Debt consisted of the following (in thousands):

	September 30, 2020	June 30, 2020
Term Loan - short term	\$ 25,000	\$ 25,000
Debt issuance costs, net	(933)	(933)
Total Debt - short term	<u>24,067</u>	<u>24,067</u>
Term Loan - long term	443,750	450,000
Revolver - long term	170,000	180,000
Debt issuance costs, net	(1,321)	(1,563)
Total Debt - long term	<u>\$ 612,429</u>	<u>\$ 628,437</u>

The Revolving Facility includes a sub-limit of \$10.0 million for letters of credit and a sub-limit of \$25.0 million for swingline loans. The Facilities are available for working capital and general corporate purposes that comply with the terms of the Credit Agreement, including to finance the repurchase of the Company's common stock or to make dividends to the holders of the Company's common stock. Under the Credit Agreement, revolving loans and swingline loans may be borrowed, repaid and reborrowed until January 17, 2023, at which time all amounts borrowed must be repaid. The term loan is payable in quarterly installments of 1.25% of the original principal amount of the term loan, in each case plus accrued and unpaid interest. Revolving, swingline and term loans may be prepaid at any time without penalty. Revolving and term loans bear interest, at the Company's option, at either (i) a floating rate per annum equal to the base rate plus a margin of between 0.50% and 1.25%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter or (ii) a floating per annum rate equal to the applicable LIBOR rate (or replacement rate) for a specified period, plus a margin of between 1.50% and 2.25%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter. Swingline loans bear interest at a floating rate per annum equal to the base rate plus a margin of between 0.50% and 1.25%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter. Base rate is defined as the greatest of (A) Wells Fargo's prime rate, (B) the federal funds rate plus 0.50% or (C) the applicable LIBOR rate (or replacement rate) for a period of one month plus 1.00%. A default interest rate shall apply on all obligations during certain events of default under the Credit Agreement at a rate per annum equal to 2.00% above the applicable interest rate. The Company will pay to each lender a facility fee on a quarterly basis based on the unused amount of each lender's commitment to make revolving loans, of between 0.20% and 0.35%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter. The Company will also pay to the applicable lenders on a quarterly basis certain fees based on the daily amount available to be drawn under each outstanding letter of credit, including aggregate letter of credit commissions of between 1.50% and 2.25%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter, and issuance fees of 0.125% per annum. The Company is also obligated to pay Wells Fargo, as agent, fees customary for a credit facility of this size and type.

The Credit Agreement requires the Company to maintain during the term of the Facilities (i) a maximum consolidated total leverage of 3.25 to 1.00 and (ii) a minimum consolidated interest coverage ratio of 3.5 to 1.00. In addition, the Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the ability of the Company and its subsidiaries to, among other things, grant liens or enter into agreements restricting their ability to grant liens on property, enter into mergers, dispose of assets, change their accounting or reporting policies, change their business and incur indebtedness, in each case subject to customary exceptions for a credit facility of this size and type. The Credit Agreement includes customary events of default that include, among other things, non-payment of principal, interest or fees, inaccuracy of representations and warranties, violation of covenants, cross default to certain other indebtedness, bankruptcy and insolvency events, material judgments, change of control and certain ERISA events. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. The obligations of Ubiquiti Inc. and certain domestic subsidiaries, if any, under the Credit Agreement are required to be guaranteed by such domestic subsidiaries (the "Domestic Guarantors") and are collateralized by substantially all assets (excluding intellectual property) of Ubiquiti Inc. and the Domestic Guarantors.

The Facilities

As of September 30, 2020, \$468.8 million was outstanding on the Term Facility and \$170.0 million on the Revolving Facility, leaving \$530.0 million available on the Revolving Facility.

Term Facility

Under the Credit Agreement, during the three months ended September 30, 2020, the Company made aggregate payments of \$8.6 million under the Term Facility, of which \$6.3 million was repayment of principal and \$2.3 million was payment of interest.

Revolving Facility

Under the Credit Agreement, during the three months ended September 30, 2020, the Company made aggregate payments of \$10.9 million under the Revolving Facility, of which \$10.0 million was repayment of principal and \$0.9 million was payment of interest.

As of September 30, 2020, the interest rate on the term loan was 1.90%. As of October 30, 2020, the most currently available reset date, the Term Facility has an interest rate of 1.90%.

The table below shows the respective interest rates as of September 30, 2020, in addition to the interest rate reset dates as available for each revolver draw:

Debt Payment Obligations	Interest Rate as of September 30, 2020	Rate Reset Date	Reset Rate
\$120 Million Revolver	1.90 %	October 19, 2020	1.90 %
\$50 Million Revolver	1.90 %	October 30, 2020	1.90 %

The following table summarizes our estimated debt and interest payment obligations as of September 30, 2020, for the remainder of fiscal 2021 and future fiscal years (in thousands):

	2021 (remainder)	2022	2023	2024	2025	Thereafter	Total
Debt payment obligations	\$ 18,750	\$ 25,000	\$595,000	\$ —	\$ —	\$ —	\$638,750
Interest and other payments on debt payment obligations ⁽¹⁾	10,106	13,091	7,002	—	—	—	30,199
Total	\$ 28,856	\$ 38,091	\$602,002	\$ —	\$ —	\$ —	\$668,949

(1) - Interest payments are calculated based on the applicable rates and payment dates as of September 30, 2020. Although our interest rates on our debt obligations may vary, we have assumed the most recent available interest rates for all periods presented.

NOTE 9—LEASES

The Company enters into agreements under which we lease various real estate spaces in North America, Europe and Asia Pacific, under non-cancellable leases that expire on various dates through fiscal 2029. Some of our leases include options to extend the term of such leases for a period from 12 months to 60 months, and/or have options to early terminate the lease. As of September 30, 2020, we included such options in determining the lease terms for certain of our leases because we were reasonably certain that we would exercise those options. Most of our leases require us to pay certain operating expenses in addition to base rent, such as taxes, insurance and maintenance costs.

The following table summarizes our lease costs for the three months ended September 30, 2020 (in thousands):

		Three Months Ended September 30,	
<i>Financial Statement Classification</i>		2020	2019
Operating lease costs:			
Fixed lease costs	Operating expenses	\$ 1,801	\$ 1,574
Fixed lease costs	Cost of revenues	509	515
Variable lease costs	Operating expenses	203	102
Variable lease costs	Cost of revenues	100	93
Total lease costs		\$ 2,613	\$ 2,284

The operating lease costs in the table above include costs for long-term and short-term leases. Total short-term costs for the three months ended September 30, 2020 and 2019 were immaterial. Variable lease costs primarily include maintenance, utilities and operating expenses that are incremental to the fixed base rent payments and are excluded from the calculation of operating lease liabilities and ROU assets. For the three months ended September 30, 2020 and 2019, cash paid for amounts associated with our operating lease liabilities were approximately \$2.8 million and \$2.2 million, respectively, which were classified as operating activities in the consolidated statement of cash flows.

The following table shows our undiscounted future fixed payment obligations under our recognized operating leases and a reconciliation to the operating lease liabilities as of September 30, 2020:

Remainder of Fiscal 2021	\$ 5,999
Fiscal 2022	5,097
Fiscal 2023	4,322
Fiscal 2024	4,130
Fiscal 2025	3,705
Thereafter	5,484
Total future fixed operating lease payments	\$ 28,737

Less: Imputed interest	\$	2,701
Total operating lease liabilities	\$	26,036
Weighted-average remaining lease term - operating leases		5.4 years
Weighted-average discount rate - operating leases		3.7 %

NOTE 10—COMMITMENTS AND CONTINGENCIES

Operating Leases

See Note 9- *Leases* for future minimum lease payments under non-cancelable operating leases as of September 30, 2020.

Purchase Obligations

We subcontract with third parties to manufacture our products and have purchase commitments with key component suppliers. During the normal course of business, our contract manufacturers procure components and manufacture products 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 September 30, 2020, we have recorded a purchase obligation liability of \$5.2 million related to component purchase commitments. There have been no other significant liabilities for cancellations recorded as of September 30, 2020. Our consolidated financial position and results of operations could be negatively impacted if we were required to compensate the contract manufacturers for any unrecorded liabilities incurred. We may be subject to additional purchase obligations for supply agreements and components ordered by our contract manufacturers based on manufacturing forecasts we provide them each month. We estimate the amount of these additional purchase obligation to range from \$148.7 million to \$427.0 million as of September 30, 2020, depending upon the timing of orders placed for these components by our contract manufacturers.

Other Obligations

As of September 30, 2020, the Company has other obligations of \$64.2 million which consisted primarily of commitments related to raw materials and research and development projects.

Indemnification Obligations

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

Legal Matters

The Company may be involved, from time to time, in a variety of claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters and other litigation matters relating to various claims that arise in the normal course of business. The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using available information. The Company develops its views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Taking all of the above factors into account, the Company records an amount where it is probable that the Company will incur a loss and where that loss can be reasonably estimated. However, the Company's estimates may be incorrect and the Company could ultimately incur more or less than the amounts initially recorded. The Company may also incur significant legal fees, which are expensed as incurred, in defending against these claims. The Company is not currently aware of any pending or threatened litigation that would have a material adverse effect on the Company's financial statements.

Vivato/XR

On April 19, 2017, XR Communications, LLC, d/b/a Vivato Technologies (“Vivato”), filed a complaint against the Company in the United States District Court for the Central District of California, alleging that at least one of the Company’s products infringes United States Patent Numbers 7,062,296 (the “’296 Patent”), 7,729,728 (the “’728 Patent”), and 6,611,231 (the “’231 Patent” and, collectively, the “Patents-in-Suit”). The ‘296 and ‘728 Patents are entitled “Forced Beam Switching in Wireless Communication Systems Having Smart Antennas.” The ‘231 Patent is entitled “Wireless Packet Switched Communications Systems and Networks Using Adaptively Steered Antenna Arrays.” Vivato amended its complaint on June 23, 2017 and again on July 6, 2017. According to the complaint, the products accused of infringing the Patents-in-Suit include Wi-Fi access points and routers supporting MU-MIMO, including without limitation access points and routers utilizing the IEEE 802.11ac-2013 standard. Vivato has also filed nine other lawsuits asserting the same patents against other defendants in the Central District of California. On October 2, 2017, the ten cases were consolidated into a single action for all purposes except trial. On March 19, 2018, the Company and the remaining defendants in the consolidated action moved to stay the case (the “Motion to Stay”) pending completion of certain inter partes review proceedings before the Patent Trial and Appeal Board. On April 9, 2018, the Court held a hearing on the Motion to Stay, and, on April 11, 2018, the Court granted the motion. On February 11, 2019, the Court maintained the stay pending a status conference scheduled for December 2, 2019. During the status conference on December 2, 2019, the Court rejected a request from Vivato to lift the stay in part. The Court maintained the stay in full pending a further status conference, which was originally scheduled for March 17, 2020 and subsequently rescheduled for November 23, 2020.

The Company plans to vigorously defend itself against these claims; however, there can be no assurance that the Company will prevail in the lawsuit. The Company cannot currently estimate the possible loss or range of losses, if any, that it may experience in connection with this litigation.

SEC Subpoena

As previously disclosed on the Form 8-K filed by the Company on February 20, 2018, on February 13, 2018, the Securities and Exchange Commission (the “SEC”) issued subpoenas to the Company and certain of the Company’s officers requesting documents and information relating to a range of topics, including metrics relating to the Ubiquiti Community, accounting practices, financial information, auditors, international trade practices, and relationships with distributors and various other third parties. The Company responded to the requests and fully cooperated with the SEC. On September 11, 2020, the Company received notification from the SEC that it has concluded its investigation as to the Company and does not intend to recommend an enforcement action against the Company. The notice was provided under the guidelines set out in the final paragraph of Securities Act Release No. 5310.

NOTE 11—COMMON STOCK AND TREASURY STOCK

Common Stock Repurchases

On May 5, 2020, the Company’s Board of Directors approved a \$500 million stock repurchase program (the “2020 May Program”). Under the 2020 May Program, the Company may repurchase up to \$500 million of its common stock. The 2020 May Program expires on March 31, 2022. During the three months ended September 30, 2020, the Company repurchased and retired 602,003 shares of common stock at an average price per share of \$162.10 for an aggregate amount of \$97.6 million, which included unpaid stock repurchases of \$13.7 million related to repurchases executed on or prior to September 30, 2020 for trades settled in the second quarter of fiscal 2021. As of September 30, 2020, the Company had \$440.3 million available for share repurchases under the 2020 May Program.

The following table provides information with respect to the Company’s Share Repurchase programs and the activity under the available share repurchase programs during the three months ended September 30, 2020 (in millions, except share and per share amounts):

Date of Publicly Announced Program	Amount of Publicly Announced Program	Total Number of Shares Purchased as Part of Publicly Announced Programs	Average Price Paid per Share	Total Aggregate Amount Paid	Period of Purchases	Estimated Remaining Balance Available for Share Repurchases under the Program	Expiration date of Program
November 8, 2019	\$200 million	228,180	\$166.05	\$37.9	August 21, 2020 - September 15, 2020	\$—	12/31/2021
May 8, 2020	\$500 million	373,823	\$159.69	\$59.7	September 15, 2020 - September 30, 2020	\$440.3	3/31/2022

NOTE 12—ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to gains and losses that are recorded as an element of stockholders' equity but are excluded from net income pursuant to GAAP. For the three months ended September 30, 2020 and 2019, the Company's accumulated other comprehensive income includes net unrealized gains (losses) from our available-for-sale securities, respectively.

NOTE 13—STOCK BASED COMPENSATION

Stock-Based Compensation Plans

The Company's 2010 Equity Incentive Plan and 2005 Equity Incentive Plan are described in its Annual Report. As of September 30, 2020, the Company had 9,990,751 authorized shares available for future issuance under all of its stock incentive plans.

Stock-Based Compensation

The following table shows total stock-based compensation expense included in the Consolidated Statements of Operations and Comprehensive Income for the three months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,	
	2020	2019
Cost of revenues	\$ 28	\$ 32
Research and development	510	481
Sales, general and administrative	202	176
	<u>\$ 740</u>	<u>\$ 689</u>

Stock Options

The following is a summary of option activity for the Company's stock incentive plans for the three months ended September 30, 2020:

	Common Stock Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Balance, June 30, 2020	22,265	\$ 11.07	2.16	\$ 3,640
Exercised	(2,194)	\$ 9.79		
Balance, September 30, 2020	<u>20,071</u>	\$ 11.21	1.93	\$ 3,120
Vested as of September 30, 2020	<u>20,071</u>	\$ 11.21	1.93	\$ 3,120
Vested and exercisable as of September 30, 2020	<u>20,071</u>	\$ 11.21	1.93	\$ 3,120

During the three months ended September 30, 2020 and 2019, the aggregate intrinsic value of options exercised under the Company's stock incentive plans was \$0.3 million and \$0.1 million, respectively, as determined as of the date of option exercise.

As of September 30, 2020, the Company had no unrecognized compensation costs related to stock options.

The Company did not grant any employee stock options during the three months ended September 30, 2020 and 2019.

Restricted Stock Units ("RSUs")

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

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Non-vested RSUs, June 30, 2020	82,571	\$ 99.57
RSUs granted	3,999	\$ 171.06
RSUs vested	(12,295)	\$ 81.03
RSUs canceled	(1,191)	\$ 97.73
Non-vested RSUs, September 30, 2020	73,084	\$ 106.63

The intrinsic value of RSUs vested in the three months ended September 30, 2020 and 2019 was \$2.1 million and \$1.8 million, respectively. The total intrinsic value of all outstanding RSUs was \$12.2 million as of September 30, 2020.

As of September 30, 2020, there were unrecognized compensation costs related to RSUs of \$5.4 million which the Company expects to recognize over a weighted average period of 3.0 years.

NOTE 14—INCOME TAXES

The Company recorded tax provisions of \$29.5 million for the three months ended September 30, 2020 as compared to \$17.9 million for the three months ended September 30, 2019. The increase is primarily related to an increase in profit before tax for the three months ended September 30, 2020.

The Company's estimated fiscal year 2021 effective tax rate, before discrete items, differs from the U.S. statutory rate primarily due to profits earned in jurisdictions where the tax rate is lower than the U.S. tax rate, partially offset by additional US tax related to our non-US operations under Global Intangible Low-Taxes Income (GILTI) provision.

As of September 30, 2020, the Company had approximately \$32.7 million of unrecognized tax benefits, substantially all of which would, if recognized, affect its tax expense. The Company recorded a net increase of its unrecognized tax benefits of \$1.4 million for the three months ended September 30, 2020. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Statement of Operations and Comprehensive Income. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet. As of September 30, 2020, the Company had \$5.0 million accrued interest related to uncertain tax matters.

The Company and one or more of its subsidiaries, files income tax returns in the United States federal jurisdiction, and various state, local, and foreign jurisdictions and is currently undergoing income tax examinations by the U.S. Internal Revenue Service and the Hong Kong IRD. All material consolidated federal, state and local income tax matters have been concluded for years through 2014. The majority of the Company's foreign jurisdictions have been concluded through 2014, with the exception of Hong Kong which has been reviewed through 2009 and is currently under audit for the 2010-2016 tax years.

During fiscal years 2020, 2019, and 2018, the Company made a total of \$15.5 million, \$13.4 million, and \$6.6 million of deposits with the Hong Kong IRD in connection with extending the statute of limitation for income tax examinations currently under audit for 2010-2014 tax years. The refundable deposits are included within other long-term assets on our Consolidated Balance Sheets. The IRD is examining the Company's claims that its revenue is generated through activities performed wholly outside of the Hong Kong tax jurisdiction and are therefore exempt from Hong Kong tax. The Company is fully cooperating with the examination including submitting documentation in support of its position. The Company continues to believe that its tax positions filed with IRD are more likely than not to be sustained based on their technical merits and therefore no reserve has been provided for this tax uncertainty and we expect the \$35.5 million of deposits made with IRD to be refunded upon completion of the audit. However, there can be no assurance that this matter will be resolved in the Company's favor and therefore it's possible that an adverse outcome of the matter could have a material effect on the Company's results of operations and financial condition.

In July 2018, the Company received a draft Notice of Proposed Adjustment ("Draft NOPA") from the Internal Revenue Service ("IRS") proposing an adjustment to income for the fiscal 2015 and fiscal 2016 tax years based on its interpretation of certain obligations of the non-US entities under the credit facility. This Draft NOPA was superseded by an Acknowledgement of Facts ("AOF") issued to the Company by the IRS on January 17, 2020. The IRS in its AOF continued to propose an adjustment to the Company's income for its fiscal 2015 and fiscal 2016 tax years based on the IRS' interpretation of certain obligations of the Company's foreign subsidiaries under the Company's credit facilities. On May 12, 2020, the IRS issued a final Notice of Proposed Adjustment to the Company with respect to the 2015/2016 tax years. The Company has formally protested the adjustment and the case is expected to be moved from the Examination Division to the IRS Appeals Division where a formal review of the facts and the applicable law will take place. The timing of when the case will be scheduled to be reviewed by the Appeals Division is uncertain at

this time due in large part to an existing backlog of cases awaiting review by the Division. The Company strongly believes the position of the IRS with regard to this matter is without merit. However, there can be no assurance that this matter will be resolved in the Company's favor. Regardless of whether the matter is resolved in the Company's favor, the final resolution of this matter could be expensive and time-consuming to defend and/or settle. We estimate the incremental tax liability associated with the income adjustment proposed in the AOF would be approximately \$50.0 million, excluding potential interest and penalties, after adjusting for the impact of an adjustment on the amount of transition tax payable in future years by the Company. As the Company believes that the tax originally paid in fiscal 2015 and fiscal 2016 is correct, it has not provided a reserve for this tax uncertainty. However, an adverse outcome may have a material and adverse effect on the Company's results of operations and financial condition.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES") was signed into law on March 25, 2020. The bill was meant to address the economic fallout in response to locally mandated shelter-in-place orders that were executed in an attempt to slow the spread of COVID-19. None of these provisions of CARES are expected to have material impacts to the Company's fiscal 2020 tax provision. We will monitor the updates, both to the Company's business as well as guidance issued with respect to CARES that could impact the current interpretation of the provisions under CARES, to determine whether any additional considerations need to be made with respect to the Company's tax provision in future periods.

NOTE 15—SEGMENT INFORMATION, REVENUES BY GEOGRAPHY AND SIGNIFICANT CUSTOMERS

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

- **Service Provider Technology** includes our airMAX, EdgeMAX, UFiber, and airFiber platforms, as well as embedded radio products and other 802.11 standard products including base stations, radios, backhaul equipment and CPE. Additionally, Service Provider Technology includes antennas and other products primarily in the 0.9 to 6.0 GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters.
- **Enterprise Technology** includes our UniFi platform, including UniFi enterprise Wi-Fi, UniFi Protect, UniFi switching and routing solutions and our AmpliFi platform.

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

	Three Months Ended September 30,			
	2020		2019	
Service Provider Technology	\$ 157,461	33 %	\$ 115,926	36 %
Enterprise Technology	316,072	67 %	207,351	64 %
Total revenues	\$ 473,533	100 %	\$ 323,277	100 %

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

	Three Months Ended September 30,			
	2020		2019	
North America ⁽¹⁾	\$ 220,880	47 %	\$ 147,951	46 %
Europe, the Middle East and Africa ("EMEA")	179,180	38 %	125,841	39 %
Asia Pacific	41,945	9 %	29,716	9 %
South America	31,528	6 %	19,769	6 %
Total revenues	\$ 473,533	100 %	\$ 323,277	100 %

(1) Revenue for the United States was \$209.8 million and \$141.9 million for the three months ended September 30, 2020 and 2019, respectively.

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

	Percentage of Revenues		Percentage of Accounts Receivable	
	Three Months Ended September 30,		September 30,	June 30,
	2020	2019	2020	2020
Customer A	*	10%	*	*
Customer B	12%	14%	18%	17%

NOTE 16—RELATED PARTY TRANSACTIONS AND CERTAIN OTHER TRANSACTIONS

Aircraft Lease Agreement

On November 13, 2013, the Company entered into an aircraft lease agreement (the “Aircraft Lease Agreement”) with RJP Manageco LLC (the “Lessor”), a limited liability company owned by the Company’s CEO, Robert J. Pera. Pursuant to the Aircraft Lease Agreement, the Company may lease an aircraft owned by the Lessor for Company business purposes. Under the Aircraft Lease Agreement, the aircraft may be leased at a rate of \$5,000 per flight hour. This hourly rate does not include the cost of flight crew or on-board services, which the Company purchases from a third-party provider. The Company recognized a total of approximately \$0.5 million in expenses pursuant to the Aircraft Lease Agreement during the three months ended September 30, 2019. All expenses pursuant to the Aircraft Lease Agreement have been included in the Company’s sales, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income.

NOTE 17 - SUBSEQUENT EVENTS

Stock Repurchases

Subsequent to September 30, 2020, the Company repurchased and retired 309,133 shares of common stock at an average price of \$178.11 for an aggregate amount of \$55.1 million. As of November 5, 2020, the Company had \$385.2 million available for share repurchases under the 2020 May Program.

Dividends

On November 6, 2020, the Company announced that its Board of Directors had approved a quarterly cash dividend of \$0.40 per share payable on November 23, 2020 to shareholders of record at the close of business on November 16, 2020. Any future dividends will be subject to the approval of the Company's Board of Directors.

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

The following discussion of our financial condition and results of operations should be read together with the financial statements and related notes that are included elsewhere in this quarterly report. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this quarterly report, particularly in Note 10 “Commitments and Contingencies” to our consolidated financial statements and Part II “Other Information”, Item 1-Legal Proceedings and 1A-Risk Factors, in this report.

Overview

The Company develops technology platforms for high-capacity distributed Internet access, unified information technology, and consumer electronics for professional, home and personal use. We categorize our solutions in to three main categories: high performance networking technology for service providers, enterprises and consumers. We target the service provider and enterprise markets through our highly engaged community of service providers, distributors, value added resellers, webstores, systems integrators and corporate IT professionals, which we refer to as the Ubiquiti Community. We target consumers through digital marketing, retail chains and, to a lesser extent, the Ubiquiti Community.

The majority of our human capital resources consist of entrepreneurial and de-centralized research and development (“R&D”) personnel. We do not employ a traditional direct sales force, but instead drive brand awareness through online reviews and publications, our website, our distributors and the Company’s user community where customers can interface directly with our R&D, marketing, and support teams. Our technology platforms were designed from the ground up with a focus on delivering highly-advanced and easily deployable solutions that appeal to a global customer base market.

We offer a broad and expanding portfolio of networking products and solutions for operator-owners of wireless internet services (“WISPs”), enterprises and smart homes. Our operator-owner service provider-product platforms provide carrier-class network infrastructure for fixed wireless broadband, wireless backhaul systems and routing and the related software for WISPs to easily control, track and bill their customers. Our enterprise product platforms provide wireless LAN (“WLAN”) infrastructure, video surveillance products, switching and routing solutions, security gateways, and other complimentary WLAN products along with a unique software platform, which enables users to control their network from one simple, easy to use software interface. Our consumer products, sold under the Ubiquiti Labs brand name, are targeted to the smart home and highly connected consumers. We believe that our products are highly differentiated due to our proprietary software, firmware expertise, and hardware design capabilities.

We distribute our products through a worldwide network of over 100 distributors and on-line retailers.

COVID-19 Update- The 2019 novel coronavirus (COVID-19), which the World Health Organization (“WHO”) characterized as a pandemic in March 2020, continues to disrupt global economies, and has spread to the major markets in which we operate, including the United States, Asia, Europe and South America. The COVID-19 pandemic has resulted in significant governmental measures being implemented to control the spread of the virus, including, among others, restrictions on travel, stay-at-home orders or work remote or from home conditions in many of the locations where we have offices. We have taken and will continue to take precautionary measures intended to help minimize the risk of COVID-19 to our employees. While we have not yet experienced a significant disruption to the productivity of our employees as a result of the COVID-19 pandemic, if the stay-at-home orders or work remote or from home conditions in any of our facilities continue for an extended period of time, or if we have an outbreak in any of our facilities, we may, among other issues, experience delays in product development, a decreased ability to support our customers, disruptions in sales and an overall lack of productivity. We have experienced a disruption in our supply chain as a result of the COVID-19 related restrictions that have impacted our suppliers’ ability to manufacture or provide key components or services, and we have incurred, and continue to incur, additional cost to expedite deliveries of components and services. While our ability to procure components and services has improved, the disruptions in our supply chain have not been fully remediated. The extent to which the COVID-19 pandemic impacts our business going forward will depend on numerous evolving factors we cannot reliably predict, including further disruptions to our supply chain, reductions in demand due to disruptions in the operations of our customers or their end customers, disruptions in local and global economies, volatility in the global financial markets, overall reductions in demand, restrictions on the export or shipment of our products or other COVID-19-related events. This uncertainty also affects management’s accounting estimates and assumptions, which could result in greater variability in a variety of areas that depend on these estimates and assumptions. Refer to Risk Factors (Part II, Item 1A of this Form 10-Q) for a discussion of these factors and other risks.

Key Components of Our Results of Operations and Financial Condition

Revenues

We operate our business as one reportable and operating segment. Further information, regarding Segments can be found in Note 15 to our Consolidated Financial Statements. Our revenues are derived principally from the sale of networking hardware. Because we have historically included implied post-contract customer support (“PCS”) free of charge in many of our arrangements, we attribute a portion of our systems revenues to this implied PCS.

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

- **Service Provider Technology** includes our airMAX, EdgeMAX, UFiber, and airFiber platforms, as well as embedded radio products and other 802.11 standard products including base stations, radios, backhaul equipment and CPE. Additionally, Service Provider Technology includes antennas and other products primarily in the 0.9 to 6.0 GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters.
- **Enterprise Technology** includes our UniFi platforms, including UniFi enterprise Wi-Fi, UniFi Protect, UniFi switching and routing solutions and our AmpliFi platform.

We sell our products and solutions globally to service providers and enterprises primarily through our extensive network of distributors, and, to a lesser extent, through direct sales. Sales to distributors accounted for 89% of our revenues during the three months ended September 30, 2020. Direct sales accounted for 11% of our revenue during the three months ended September 30, 2020.

Cost of Revenues

Our cost of revenues is comprised primarily of the costs of procuring finished goods from our contract manufacturers and certain key components that we consign to certain of our contract manufacturers. In addition, cost of revenues includes labor and other costs which include salary, benefits and stock-based compensation, in addition to costs associated with tooling, testing and quality assurance, warranty costs, logistics costs, tariffs and excess and obsolete inventory write-downs.

We currently operate warehouses located in the U.S. and the Czech Republic. In addition, we outsource other logistics warehousing and order fulfillment functions located in China and to a lesser extent in other countries. We also evaluate and utilize other vendors for various portions of our supply chain from time to time. Our operations organization consists of employees and consultants engaged in the management of our contract manufacturers, new product introduction activities, logistical support and engineering.

Gross Profit

Our gross profit has been, and may in the future be, influenced by several factors including changes in product mix, target end markets for our products, channel inventory levels, tariffs, pricing due to competitive pressure, production costs and global demand for electronic components. Although we procure and sell our products mostly in U.S. dollars, our contract manufacturers incur many costs, including labor costs, in other currencies. To the extent that the exchange rates move unfavorably for our contract manufacturers, they may try to pass these additional costs on to us, which could have a material impact on our future average selling prices and unit costs. In June 2018, the Office of the United States Trade Representative announced new proposed tariffs for certain products imported into the U.S. from China. The vast majority of our products that are imported into the U.S. from China are currently subject to tariffs that range between 7.5% and 25%. On January 22, 2020, the Office of the United States Trade Representative announced it will reduce Section 201 List 4A and additional tariffs from 15% to 7.5% and the List 4B tariffs would not go into effect. These tariffs have already affected our operating results and margins. For so long as such tariffs are in effect, we expect it will continue to affect our operating results and margins. As a result, our historical and current gross profit margins may not be indicative of our gross profit margins for future periods. Refer to “Part II—Item 1A. Risk Factors—Risks Related to Our International Operations—Our business may be negatively affected by political events and foreign policy responses” for additional information.

Operating Expenses

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

- *Research and development expenses* consist primarily of salary and benefit expenses, including stock-based compensation, for employees and costs for contractors engaged in research, design and development activities, as well as costs for prototypes, licensed or purchased intellectual property, facilities and travel. Over time, we expect our research and development costs to increase as we continue making significant investments in developing new products in addition to new versions of our existing products.
- *Sales, general and administrative expenses* include salary and benefit expenses, including stock-based compensation, for employees and costs for contractors engaged in sales, marketing and general and administrative activities, as well as the costs of legal expenses, trade shows, marketing programs, promotional materials, bad debt expense, professional services, facilities, general liability insurance and travel. As our product portfolio and targeted markets expand, we may need to employ different sales models, such as building a traditional direct sales force. These sales models would likely increase our costs. Over time, we expect our sales, general and administrative expenses to increase in absolute dollars due to continued growth in headcount, expansion of our efforts to register and defend trademarks and patents and to support our business and operations.

Provisions for Income Taxes

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

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. In other cases, management’s judgment is required in selecting among available alternative accounting standards that provide for different accounting treatment for similar transactions. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the amounts we report as assets, liabilities, revenues, costs and expenses and affect the related disclosures. We base our estimates on historical experience and other

assumptions that we believe are reasonable under the circumstances. In many instances, we could reasonably use different accounting estimates, and in some instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, our actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. Our critical accounting policies are discussed in our Annual Report, filed with the SEC on August 21, 2020, and there have been no material changes other than that have been disclosed in Note 2 to our consolidated financial statements herein. Additionally, as the COVID-19 pandemic continues to develop, many of our estimates could require increased judgement and carry a higher degree of variability and volatility. As events continue to evolve our estimates may change materially in future periods. We believe that the accounting policies discussed in our Annual Report, are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Results of Operations

Comparison of Three Months Ended September 30, 2020 and 2019

	Three Months Ended September 30,			
	2020		2019	
	(In thousands, except percentages)			
Revenues	\$ 473,533	100 %	\$ 323,277	100 %
Cost of revenues ⁽¹⁾	245,417	52 %	171,886	53 %
Gross profit	228,116	48 %	151,391	47 %
Operating expenses:				
Research and development ⁽¹⁾	25,813	5 %	20,252	6 %
Sales, general and administrative ⁽¹⁾	12,350	3 %	10,450	3 %
Total operating expenses	38,163	8 %	30,702	9 %
Income from operations	189,953	40 %	120,689	37 %
Interest expense and other, net	(3,917)	(1%)	(4,653)	(1%)
Income before income taxes	186,036	39 %	116,036	36 %
Provisions for income taxes	29,527	6 %	17,890	6 %
Net income	\$ 156,509	33 %	\$ 98,146	30 %

(1) Includes stock-based compensation as follows:

Cost of revenues	28	32
Research and development	510	481
Sales, general and administrative	202	176
Total stock-based compensation	740	689

Revenues

Total revenues increased \$150.3 million, or 46%, from \$323.3 million in the three months ended September 30, 2019 to \$473.5 million in the three months ended September 30, 2020.

During the three months ended September 30, 2020, there were no material price changes in the Company's products sold.

However, the Company continues to introduce new products which may have average selling prices and margins different than our legacy products.

Revenues by Product Type

	Three Months Ended September 30,			
	2020		2019	
	(in thousands, except percentages)			
Service Provider Technology	\$ 157,461	33 %	\$ 115,926	36 %
Enterprise Technology	316,072	67 %	207,351	64 %
Total revenues	\$ 473,533	100 %	\$ 323,277	100 %

Service Provider Technology revenue increased \$41.5 million, or 36%, from \$115.9 million in the three months ended September 30, 2019 to \$157.5 million in the three months ended September 30, 2020.

The increase in Service Provider Technology revenue during the three months ended September 30, 2020 as compared to the same period in the prior year, was primarily due to increased revenue in all regions across all platforms.

Enterprise Technology revenue increased \$108.7 million, or 52%, from \$207.4 million in the three months ended September 30, 2019 to \$316.1 million in the three months ended September 30, 2020.

The increase in Enterprise Technology revenue during the three months ended September 30, 2020 as compared to the same period in the prior year, was primarily due to product expansion and further adoption of our UniFi technology platform across all regions.

Revenues by Geography

We have determined the geographical distribution of our product revenues based on our customers' ship-to destinations. A majority of our sales are to distributors who either sell to resellers or directly to end customers, who may be located in different countries than the initial ship-to destination. The following are our revenues by geography for the three months ended September 30, 2020 and 2019 (in thousands, except percentages):

	Three Months Ended September 30,			
	2020		2019	
	(in thousands, except percentages)			
North America ⁽¹⁾	\$ 220,880	47 %	\$ 147,951	46 %
Europe, the Middle East and Africa ("EMEA")	179,180	38 %	125,841	39 %
Asia Pacific	41,945	9 %	29,716	9 %
South America	31,528	6 %	19,769	6 %
Total revenues	\$ 473,533	100 %	\$ 323,277	100 %

(1) Revenue for the United States was \$209.8 million and \$141.9 million for the three months ended September 30, 2020 and 2019, respectively.

North America

Revenues in North America increased \$72.9 million, or 49%, from \$148.0 million in the three months ended September 30, 2019 to \$220.9 million in the three months ended September 30, 2020.

The increase in North America revenues during the three months ended September 30, 2020 as compared to the same period in the prior year, was due to increased revenues from our Enterprise Technology products and Service Provider Technology products.

South America

Revenues in South America increased \$11.8 million, or 59%, from \$19.8 million in the three months ended September 30, 2019 to \$31.5 million in the three months ended September 30, 2020.

The increase in South America revenues during the three months ended September 30, 2020 as compared to the same period in the prior year, was due to increased revenues from our Enterprise Technology products and Service Provider Technology products.

Europe, the Middle East, and Africa (EMEA)

Revenues in EMEA increased \$53.3 million, or 42%, from \$125.8 million in the three months ended September 30, 2019 to \$179.2 million in the three months ended September 30, 2020.

The increase in EMEA revenues during the three months ended September 30, 2020 as compared to the same period in the prior year was due to increased revenues from our Enterprise Technology products and Service Provider Technology products.

Asia Pacific

Revenues in the Asia Pacific region increased \$12.2 million, or 41%, from \$29.7 million in the three months ended September 30, 2019 to \$41.9 million in the three months ended September 30, 2020.

The increase in Asia Pacific revenues during the three months ended September 30, 2020 as compared to the same period in the prior year, was due to increased revenue from our Enterprise Technology and Service Provider Technology products.

Cost of Revenues and Gross Profit

Cost of revenues increased \$73.5 million, or 43%, from \$171.9 million in the three months ended September 30, 2019 to \$245.4 million in the three months ended September 30, 2020. The increase in cost of revenue during the three months ended September 30, 2020 was primarily due to cost increase associated with an overall increase in revenue, higher tariffs-related costs, expedited shipping costs and inventory write-offs.

Gross profit margin increased to 48.2% during the three months ended September 30, 2020 as compared to 46.8% during the three months ended September 30, 2019, primarily driven by higher revenue and favorable product mix, partially offset by higher tariff-related costs, expedited shipping costs and inventory reserves.

Operating Expenses

Research and Development

Research and development (“R&D”) expenses increased \$5.6 million, or 27%, from \$20.3 million in the three months ended September 30, 2019 to \$25.8 million in the three months ended September 30, 2020. As a percentage of revenues, R&D expenses decreased from 6.3% for the three months ended September 30, 2019 to 5.5% for the three months ended September 30, 2020.

The increase in R&D expenses in absolute dollars for both the three months ended September 30, 2020 as compared to the same period in the prior year was primarily due to higher employee related expenses and development activities.

Sales, General and Administrative

Sales, general and administrative expenses increased \$1.9 million, or 18%, from \$10.5 million in the three months ended September 30, 2019 to \$12.4 million in the three months ended September 30, 2020. As a percentage of revenues, sales, general and administrative expenses decreased from 3.2% for the three months ended September 30, 2019 to 2.6% for the three months ended September 30, 2020.

The increase in sales, general and administrative expense in absolute dollars during the three months ended September 30, 2020 as compared to the same period in the prior year was primarily due to higher depreciation expense and higher professional and service fees offset, in part, by lower employee-related costs, lower marketing expenses and lower bad debt expense.

Provision for Income Taxes

Our provision for income taxes increased \$11.6 million or 65%, from \$17.9 million for the three months ended September 30, 2019 to \$29.5 million for the three months ended September 30, 2020. Our effective tax rate increased to 16% for the three months ended September 30, 2020 as compared to 15% for the three months ended September 30, 2019. The change in effective tax rate for the three months ended September 30, 2020 as compared to the same period in the prior year was primarily due to the increase in overall taxable income in higher tax jurisdictions.

Liquidity and Capital Resources

Sources and Uses of Cash

Our principal source of liquidity are cash and cash equivalents, cash generated by operations, the availability of additional funds under the Facilities and short-term and long-term investments. We had cash and cash equivalents of \$128.4 million and \$142.6 million as of September 30, 2020 and June 30, 2020, respectively.

Consolidated Cash Flow Data

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

	Three Months Ended September 30,	
	2020	2019
	(In thousands)	
Net cash provided by operating activities	\$ 116,961	\$ 119,650
Net cash provided by (used in) investing activities	(4,911)	31,598
Net cash (used in) financing activities	(126,240)	(269,654)
Net (decrease) in cash and cash equivalents	<u>\$ (14,190)</u>	<u>\$ (118,406)</u>

Cash Flows from Operating Activities

Net cash provided by operating activities in the three months ended September 30, 2020 consisted primarily of net income of \$156.5 million, partially offset by changes in operating assets and liabilities that resulted in net cash outflows of \$46.9 million. This net change consisted primarily of a \$30.0 million decrease in inventory and \$0.6 million decrease in vendor deposits, a \$53.9 million increase in accounts receivable due to overall higher revenues for the period, a \$25.9 million decrease in net accounts payable and accrued liabilities, a \$3.2 million increase in taxes payable due to the timing of federal tax payments and a \$3.9 million increase in prepaid expense and other assets.

Net cash provided by operating activities in the three months ended September 30, 2019 consisted primarily of net income of \$98.1 million in addition to the changes in operating assets and liabilities that results in net cash inflows of \$15.6 million. This net change consisted primarily of a \$19.6 million decrease in inventory and 3.8 million decrease in vendor deposits, a \$18.7 million increase in accounts receivable due to overall higher revenues for the period, a \$25.2 million increase in net accounts payable and accrued liabilities, a \$7.2 million decrease in taxes payable due to the timing of federal tax payments and a \$8.0 million increase in prepaid expense and other assets.

Cash Flows from Investing Activities

We used \$4.9 million of cash in investing activities during the three months ended September 30, 2020. Our investing activities consisted of \$2.8 million of capital expenditures, \$2.5 million loan advanced to a third party, partially offset by maturities of investment securities of \$0.4 million.

Net cash provided by investing activities in the three months ended September 30, 2019 was \$31.6 million. Our investing activities consisted primarily of cash inflows of \$49.9 million net proceeds from our available-for-sale securities, partially offset by cash outflows of \$18.3 million of capital expenditures.

Cash Flows from Financing Activities

We used \$126.2 million of cash in financing activities during the three months ended September 30, 2020. During the three months ended September 30, 2020, we had financing outflows of \$83.9 million related to the repurchase of our common stock, \$25.5 million related to dividends paid on our common stock and \$16.3 million of repayments under the Company's credit facilities.

We used \$269.7 million of cash in financing activities during the three months ended September 30, 2019. During the three months ended September 30, 2019, we generated \$151.3 million of net funds from borrowing and repayments under the Company's credit facilities offset, in part by financing cash outflows of \$396.6 million related to the repurchase of our common stock, \$20.7 million related to dividends paid on our common stock \$3.1 million of debt issuance costs.

Liquidity

We believe our existing cash and cash equivalents, cash provided by operations and the availability of additional fund, under our Facilities will be sufficient to meet our working capital, future stock repurchases, dividends, and capital expenditure needs for the next twelve months. However, this estimate is based on a number of assumptions that may prove to be wrong and we could exhaust our available cash and cash equivalents earlier than presently anticipated or need to rely more heavily on our Facilities or other sources of liquidity to continue to meet our needs. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support development efforts, the timing of new product introductions, market acceptance of our products, the availability of additional funds under our Facilities and overall economic conditions. The COVID-19 pandemic and resulting global disruptions have caused significant volatility in financial

markets and the domestic and global economy. This disruption can contribute to potential payment delays or defaults in our accounts receivable, affect asset valuations resulting in impairment charges, and affect the availability of financing credit as well as other segments of the credit markets. For a further discussion of the uncertainties and business risks associated with the COVID-19 pandemic, refer to “Part II-Item 1A. Risk Factors – Risks Related to Our Business and Industry - Our contract manufacturers, logistics centers and certain administrative and research and development operations, as well as our customers and suppliers, are located in areas likely to be subject to natural disasters and public health problems, which could adversely affect our business, results of operations and financial condition” for additional information. We expect to continue to maintain financing flexibility in the current market conditions. However, due to the rapidly evolving global situation, it is not possible to predict whether unanticipated consequences of the pandemic are reasonably likely to materially affect our liquidity and capital resources in the future.

Warranties and Indemnifications

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

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

We have agreed to indemnify our directors, officers and certain other employees for certain events or occurrences, subject to certain limits, while such persons are or were serving at our request in such capacity. We may terminate the indemnification agreements with these persons upon the termination of their services with us, but termination will not affect claims for indemnification related to events occurring prior to the effective date of termination. The maximum amount of potential future indemnification is unlimited. We have a Directors and Officers insurance policy that limits our potential exposure for our indemnification obligations to our directors, officers and certain other employees. We believe the fair value of these indemnification agreements is minimal. We have not recorded any liabilities for these agreements as of September 30, 2020.

Based upon our historical experience and information known as of the date of this report, we do not believe it is likely that we have a material liability for the above indemnities as of September 30, 2020.

Contractual Obligations and Off-Balance Sheet Arrangements

Our contractual obligations represent material expected or contractually committed future payment obligations. We believe that we will be able to fund these obligations through our existing cash and cash equivalents, cash generated from operations and the availability of additional funds, under the Facilities.

The following table summarizes the Company’s contractual obligations as of September 30, 2020 for the remainder of fiscal 2021 and future fiscal years (in thousands):

	2021 (remainder)	2022	2023	2024	2025	Thereafter	Total
Operating Leases	5,999	5,097	4,322	4,130	3,705	5,484	28,737
Debt Payments	18,750	25,000	595,000	—	—	—	638,750
Interest and other payments on debt payment obligations	10,106	13,091	7,002	—	—	—	30,199
Transition Tax	—	9,004	9,004	16,882	22,509	28,136	85,535
Other obligations	17,559	20,000	20,000	6,667	—	—	64,226
Total	\$ 52,414	\$ 72,192	\$ 635,328	\$ 27,679	\$ 26,214	\$ 33,620	\$ 847,447

Purchase Obligations

We subcontract with third parties to manufacture our products and have purchase commitments with key component suppliers. During the normal course of business, our contract manufacturers procure components and manufacture products 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 September 30, 2020, we have recorded a purchase obligation liability of \$5.2 million related to component purchase commitments. There have been no other significant liabilities for cancellations recorded as of September 30, 2020. Our consolidated financial position and results of operations could be negatively impacted if we were required to compensate the contract manufacturers for any unrecorded liabilities incurred. We may be subject to additional purchase obligations for supply agreements and components ordered by our contract manufacturers based on manufacturing forecasts we provide them each month. We estimate the amount of these additional purchase obligation to range from \$148.7 million to \$427.0 million as of September 30, 2020, depending upon the timing of orders placed for these components by our manufacturers.

Transition Tax

The Company also had obligations of \$85.5 million as of September 30, 2020, related to Transition Tax. These obligations are included within Income taxes payable and Long-term taxes payable on our Consolidated Balance Sheets.

Other Obligations

As of September 30, 2020, the Company has other obligations of \$64.2 million which consisted primarily of commitments related to raw materials and research and development projects.

Unrecognized Tax Benefits

As of September 30, 2020, we had \$32.7 million and an additional \$5.0 million for accrued interest, classified as non-current liabilities. At this time, we are unable to make a reasonably reliable estimate of timing of payments in individual years in connection with these tax liabilities; therefore, such amounts are not included in the above contractual obligation table.

Recent Accounting Pronouncements

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

Note About Forward-Looking Statements

When used in this Report, the words “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects,” “intends,” “may,” “plans” “potential,” “predicts,” “projects,” “should,” “will,” “would” or similar expressions and negatives of those terms are intended to identify forward-looking statements. These are statements that relate to future periods and include statements about our future results, sources of revenue, our continued growth, our gross margins, market trends, our product development, our introduction of new products, technological developments, the features, benefits and performance of our current and future products, the ability of our products to address a variety of markets, the anticipated growth of demand for connectivity worldwide, our growth strategies, future price reductions, our competitive status, our dependence on our senior management and our ability to attract and retain key personnel, dependency on and concentration of our distributors, our employee relations, current and potential litigation, current or potential indemnification liabilities, the effects of government regulations, the impact of tariffs, the expected impact of taxes on our liquidity and results of operations, our compliance with laws and regulations, our expected future operating costs and expenses and expenditure levels for research and development, selling, general and administrative expenses, fluctuations in operating results, fluctuations in our stock price, our payment of dividends, our future liquidity and cash needs, and the adequacy of and our reliance on our source of liquidity to meet such needs, our Facilities, future acquisitions of and investments in complimentary businesses and the expected impact of various accounting policies and rules adopted by the Financial Accounting Standards Board and the impact of COVID-19 pandemic on our business. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the impact of U.S. tariffs on results of operations, our ability to manage our growth, our ability to sustain or increase profitability, demand for our products, our ability to compete, our ability to rapidly develop new technology and introduce new products, our ability to safeguard our intellectual property, trends in the networking industry and fluctuations in general economic conditions, the impact of COVID-19 pandemic on our business, results and liquidity, volatility in our short-term investments, and the risks set forth throughout this Report, including under Part II: “Other Information”, Item 1, “Legal Proceedings” and under Item 1A, “Risk Factors.” These forward-looking statements speak only as of the date hereof. Except as required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

Interest Rate Sensitivity

We had cash and cash equivalents of \$128.4 million and \$142.6 million as of September 30, 2020 and June 30, 2020, respectively. Cash and cash equivalents include securities that have a maturity of three months or less at the date of purchase. These amounts were held primarily in cash deposit accounts in U.S. dollars. The fair value of our cash and cash equivalents would not be significantly affected by either a 10% increase or decrease in interest rates due mainly to the short-term nature of these instruments.

Debt

We are exposed to interest rates risks primarily through borrowing under our credit facility. Interest on our borrowings is based on variable rates. Based on a sensitivity analysis, as of September 30, 2020, an instantaneous and sustained 200-basis-point increase in interest rates affecting our floating rate debt obligations, and assuming that we take no counteractive measures, would result in an incremental charge to our income before income taxes of approximately \$12.8 million over the next twelve months.

Foreign Currency Risk

The vast majority of our sales are denominated in U.S. dollars, and therefore, our revenues are not directly subject to foreign currency risk. Certain of our operating expenses are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Chinese Yuan, Euro, and Taiwan Dollar. A 10% appreciation or depreciation in the value of the U.S. dollar relative to the other currencies in which our expenses are denominated would result in a charge or benefit to our income before income taxes of approximately \$1.9 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Company's Chief Executive Officer and Chief Accounting and Finance Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2020. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based on the evaluation of our disclosure controls and procedures as of September 30, 2020, our Chief Executive Officer and Chief Accounting and Finance Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2020, that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. *Legal Proceedings*

Please see Part I, Item 1, Note 10 of the notes to consolidated financial statements for a discussion of our legal proceedings.

Item 1A. *Risk Factors*

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

Risks Related to Our Business and Industry

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

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

The markets we serve can be especially volatile, and weakness in orders could harm our future results of operations.

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

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

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

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

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

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

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

The Company must order components for its products and build inventory, both of finished products and components, in advance of new product announcements and shipments. Decisions to build inventory for new products or to increase or maintain higher inventory levels are typically based upon uncertain forecasts or other assumptions and may expose us to a greater risk of carrying excess or obsolete inventory. Because the markets in which the Company compete are volatile, competitive and subject to rapid technology and price changes, if the assumptions on which we base these decisions turn out to be incorrect, our financial performance could suffer and we could be required to write-off the value of excess products or components inventory or not fully utilize firm purchase commitments.

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

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

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

The market for our wireless broadband networking equipment is emerging and is characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. The markets for enterprise networking equipment and consumer products possess similar characteristics of rapid technological updates, evolving industry standards, frequent changes in consumer preferences, frequent new product introductions and short and unpredictable product life cycles. Our ability to keep pace in these markets depends upon our ability to enhance our current products, and continue to develop and introduce new products rapidly and at competitive prices. The success of new product introductions or updates on existing products depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, our ability to manage the risks associated with new product production ramp-up, the effective management of our inventory and manufacturing schedule and the risk that new products may have defects or other deficiencies in the early stages of introduction. The development of our products is complex and costly, and we typically have several products in development at the same time. Given the complexity, we occasionally have experienced, and could experience in the future, lower than expected yields on new or enhanced products and delays in completing the development and introduction of new products and enhancements to existing products. In addition, new products may have lower selling prices or higher costs than existing products, which could negatively impact our results of operations. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and engineering staff, to successfully innovate, and to adapt to technological changes and advances in the industry. Development and delivery schedules for our products are difficult to predict. We may fail to introduce new products or enhancements to existing products in a timely fashion. If new releases of our products are delayed, our distributors may curtail their efforts to market and promote our products and our users may switch to competing products.

The markets in which we compete are highly competitive.

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

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

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

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

be interoperable.

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

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

As we move into new markets for different types of products, our brand may not be as well-known as the ‘incumbents’ brands in those markets. Potential customers may prefer to purchase from their existing suppliers or well-known brands rather than a new supplier, regardless of product performance or features. We expect increased competition from other established and emerging companies if our market continues to develop and expand. As we enter new markets, we expect to face competition from incumbent and new market participants and there is no assurance that our entry into new markets will be successful.

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

Industry consolidation, acquisitions and other arrangements among competitors may adversely affect our competitiveness because it may be more difficult to compete with entities that have access to their combined resources. As a result of such consolidation, acquisition or other arrangements, our current and potential competitors might be able to adapt more quickly to new technologies and consumer preference, devote greater resources to the marketing and promotion of their products, initiate or withstand price competition, and take advantage of acquisitions or other opportunities more readily and develop and expand their products more quickly than we do. These combinations may also affect customers’ perceptions regarding the viability of companies of our size and, consequently, affect their willingness to purchase our products.

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

Our products may contain defects and bugs when they are introduced, or as new versions are released. We have focused, and intend to focus in the future, on getting our new products to market quickly. Due to our rapid product introductions, defects and bugs that may be contained in our products may not yet have manifested. We have in the past experienced, and may in the future experience, defects and bugs. If any of our products contain material defects or bugs, or has reliability, quality or compatibility problems, we may not be able to promptly or successfully correct these problems. The existence of defects or bugs in our products may damage our reputation and disrupt our sales. If any of these problems are not found until after we have commenced commercial production and distribution of a new product, we may be required to incur additional development costs, repair or replacement costs, and other costs relating to regulatory proceedings, product recalls and litigation, which could harm our reputation and results of operations. Undetected defects or bugs may lead to negative online Internet reviews of our products, which are increasingly becoming a significant factor in the success of our new product launches, especially for our consumer products. If we are unable to quickly respond to negative reviews, including end user reviews posted on various prominent online retailers, our ability to sell these products will be harmed. Moreover, we may offer stock rotation rights to our distributors. If we experience greater returns from retailers or end customers, or greater warranty claims, in excess of our reserves, our business, revenue and results of operations could be harmed.

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

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

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

techniques or to implement adequate preventative measures.

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

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

Despite any defensive measures we take to manage threats to our business, our risk and exposure to these matters remain heightened because of, among other things, the evolving nature of such threats in light of advances in computer capabilities, new discoveries in the field of cryptography, new and sophisticated methods used by criminals including phishing, social engineering or other illicit acts, or other events or developments that we may be unable to anticipate or fail to adequately mitigate. In June 2015, we determined that we were the victim of criminal fraud known to law enforcement authorities as business e-mail compromise fraud which involved employee impersonation and fraudulent requests targeting our finance department. The fraud resulted in transfers of funds aggregating \$46.7 million held by a Company subsidiary incorporated in Hong Kong to other overseas accounts held by third parties. To date, the Company has recovered \$16.7 million. The Company recovered \$8.1 million in fiscal 2015, resulting in a charge of \$39.1 million in the fourth quarter of fiscal 2015, including additional expenses consisting of professional service fees associated with the fraud loss. In fiscal 2016, the Company recorded a net recovery of an additional \$8.3 million, comprised of an \$8.6 million recovery less \$0.3 million of professional service fees associated with the recovery. No additional recoveries were made since fiscal year ended 2016.

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

The Company may not be successful in obtaining any insurance coverage for this loss. While we do not expect the fraud to have a material impact on our business, we have borne, and will continue to bear additional expenses in connection with the remediation and investigation of the fraud.

Any future illegal acts such as phishing, social engineering or other fraudulent conduct that go undetected may have significant negative impacts on our reputation, operating results and stock price.

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

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

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

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

We rely on a limited number of contract manufacturers to produce our products. Supply chain issues or a shortage of adequate component supply or manufacturing capacity could increase our costs or delay our ability to fulfill future orders and could have a material adverse impact on our business and results of operations.

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

effectively, or if they experience operational difficulties, our ability to ship products to our retailers and distributors could be impaired and our competitive position and reputation could be harmed.

We significantly depend upon our contract manufacturers to:

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

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

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

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

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

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

- labor strikes or shortages; including shortages in labor as a result of, or to mitigate, the spread of COVID-19
- financial problems of either contract manufacturers or component suppliers;
- reservation of manufacturing capacity at our contract manufactures by other companies, inside or outside of our industry;
- changes or uncertainty in tariffs, economic sanctions, and other trade barriers; and
- industry consolidation occurring within one or more component supplier markets, such as the semiconductor market.

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

We purchase components, directly or through our contract manufacturers, from third parties that are necessary for the manufacture of our products. Shortages in the supply of components or other supply disruptions, including, without limitations, due to reductions in supply as a result of COVID-19, may not be predicted in time to design-in different components or qualify other suppliers. Shortages or supply disruptions may also increase the prices of components due to market conditions. While many components are generally available from a variety of sources, we and our contract manufacturers currently depend on a single or limited number of suppliers for several components for our products. For example, we currently rely upon some chipset suppliers, such as Qualcomm Atheros and Broadcom, as single-source suppliers of certain components for some of our products, and a disruption in the supply of those components would significantly disrupt our business.

We and our contract manufacturers generally rely on short-term purchase orders rather than long-term contracts with the suppliers of components for our products. As a result, even if components are available, we and our contract manufacturers may not be able to procure sufficient components at reasonable prices to build our products in a timely manner. Further, in order to minimize their inventory risk, our manufacturers might not order components from third-party suppliers with adequate lead time, thereby impacting our ability to meet our demand forecast. We may, therefore, be unable to meet customer demand for our products, which would have a material adverse effect on our business, results of operations and financial condition.

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

Our contract manufacturers, logistics centers and certain administrative and research and development operations, as well as our customers and suppliers, are located in areas likely to be subject to natural disasters and public health problems, which could adversely affect our business, results of operations and financial condition.

The manufacturing or shipping of our products at one or more facilities may be disrupted because our manufacturing and logistics contractors are primarily located in southern China. Our principal executive offices are located in New York, New York. The risks of earthquakes, extreme storms and other natural disasters in these geographic areas are significant. Any disruption resulting from these events could cause significant delays in product development or shipments of our products until we are able to shift our development, manufacturing or logistics centers from the affected contractor to another vendor, or shift the affected administrative or research and development activities to another location. Our business may be materially adversely affected by public health problems, particularly in China. For example, in the last decade, China has suffered health crises related to the outbreak of avian influenza, severe acute respiratory syndrome and COVID-19. The COVID-19 pandemic and resulting global disruptions have caused significant volatility in financial markets and the domestic and global economy. This disruption can contribute to potential payment delays or defaults in our accounts receivable, affect asset valuations resulting in impairment charges, and affect the availability of financing credit as well as other segments of the credit markets. Public health problems may also result in quarantines, business closures, unavailability of key personnel, domestic and international transportation restrictions, import and export complications, and otherwise cause shortages in the supply of components or cause other disruptions within our supply chain. Public health problems currently cause and may continue to cause disruptions, delays, shortages, and increased costs within our supply chain, and distribution channels. In addition, public health problems may require us to take precautionary measures to minimize the risk to our employees, including requiring our employees to work remotely and suspending non-essential travel, which could negatively affect our business. Additionally, we have experienced a disruption in our supply chain as a result of the COVID-19 related restrictions that have impacted our suppliers' ability to manufacture or provide key components or services, and we have incurred, and continue to incur, additional cost to expedite deliveries of components and services. The disruptions in our supply chain have not been fully remediated as of the date of this report. As a result of the transition to a remote working environment, we may experience disruptions or inefficiencies in our ability to operate our business. The continuation of these remote working measures also introduces additional operational risk, including increased cybersecurity risk. These cybersecurity risks include greater phishing, social engineering, malware, and other cybersecurity attacks, greater risk of a security breach resulting in the unauthorized release, destruction or misuse of valuable information, and potential impairment of our ability to perform critical functions, all of which could expose us to risks of data or financial loss, litigation and liability and could seriously disrupt our operations, which could materially and adversely affect our business, financial condition or results of operations. Public health problems may expose us to unanticipated liability or require us to change our business practices in a manner materially adverse to our business, results of operations and financial condition. In addition, the outbreak of communicable diseases could result in a widespread health crisis that could adversely affect general commercial activity and the economies and financial markets of many countries which may affect the demand for our products and services and our ability to obtain financing for our business. The extent to which public health problems will impact our business, results of operations and financial conditions will depend on developments that are highly uncertain and cannot be predicted. Such developments may include the geographic spread of the public health problems, the severity of the public health problems, the duration of the outbreak and the type and duration of actions that may be taken by various governmental authorities in response to the outbreak and the impact on the U.S. and the global economy. An outbreak of public health problems, or the perception that such an outbreak could occur, and the measures taken by the government of countries affected, could adversely affect our business, results of operations, liquidity and financial condition.

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

The global macroeconomic environment has been challenging and inconsistent caused by instability in the global credit markets, the impact of uncertainty regarding global central bank monetary policy, the instability in the geopolitical environment in many parts of the world, including the June 2016 referendum by the United Kingdom in which voters approved an exit from the European Union, commonly referred to as "Brexit". As a result of the referendum, the British government formally initiated the process for withdrawal in March 2017, and, following agreed extensions between the European Council and the United Kingdom on March 22, 2019, April 11, 2019 and October 28, 2019, "Brexit" became effective on January 31, 2020 under the terms of a Withdrawal Agreement that was ratified by the U.K. Parliament, and the European Parliament in Brussels, in late January 2020. Under the Withdrawal Agreement, a "transition period" will come into force for eleven months, from February 1, 2020 until December 31, 2020. Although the Withdrawal Agreement ensures that a "no-deal" or "cliff-edge" Brexit was avoided on January 31, 2020, there is no certainty that a similar effect

will be avoided at the end of 2020. This could continue to cause disruptions in the markets that we serve. Additionally, we may be adversely affected by the Brexit in ways we do not currently anticipate.

Disruptions in the financial markets have had and may continue to have an adverse effect on the U.S. and world economies, which could adversely and materially impact business spending patterns. Tightening of credit in financial markets could adversely affect the ability of our customers and suppliers to obtain financing for significant purchases and operations and could result in a decrease in or cancellation of orders for our products.

Economic downturns may exacerbate some of the other risks that affect our business, results of operations and financial condition. A tighter credit market for consumer, business, and service provider spending may have several adverse effects, including reduced demand for our products, increased price competition or deferment of purchases and orders by our customers. Additional effects may include increased demand for customer finance, difficulties in collection of accounts receivable, higher overhead costs as a percentage of revenue and higher interest expense, risk of supply constraints, risk of excess and obsolete inventories, risk of excess facilities and manufacturing capacity and increased risk of counterparty failures.

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

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

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

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

We believe that we must continually develop and introduce new products, enhance our existing products, effectively stimulate customer demand for new and upgraded products, and successfully manage the transition to these new and upgraded products to maintain or increase our revenue. The success of new product introductions depends on a number of factors including, but not limited to, timely and successful research and development, pricing, market and consumer acceptance, the effective forecasting and management of product demand, purchase commitments and inventory levels, the availability of products in appropriate quantities to meet anticipated demand, the management of manufacturing and supply costs, the management of risks associated with new product production ramp-up issues, and the risk that new products may have quality issues or other defects or bugs in the early stages of introduction. Therefore, we may not correctly determine in advance the ultimate effect of new product introductions and transitions. Additionally, if the assumptions on which we based our forecasts and management of product demand, purchase commitments or inventory levels turn out to be incorrect, our financial performance could suffer and we could be required to write-off the value of excess products or components inventory or not fully utilize firm purchase commitments.

In addition, the introduction or announcement of new products or product enhancements may shorten the life cycle of our existing products or reduce demand for our current products, thereby offsetting any benefits of successful product introductions and potentially lead to challenges in managing inventory of existing products. Failure to complete product transitions effectively or in a timely manner could harm our brand and lead to, among other things, lower revenue, excess prior generation product inventory, or a deficit of new product inventory and reduced profitability.

In connection with introduction of new products, and our consumer products, in particular, we may spend significant amount on advertising and other marketing campaigns, such as television, print advertising, social media and others, as well as increased promotional activities, to build brand awareness and acquire new users. While we seek to structure our advertising campaigns in the

manner that we believe is most likely to encourage people to use our products and services, we may fail to identify advertising opportunities that satisfy our anticipated return on advertising spend, accurately predict customer acquisition, or fully understand or estimate the conditions and behaviors that drive customer behavior. If for any reason any of our advertising campaigns prove less successful than anticipated in attracting new customers, we may not be able to recover our advertising spend, and our rate of user acquisition may fail to meet our expectations, either of which could have an adverse effect on our business. There can be no assurance that our advertising and other marketing efforts will result in increased sales of our consumer products.

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

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

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

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

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

Our distributors generally offer products from several different manufacturers. Accordingly, we are at risk that these distributors may give higher priority to selling other companies' products. We have limited number of distributors in certain regions, and if we were to lose the services of a distributor, we might need to find another distributor in that area and there can be no assurance of our ability to do so in a timely manner or on favorable terms. Additionally, as a result of the COVID-19 pandemic, certain of our distributors have been forced to temporarily suspend or otherwise reduce operations, which may adversely impact sales of our products. Further, our distributors build inventory in anticipation of future sales, and if such sales do not occur as rapidly as they anticipate, our distributors will decrease the size of their future product orders. We are also subject to the risks of our distributors encountering financial difficulties, which could impede their effectiveness and also expose us to financial risk if they are unable to pay for the products they purchase from us. Additionally, our international distributors buy from us in U.S. dollars and generally sell to retailers in local currency so significant currency fluctuations could impact their profitability, and in turn, affect their ability to buy future products from us. For example, the Brexit, caused significant short-term volatility in global stock markets as well as currency exchange rate fluctuations, resulting in further strengthening of the U.S. dollar.

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

We may experience risks in our investments due to changes in the market, which could adversely affect the value or liquidity of our investments.

We maintain a portfolio of marketable securities in a variety of instruments, which may include, but not limited to, money market funds, corporate bonds, U.S. agency bonds and commercial papers. These investments are subject to general credit, liquidity, market, and interest rate risks. As a result, we may experience a reduction in value or loss of liquidity of our investments. These market risks associated with our investment portfolio may have a negative adverse effect on our business, results of operations, and financial condition.

Risks Related to Our International Operations

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

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

- the burdens of complying with a wide variety of foreign laws and regulations, and the risks of non-compliance;
- fluctuations in currency exchange rates;
- import and export license requirements, tariffs, economic sanctions, contractual limitations and other trade barriers;
- increasing labor costs, especially in China;
- difficulties in managing the geographically remote personnel;
- the complexities of foreign tax systems and changes in their tax rates and rules;
- stringent consumer protection and product compliance regulations that are costly to comply with and may vary from country to country;
- limited protection and enforcement regimes for intellectual property rights in some countries;
- business disruptions created by health crises and outbreaks of communicable diseases, especially in China, such as the outbreak of COVID-19;
- increased financial accounting and reporting burdens and complexity; and
- political, social and economic instability in some jurisdictions.

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

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

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

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

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

- bearing the fixed costs of these activities;
- directly procuring components and materials;
- regulatory and other compliance requirements, including import and export license requirements, tariffs, economic sanctions, contractual limitations and other trade barriers;

- exposure to casualty loss and other disruptions;
- quality control;
- labor relations; and
- our limited experience in operating manufacturing facilities.

Since these activities are currently conducted in China and could be expanded to other foreign countries, some of these risks may be more significant due to the less predictable legal and political environment.

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

Geopolitical uncertainties and events could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on us, our suppliers, logistics providers, manufacturing vendors and customers, including our channel partners. Changes in commodity prices may also cause political uncertainty and increase currency volatility that can affect economic activity. Policies and statements by the current White House administration have created uncertainty with how trade might be affected between the U.S. and the rest of the world, and China, in particular. For example, in June 2018, the Office of the United States Trade Representative announced new proposed tariffs for certain products imported into the U.S. from China. The vast majority of our products that are imported into the U.S. from China are currently subject to tariffs that range between 15% and 25%. On January 22, 2020, the United States of Trade Representative announced it will reduce Section 301 List 4A additional tariffs from 15% to 7.5% and that List 4B tariffs would not go into effect. These tariffs have already affected our operating results and margins. The progress and continuation of trade negotiations between the U.S. and China continues to be uncertain and a further escalation of the trade war remains a possibility. These tariffs have, and will continue to have, an adverse effect on our results of operations and margins. We can provide no assurance regarding the magnitude, scope or duration of the imposed tariffs or the magnitude, scope or duration from any relief in increases to such tariffs, as well as the potential for additional tariffs or trade barriers by the U.S., China or other countries, nor that any strategies we may implement to mitigate the impact of such tariffs or other trade actions will be successful.

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

The foreign policies of governments may be volatile, and may result in rapid changes to import and export requirements, customs classifications, tariffs, trade sanctions and embargoes or other retaliatory trade measures that may cause us to raise prices, prevent us from offering products or providing services to particular entities or markets, may cause us to make changes to our operations, or create delays and inefficiencies in our supply chain. For example, political unrests and uncertainties in Eastern Europe and Middle East may lead to disruptions in commerce in those regions, which would in turn impact our sales to those regions. Furthermore, if the U.S. government imposes new sanctions against certain countries or entities, such sanctions could sufficiently restrict our ability to market and sell our products and may materially adversely affect our results of operations.

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

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

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

Risks Related to Intellectual Property

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

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

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

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

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

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

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

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

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

business in these markets and elsewhere by reducing our sales, and adversely affecting our results of operations, and diluting our brand or reputation.

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

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

We operate in an industry with extensive intellectual property litigation.

Our commercial success depends in part upon us and our component suppliers not infringing intellectual property rights owned by others, and being able to resolve intellectual property claims without major financial expenditures. Our key component suppliers are often targets of intellectual property claims, and we are subject to claims as well.

There are numerous patents and patent applications in the United States and other countries relating to communications technologies. It can be difficult or impossible to conduct meaningful searches for patents relating to our technologies, or to approach third parties to seek a license to their patents. Even extensive searches for patents that may be relevant to our products may not uncover all relevant patents and patent applications. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships.

We cannot determine with certainty whether any existing or future third-party intellectual property rights would require us to alter our technologies, obtain licenses or cease certain activities. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, or that our suppliers will indemnify us, or that any indemnification will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts.

We have received, and may in the future receive, claims from third parties, including competitors and non-practicing entities, asserting intellectual property infringement and other related claims. We expect to continue to receive such intellectual property claims in the future. As our revenues grow and our profile increases, the frequency and significance of these claims may increase.

Whether or not there is merit to a given claim, it can be time consuming and costly to defend against, and could:

- adversely affect our relationships with our current or future users, customers and suppliers;
- cause delays or stoppages in the shipment of our products;
- cause us to modify or redesign our products;
- cause us to rebrand our products or services;
- subject us to a temporary or permanent injunction;
- divert management's attention and resources;
- subject us to significant damages or settlements;
- cause us to give up some of our intellectual property;
- require us to enter into costly licensing agreements; or
- require us to cease offering certain of our products or services.

Some of our competitors may have substantially greater resources than we do and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, patent holding companies and other third-party non-practicing entities that focus on extracting royalties and settlements by enforcing patent rights may target our component suppliers, manufacturers, us, our distributors, members of our sales channels, our network operators and service providers,

or other purchasers of our products. These companies typically have little or no product revenues and therefore our patents may provide little or no deterrence against such companies filing patent infringement lawsuits against our component suppliers, manufacturers, us, our distributors, members of our sales channels, network operators and service providers, or other purchasers of our products.

In addition to liability for monetary damages against us or, in certain circumstances, against end users of our products, we may be prohibited from developing, commercializing or continuing to provide certain of our products unless we obtain licenses from the holders of the patents or other intellectual property rights. We cannot assure you that we will be able to obtain any such licenses on commercially reasonable terms, or at all. If we do not obtain licenses, our business, results of operations and financial condition could be materially affected and we could, for example, be required to cease offering our products or be required to materially alter our products, which could involve substantial costs and time to develop.

The production of counterfeit versions of our products may reduce our sales levels and damage our brand.

We have in the past and continue to discover counterfeit versions of our products. Although we have taken steps to combat counterfeiting, it is difficult or impossible to detect or prevent all instances of counterfeiting. Particularly if the quality of counterfeit products is poor, damage could be done to our brand. Combating counterfeiting is difficult and expensive, and may not be successful, especially in countries that have a relatively weak legal regime for the protection of intellectual property.

We use open source software in our products that may subject source code to public release or require us to re-engineer our products.

We use open source software in certain of our products, and may use more open source software in the future.

There have been claims challenging the ownership of software and claims of copyright infringement against companies that use open source software in the development of their products. We could become subject to claims regarding the ownership of what we believe to be our proprietary software and claims of copyright infringement.

Usage of open source software can also lead to greater risks than the use of third-party commercial software, because open source licensors generally do not provide warranties or controls on origin of the software.

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

Risks Related to Our Management and Structure

We may lose the services of our founder and Chief Executive Officer, Robert J. Pera, or other key personnel.

Our success and future growth depend on the skills, working relationships and continued services of our management team, and in particular our founder and Chief Executive Officer, Robert J. Pera. Our future performance may also depend on our ability to retain other key personnel. We do not maintain any significant key person insurance with regard to any of our personnel.

Our business model relies in part on leanly staffed, independent and efficient research and development teams. Our research and development teams are organized around small groups or individual contributors for a given platform, and there is little overlap in knowledge and responsibilities. In the event that we are unable to retain the services of any key contributors, we may be unable to bring our products or product improvements to market in a timely manner, if at all, due to disruption in our development activities.

Our future success also depends on our ability to attract, retain and motivate skilled personnel. Competition for personnel exists in the industries in which we participate, particularly for persons with specialized experience in areas such as antenna design and radio frequency equipment. If we are unable to attract and retain the necessary personnel our business, results of operations and financial condition could be materially adversely affected.

We may fail to manage our growth effectively and develop and implement appropriate control systems.

We have substantially expanded our business and operations in recent periods, including increases in the number of our distributors, contract manufacturers, headcount locations and facilities. This rapid expansion places a significant strain on our managerial, administrative, and operational resources. Our business model reflects our decision to operate with streamlined infrastructure, with lower support and administrative headcount. This may increase the risks associated with managing our growth, and we may not have sufficient internal resources to adapt or respond to unexpected challenges and compliance requirements.

Our profitability may decline as we expand into new product areas.

We receive a substantial majority of our revenues from the sale of outdoor wireless networking equipment and enterprise WLAN. As we expand into other products and services, such as video surveillance equipment, voice communication equipment, security access equipment, wireless backhaul, consumer electronics, and machine-to-machine communications, we may not be able to compete effectively with existing market participants and may not be able to realize a positive return on the investment we have made in these products or services. Entering these markets may result in increased product development costs, and our new products may have extended time to market relative to our current products. If our introduction of a new product is not successful, or if we are not able to achieve the revenues or margins we expect, our results of operations may be harmed and we may not recover our product development and marketing expenditures.

We may also be required to add a traditional direct sales force and customer support personnel to market and support new or existing products, which would cause us to experience substantially lower product margins or increase our operating expenses. Adding a traditional direct sales force or customer support personnel would reduce our operating income and may not be successful.

Our operating expenses are increasing as we make expenditures to enhance and expand our operations.

Over the past several years, we have increased our expenditure on infrastructure to support our anticipated growth. We are continuing to make significant investments in information systems, hiring more administrative personnel, using more professional services and expanding our operations outside the United States. We intend to make additional investments in systems and personnel and continue to expand our operations to support anticipated growth in our business. As a result, we expect our operating expenses to increase. In addition, we may need in the future to build a traditional direct sales force to market and sell our products or provide additional resources or cooperative funds to our distributors. Such changes to our existing sales model would likely result in higher selling, general and administrative expenses as a percentage of our revenues.

Compliance with conflict mineral disclosure requirements will create additional compliance cost and may create reputational challenges.

Pursuant to Section 1502 of the Dodd-Frank Act, United States publicly-traded companies are required to disclose use or potential use of certain minerals and their derivatives, including tantalum, tin, gold and tungsten, that are mined from the Democratic Republic of Congo and adjoining countries and deemed conflict minerals.

These requirements necessitate due diligence efforts to assess whether such minerals are used in our products in order to make the relevant required annual disclosures. There are, and will be, ongoing costs associated with complying with these disclosure requirements, including diligence to determine the sources of those minerals that may be used or necessary to the production of our products. We may face reputational challenges that could impact future sales if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to verify with sufficient accuracy the origins of all conflict minerals used in our products.

We rely on third-party software and services to conduct our enterprise resource planning, financial planning and analysis, and financial reporting. We also rely on third party software and service for our computing, storage, bandwidth, and other services. Any disruption of or interference with these services would negatively affect our operations and seriously harm our business.

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

We rely on third party service providers, such as G-Suite, Google Cloud and Amazon Web Services, to provide distributed computing infrastructure platforms for business operations, or what is commonly referred to as a “cloud” computing service. Any transition of the

cloud services currently provided by these service providers to another cloud provider would be difficult to implement and will cause us to incur significant time and expense. If our existing cloud service providers experience interruptions in service regularly or for a prolonged basis, or other similar issues, our business would be seriously harmed. Additionally, our existing cloud service providers have broad discretion to change and interpret its terms of service and other policies with respect to us, and they may take actions beyond our control that could harm our business.

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

Our debt levels could adversely affect our ability to raise additional capital to pay dividends, repurchase our shares of common stock and fund our operations or limit our ability to react to changes in our industry or the economy.

As of September 30, 2020, our balance outstanding under the Credit Agreement for our Term Facility and Revolving Facility, was \$468.8 million and \$170.0 million, respectively. In the future we may need to raise additional capital to finance our payment of dividends or repurchase shares of our common stock and fund our growth and operational goals. If additional financing is not available when required or on acceptable terms, we may not be able to pay dividends, repurchase shares of common stock, expand our business, develop or enhance our products, take advantage of business opportunities or respond to competitive pressures, which could result in lower revenues and reduce the competitiveness of our products.

In addition, any potential debt level increases could have important consequences, including: requiring a substantial portion of cash flows from operations to be dedicated to the payment of principal and interest on our indebtedness, thereby reducing our ability to use our cash flows to fund our operations and capital expenditures, pay dividends, repurchase shares of our common stock and pursue business opportunities;

- increasing our vulnerability to general industry and economic conditions;
- limiting our ability to make strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to competitors who are less highly leveraged or have access to more capital.

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

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

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

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

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

We have invested and expect to continue to invest in new businesses, products, services, technologies, joint ventures and other strategic initiatives. These investments may involve significant risks and uncertainties, including insufficient revenues from such investments to offset any new liabilities assumed and expenses incurred in connection with these new investments, inadequate return of or loss of our investments, distraction of management from current operations, and unidentified issues not discovered in our due diligence of such investments that could cause us to fail to realize the anticipated benefits of such investments and incur unanticipated costs, expenses and liabilities. Because these investments are inherently risky, no assurance can be given that such investments will be successful and will not adversely affect our reputation, business prospects, results of operation and financial condition.

We may be adversely affected by changes in LIBOR reporting practices or the method in which LIBOR is calculated.

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a newly created index, calculated by reference to short-term repurchase agreements backed by U.S. Treasury securities, called the Secured Overnight Financing Rate ("SOFR"). The first publication of SOFR was released by the Federal Reserve Bank of New York in April 2018. Whether SOFR will become a widely accepted benchmark in place of LIBOR, however, remains in question. As such, the future of LIBOR and potential alternatives thereto are uncertain at this time. If LIBOR is discontinued, the terms of our Credit Agreement provide for the use of an alternative rate. Such an event would not affect our ability to borrow or maintain already outstanding borrowings, but the alternative rate could be higher and more volatile than LIBOR prior to its discontinuance. Accordingly, the potential effects of the foregoing on our cost of capital cannot yet be determined.

Risks Related to Our Common Stock

Our Chief Executive Officer owns a majority of our common stock.

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

As of November 6, 2020, Mr. Pera beneficially owned 56,278,181 shares of our common stock. These shares are eligible for resale into the public market within the restrictions imposed by Rule 144 under the Securities Act of 1933. Sales of a significant amount of Mr. Pera's shares could adversely affect the market price for our common stock. Mr. Pera had informed us he has entered into arrangements under which he has pledged up to 25% of the shares of our common stock that he beneficially owns to secure loans with financial institutions. Mr. Pera had also indicated these loans have or will have various requirements to repay all or a portion of the loan upon the occurrence of various events, including when the price of the common stock goes below certain specified levels. Mr. Pera may need to sell shares of our common stock to meet these repayment requirements. Upon a default under one or more of these loans, the lender could sell the pledged shares into the market without limitation on volume or manner of sale. Sales of shares by Mr. Pera to reduce his loan balance or the lenders upon foreclosure are likely to adversely affect our stock price. Mr. Pera has also indicated to us that he may in the future from time to time pledge additional shares of common stock as collateral for margin or other loans, enter into derivative transactions based on the value of our common stock, dispose of shares of common stock, otherwise monetize shares of his common stock and/or engage in other transactions relating to shares of our common stock and/or other securities of the company. Any of these activities by Mr. Pera may adversely affect the price of our common stock. However, Mr. Pera has also indicated that he intends to continue to own at least a majority of our outstanding shares of common stock.

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

Our payment of cash dividends is subject to, among other things, declaration by the Board of Directors of the Company our financial position and results of operations, available cash and cash flow, capital requirements, our obligations, contingent liabilities, applicable corporate legal requirements, and other factors. If the Company fails to meet expectations related to dividends, its stock price may decline, which could have a material adverse impact on investor confidence and employee retention. These and other factors may also affect the continuation of, or activity under, our previously announced stock repurchase program. Failure to pay cash dividends could cause the market price of our common stock to decline. The discontinuance of, or lack of activity under, our previously announced stock repurchase program could also result in a lower market price of our common stock.

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

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

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

- varying demand for our products due to the financial and operating condition of our distributors and their customers, distributor inventory management practices and general economic conditions;
- shifts in our fulfillment practices including increasing inventory levels as part of efforts to decrease our delivery lead times;
- failure of our suppliers to provide chips or other components;
- failure of our contract manufacturers and suppliers to meet our demand;
- success and timing of new product introductions by us, and our competitors;
- increased warranty costs;
- announcements by us or our competitors regarding products, promotions or other transactions;
- costs related to legal proceedings or responding to government inquiries;
- our ability to control and reduce product costs; and
- expenses of our entry into new markets.

In addition, our business may be subject to seasonality, although our recent growth rates and timing of product introductions may have historically masked our seasonal changes in demand. For example, our consumer products may be subject to general seasonal spending trends associated with holidays.

Risks Related to Regulatory, Legal and Tax Matters

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

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

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

In addition to U.S. export regulations, various other countries regulate the import of certain encryption technology and products, and

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

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

Existing and new regulations, changes in existing regulations, or the enforcement of any regulations related to our products may result in unanticipated burdens, costs and liabilities and could materially and adversely affect our financial condition, results of operations, and our brand.

Our products are subject to governmental regulations in a variety of jurisdictions. In order to achieve and maintain market acceptance, our products must continue to comply with these regulations as well as a significant number of industry standards. For example, our wireless communication products operate through the transmission of radio signals, and radio emissions are subject to regulation in the United States and in other countries in which we do business. In the United States, various federal agencies including the Center for Devices and Radiological Health of the Food and Drug Administration, the Federal Communications Commission, the Occupational Safety and Health Administration and various state agencies have promulgated regulations that concern the use of radio/electromagnetic emissions standards. Member countries of the European Union and other countries have enacted similar standards concerning electrical safety and electromagnetic compatibility and emissions, and chemical substances and use standards.

As these regulations and standards evolve, and if new regulations or standards are implemented, we will be required to modify our products or develop and support new versions of our products, and our compliance with these regulations and standards may become more burdensome. The failure of our products to comply, or delays in compliance, with the various existing and evolving industry regulations and standards could prevent or delay introduction of our products, which could harm our business. End customer uncertainty regarding future policies may also affect demand for communications products, including our products. If existing laws or regulations regarding the use of our products or services are enforced in a manner not previously contemplated by us, our channel partners or our end customers, it could expose us or them to liability and could have a material adverse effect on our financial condition, results of operations, and our brand. Moreover, channel partners or end 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 financial condition, results of operations, and our brand. Further, the enforcement of laws and regulations may force us to withdraw one or more of our products from sale in certain jurisdictions or to recall one or more of our products in certain jurisdictions. We may incur costs and expenses relating to a withdrawal from a particular market or a recall of one or more of our products. The process of identifying products that have been widely distributed for withdrawals and recalls may be lengthy and require significant resources and we may incur significant replacement costs, damage claims and harm to our reputation. We are and expect to continue to be the subject of investigations, inquiries, data requests, actions, orders, and audits by government authorities and regulators in the United States, the European Union, and around the world. Orders issued by, or inquiries or enforcement actions initiated by, government or regulatory authorities could cause us to incur substantial costs, expose us to unanticipated liability or penalties or require us to change our business practices in a manner materially adverse to our financial condition, results of operations, and our brand.

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

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

In particular, there are numerous U.S. federal, state, and local laws and regulations and foreign laws and regulations regarding privacy and the collection, sharing, use, processing, disclosure, and protection of personal information and other user data. Such laws and regulations often have changes in scope, may be subject to differing interpretations, and may be inconsistent among different jurisdictions. For example, in April 2016, the E.U. Parliament approved a new data protection regulation, known as the General Data Protection Regulation ("GDPR"), which came into force on May 25, 2018. The GDPR includes operational requirements for

companies that receive or process personal data of residents of the European Union that are different than those previously in place in the European Union, and that include significant penalties for non-compliance. Another example, in November 2016, the Standing Committee of China's National People's Congress passed China's first Cybersecurity Law ("CSL"), which took effect in June 2017. The CSL is the first Chinese law that systematically lays out the regulatory requirements on cybersecurity and data protection, subjecting many previously under-regulated or unregulated activities in cyberspace to government scrutiny. More recently, California enacted the California Consumer Privacy Act (the "CCPA") that will, among other things, require covered companies to provide new disclosures to California consumers, and afford such consumers new abilities to opt-out of certain sales of personal information. The CCPA took effect on January 1, 2020 with the privacy provisions enforceable by the California Attorney General as of July 1, 2020, and the regulations becoming enforceable as of August 1, 2020. Given the recent implementation of the regulations, we cannot yet predict the impact of the CCPA on our business or operations. The costs of compliance with, and other burdens imposed by, the GDPR, CSL and CCPA may limit the use and adoption of our products and services and could have an adverse impact on our business, results of operations and financial condition.

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

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

Government regulations designed to protect personal privacy may make it difficult for us to sell our products.

Our products may transmit and store personal information. The handling of such information is increasingly subject to regulations in numerous jurisdictions around the world. These regulations are typically intended to protect the privacy and security of personal information that is collected, stored and transmitted in or from the governing jurisdiction. In addition, because various foreign jurisdictions have different regulations concerning the storage and transmission of personal information, we may face unknown requirements that pose compliance challenges in new geographic markets that we seek to enter. Our efforts to protect the privacy of information may also fail if our encryption and security technology is inadequate or fails to operate as expected. The difficulties in complying with privacy and data protection regulations could subject us to costs, delayed product launches, liabilities or negative publicity that could impair our ability to maintain or expand our operations into some countries and therefore limit our future growth.

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

The vast majority of our products operate in unlicensed radio frequency ("RF") spectrum, which is used by a wide range of devices such as cordless phones, baby monitors, and microwave ovens, and is becoming increasingly crowded. If such spectrum usage continues to increase through the proliferation of consumer electronics and products competitive with ours, and others, the resultant higher levels of clutter and interference in the frequency bands used by our products could decrease the usage of our products. Our business could be further harmed if currently unlicensed RF spectrum becomes subject to licensing in the United States or elsewhere. Network operators and service providers that use our products may be unable to obtain licenses for RF spectrum at reasonable prices or at all. Even if the unlicensed spectrum remains unlicensed, existing and new government regulations may require we make changes in our products. For example, to provide products for network operators and service providers who utilize unlicensed RF spectrum, we may be required to limit their ability to use our products in licensed RF spectrum. The operation of our products by network operators or service providers in the United States or elsewhere in a manner not in compliance with local law could result in fines, operational disruption, or harm to our reputation. In addition, if new spectrums, either licensed or unlicensed, are made available by government regulatory agencies for broadband wireless communication that may disrupt the competitive landscape of our industry and impact our business.

We could be adversely affected by unfavorable results in litigation.

We may be involved, from time to time, in a variety of claims, lawsuits, investigations, and proceedings relating to contractual

disputes, intellectual property rights, employment matters, regulatory compliance matters, consumer or securities class-actions and other litigation matters relating to various claims that arise in the normal course of business and otherwise. It can be difficult or impossible to predict the outcome of legal proceedings with any degree of certainty, particularly given that laws may be ambiguous and factual findings can often be the result of incomplete evidence, opinions, varying standards or proof, and extraneous factors. Any such proceedings or matters may adversely affect how we operate the business, divert the attention of management from the operation of the business, have an adverse effect on our reputation, result in additional costs and adversely affect our results of operations. If one or more of the legal proceedings to which we may be or become a party are resolved against us, our results of operations and financial condition could be adversely affected.

We may become subject to warranty claims, product liability and product recalls.

We have received, and may in the future receive, warranty or product liability claims that may require us to make significant expenditures to defend these claims or pay damage awards. In the event of a successful warranty claim, we may also incur costs if we compensate the affected network operator or service provider. Such claims may require a significant amount of time and expense to resolve and defend against, and could also harm our reputation by calling into question the quality of our products. We also may incur costs and expenses relating to a recall of one or more of our products. The process of identifying recalled products that have been widely distributed may be lengthy and require significant resources and we may incur significant replacement costs, contract damage claims and harm to our reputation.

Our customers and the users of our products may expect us to indemnify them against claims for intellectual property infringement, defective products and other losses.

Our customers, users and other parties may expect us to indemnify them for losses incurred in connection with our products, including as a result of intellectual property infringement, defective products, and security vulnerabilities, even if our agreements with them do not require us to provide this indemnification. In some instances, we may decide to defend and indemnify them, irrespective of whether we believe that we have an obligation to do so. The expenses associated with providing indemnification can be substantial. We may also reject demands for indemnification, which may lead to disputes with a customer or other party and may negatively impact our relationships with them.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial condition or results of operations or safeguard our assets.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with other controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations, and prevent us from producing accurate and timely financial statements to manage our business. If we fail to do so, our business could be negatively affected and our independent registered public accounting firm may be unable to attest to the fair presentation of our Consolidated Financial Statements included in our Annual Report on Form 10-K in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. If we cannot provide reliable financial reports and effectively prevent fraud, our reputation and results of operations could be harmed. Even effective internal controls have inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. The preparation of Consolidated Financial Statements also requires us to make estimates and assumptions. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. Additionally, as the COVID-19 pandemic continues to develop, many of our estimates could require increased judgement and carry a higher degree of variability and volatility. As events continue to evolve our estimates may change materially in future periods. In addition, projections of any evaluation of effectiveness of internal control over financial reporting in future periods are subject to the risk that the control may become inadequate because of changes in conditions or a deterioration in the degree of compliance with the policies or procedures. We have in the past and may in the future fail to maintain adequate internal controls. For example, as reported in the Annual Reports on Form 10-K for the years ended June 30, 2015 and 2016, management of the Company determined that the Company did not maintain an effective control environment, which contributed to three material weaknesses in internal control over financial reporting. As described in more detail in our Annual Report on Form 10-K for year ended June 30, 2017, under Item 9A. "Controls and Procedures", the Company completed the remediation efforts of such material weakness, completed testing of the controls to address such material weaknesses and concluded that the previously reported material weaknesses in internal controls over financial reporting have been satisfactorily remediated as of June 30, 2017. Any such failure (including any failure to implement new or improved controls, difficulties in the execution of such implementation or deterioration of our current control practices) may result in an inability to prevent fraud, or cause us to fail to meet our reporting obligations. Any such failures may cause a material adverse effect on our business and financial results, and investor confidence and the market price of our stock may be adversely affected.

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

We face significant risks if we fail to comply with the Foreign Corrupt Practices Act (“FCPA”) of the United States and other laws (such as the U.K. Bribery Act of 2010) that prohibit improper payments or offers of payment to foreign governments and their officials and political parties by us and other business entities acting on our behalf for the purpose of obtaining or retaining business. In many foreign countries, particularly in countries with developing economies, which represent our principal markets, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other laws and regulations. Although we have implemented a company policy requiring our employees and consultants to comply with the FCPA and similar laws, there can be no assurance that all of our employees, and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies, for which we may be ultimately held responsible. Any violation of FCPA or similar laws could result in severe criminal or civil sanctions and suspension or debarment from U.S. government contracting, which could have a material and adverse effect on our reputation, business, results of operations and financial condition.

Our results could be adversely affected by unfavorable tax law changes, an unfavorable government review of our tax returns, or changes in our geographic earnings mix.

We are subject to periodic audits or other reviews by tax authorities in the jurisdictions in which we conduct our activities. Tax authorities could challenge our assertions with respect to how we have conducted our business operations as might result in a claim for larger tax payments from us, including, but not limited to, income and withholding taxes. The expense of defending and resolving such audits may be significant.

In the ordinary course of our business, there are many instances where the determination of tax implications is uncertain. Our calculations of income taxes may be based on our interpretations of applicable tax laws in the jurisdictions in which we file. The final determination of our income tax liabilities may be materially different than what is reflected in our income tax provisions and accruals.

The legislative bodies in many jurisdictions regularly consider proposed legislation that, if adopted, could affect our tax rate in such jurisdictions, and the carrying value of our deferred tax assets or our tax liabilities. Multi-jurisdictional changes enacted in response to the guidelines provided by the Organization for Economic Cooperation and Development (“OECD”) to address base erosion and profit shifting (“BEPS”), and additional amendments or guidance regarding comprehensive U.S. tax reform, among other things, may change certain U.S. tax rules impacting the way U.S. multinationals are taxed, increase tax uncertainty and adversely impact our provision for income taxes.

As a global company, we conduct operations in multiple jurisdictions, and therefore our effective tax rate is influenced by the amounts of income and expense attributed to each such jurisdiction and the amount and type of presence in each such jurisdiction. If such amounts were to change so as to increase the amounts of our net income subject to taxation in higher tax jurisdictions, or if we were to increase our operations in jurisdictions assessing relatively higher tax rates, our effective tax rate could be adversely affected. Additionally, withholding taxes vary by jurisdiction and any changes to our operations in each jurisdiction could result in greater taxation to the company. A number of factors may affect our future effective tax rates including, but not limited to:

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

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

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

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “2017 Tax Act”). A significant portion of our earnings are earned by our subsidiaries outside the U.S. Changes to the taxation of certain foreign earnings resulting from the 2017 Tax Act, along with the state tax impact of these changes and potential future cash distributions, may have an adverse effect on our effective tax rate. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. Although the accounting for the impact of the 2017 Tax Act was completed as of December 22, 2018, we are continuing to monitor ongoing changes and ruling updates to the 2017 Tax Act. There can be no assurance that further changes in the 2017 Tax Act will not materially and adversely affect our effective tax rate, tax payments, financial condition and results of operations.

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

Issuer Purchases of Equity Securities

The following table provides information with respect to the Company’s share repurchase programs and the activity under the available share repurchase programs during the three months ended September 30, 2020 (in millions, except share and per share amounts):

Date of Publicly Announced Program	Amount of Publicly Announced Program	Total Number of Shares Purchased as Part of Publicly Announced Programs	Average Price Paid per Share	Total Aggregate Amount Paid	Period of Purchases	Estimated Remaining Balance Available for Share Repurchases under the Program	Expiration date of Program
November 8, 2019	\$200 million	228,180	\$166.05	\$37.9	August 21, 2020 - September 15, 2020	\$—	12/31/2021
May 8, 2020	\$500 million	373,823	\$159.69	\$59.7	September 15, 2020 - September 30, 2020	\$440.3	3/31/2022

Common Stock repurchases activity under the share repurchase program during the three months ended September 30, 2020 was as follows (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Estimated Remaining Balance Available for Share Repurchases
July 1, 2020 - July 31, 2020	—	\$ —	—	\$ 537,890
August 1, 2020 - August 31, 2020	55,333	\$ 182.97	55,333	\$ 527,766
September 1, 2020 - September 30, 2020	546,670	\$ 159.99	546,670	\$ 440,303
Total	602,003	\$ 162.1	602,003	\$ 440,303

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6.
Exhibits

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

Signatures

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

UBIQUITI INC.

Dated: November 6, 2020

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

Dated: November 6, 2020

By: /s/ Kevin Radigan
Kevin Radigan
Chief Accounting and Finance Officer
(Principal Financial Officer and
Principal Accounting Officer)

Exhibit Index

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