

**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, 2014**

**OR**

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

**For the transition period from                      to**

**Commission File No. 001-35300**

**UBIQUITI NETWORKS, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**

**(State or other jurisdiction of  
incorporation or organization)**

**32-0097377**

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

**2580 Orchard Parkway, San Jose, CA 95131**

**(Address of principal executive offices, Zip Code)**

**(408) 942-3085**

**(Registrant's telephone number, including area code)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer, large accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<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"/>

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

As of November 3, 2014, 88,361,831 shares of Common Stock, par value \$0.001, were issued and outstanding.

**UBIQUITI NETWORKS, INC.**  
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**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014**

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# PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

### **UBIQUITI NETWORKS, INC.** **Condensed Consolidated Balance Sheets** (In thousands, except share data) (Unaudited)

	September 30, 2014	June 30, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 391,016	\$ 347,097
Accounts receivable, net of allowance for doubtful accounts of \$1,500 and \$1,395, respectively	65,875	54,871
Inventories	38,747	46,349
Current deferred tax asset	884	884
Prepaid income taxes	—	3,256
Prepaid expenses and other current assets	21,744	13,267
Total current assets	518,266	465,724
Property and equipment, net	9,995	7,260
Long-term deferred tax asset	1,255	1,255
Other long-term assets	1,804	1,912
Total assets	\$ 531,320	\$ 476,151
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 39,085	\$ 33,933
Customer deposits	412	1,835
Deferred revenues - short-term	5,509	4,218
Income taxes payable	3,411	2,499
Dividend payable	15,000	—
Other current liabilities	18,614	9,830
Total current liabilities	82,031	52,315
Long-term taxes payable	16,226	15,346
Debt - long-term	72,254	72,254
Deferred revenues - long-term	992	972
Total liabilities	171,503	140,887
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock—\$0.001 par value; 50,000,000 shares authorized; none issued	—	—
Common stock—\$0.001 par value; 500,000,000 shares authorized: 88,343,830 and 88,179,448 outstanding at September 30, 2014 and June 30, 2014, respectively	88	88
Additional paid-in capital	147,682	145,872
Treasury stock—44,238,960 shares held in treasury at September 30, 2014 and June 30, 2014	(123,864)	(123,864)
Retained earnings	335,911	313,168
Total stockholders' equity	359,817	335,264
Total liabilities and stockholders' equity	\$ 531,320	\$ 476,151

See notes to condensed consolidated financial statements.



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

	<b>Three Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Revenues	\$ 150,087	\$ 129,687
Cost of revenues	89,036	71,664
Gross profit	61,051	58,023
Operating expenses:		
Research and development	11,721	6,317
Sales, general and administrative	5,696	5,810
Total operating expenses	17,417	12,127
Income from operations	43,634	45,896
Interest expense and other, net	(58)	(246)
Income before provision for income taxes	43,576	45,650
Provision for income taxes	5,833	5,122
Net income and comprehensive income	\$ 37,743	\$ 40,528
Net income per share of common stock:		
Basic	\$ 0.43	\$ 0.46
Diluted	\$ 0.42	\$ 0.45
Weighted average shares used in computing net income per share of common stock:		
Basic	88,240	87,411
Diluted	89,913	89,473

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 37,743	\$ 40,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	880	705
Provision for inventory obsolescence	695	550
Provision for doubtful accounts	106	—
Provision for loss on vendor deposit	5,500	—
Excess tax benefit from employee stock-based awards	(782)	(1,512)
Stock-based compensation	1,372	1,167
Write-off of intangible assets	—	74
Changes in operating assets and liabilities:		
Accounts receivable	(11,110)	86
Inventories	6,907	(1,045)
Deferred cost of revenues	(509)	—
Prepaid income taxes	3,256	—
Prepaid expenses and other assets	(13,410)	897
Accounts payable	5,018	8,113
Taxes payable	2,574	2,046
Deferred revenues	1,311	106
Accrued liabilities and other	7,391	165
Net cash provided by operating activities	46,942	51,880
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment and other long-term assets	(3,461)	(460)
Net cash used in investing activities	(3,461)	(460)
<b>Cash Flows from Financing Activities:</b>		
Repayments on term loan balance	—	(1,250)
Proceeds from exercise of stock options	456	631
Excess tax benefit from employee stock-based awards	782	1,512
Tax withholdings related to net share settlements of restricted stock units	(800)	(410)
Net cash provided by financing activities	438	483
Net increase in cash and cash equivalents	43,919	51,903
Cash and cash equivalents at beginning of period	347,097	227,826
Cash and cash equivalents at end of period	\$ 391,016	\$ 279,729
<b>Non-Cash Financing Activities:</b>		
Unpaid cash dividend	\$ 15,000	\$ —

See notes to condensed consolidated financial statements.

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

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

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

Ubiquiti Networks, Inc. and its wholly owned subsidiaries (collectively, “Ubiquiti” or the “Company”) is a product driven company that leverages innovative proprietary technologies to deliver networking solutions to both startup and established network operators and service providers.

The Company operates on a fiscal year ending June 30. In this Quarterly Report, the fiscal year ending June 30, 2015 is referred to as “fiscal 2015” and the fiscal year ended June 30, 2014 is referred to as “fiscal 2014.”

**Basis of Presentation** — The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) related to interim financial statements based on applicable Securities and Exchange Commission (“SEC”) rules and regulations. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. This information reflects all adjustments, which are, in the opinion of the Company, of a normal and recurring nature and necessary to state fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The June 30, 2014 balance sheet was derived from the audited financial statements as of that date. All significant intercompany transactions and balances have been eliminated.

These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended June 30, 2014 included in its Annual Report on Form 10-K, as filed on August 22, 2014 with the SEC (the “Annual Report”). The results of operations for the three months ended September 30, 2014 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, 2014 included in the Annual Report.

***Recent Accounting Pronouncements***

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

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

An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and any assets recognized from the costs to obtain or fulfill a contract. The guidance will be effective for the Company beginning July 1, 2017. The Company is currently assessing the impact of this new guidance.

**NOTE 3—FAIR VALUE OF FINANCIAL INSTRUMENTS**

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The accounting guidance establishes a three-tier fair value

hierarchy that requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The fair value hierarchy prioritizes the inputs into three levels that may be used in measuring fair value as follows:

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

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

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

For certain of the Company's financial instruments, including cash, accounts receivable and accounts payable, the carrying amounts approximate fair value due to their short maturities, and are therefore excluded from the fair value tables below. Additionally, as of September 30, 2014, we held \$330.8 million of our \$391.0 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States and we would incur significant tax liabilities if we were to repatriate those amounts.

At September 30, 2014 and June 30, 2014 the Company had debt associated with its Credit Agreement with Wells Fargo Bank(See Note 7). The fair value of the Company's debt was estimated based on the current rates offered to the Company for debt with similar terms and remaining maturities and was Level 2 measurement.

As of September 30, 2014 and June 30, 2014, the fair value hierarchy of the Company's debt carried at historical cost was as follows (in thousands):

	September 30, 2014				June 30, 2014			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Debt	\$ 72,254	\$ —	\$ 72,254	\$ —	\$ 72,254	\$ —	\$ 72,254	\$ —

#### NOTE 4—EARNINGS PER SHARE

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

	Three Months Ended September 30,	
	2014	2013
<b>Numerator:</b>		
Net income attributable to common stockholders	\$ 37,743	\$ 40,528
<b>Denominator:</b>		
Weighted-average shares used in computing basic net income per share	88,240	87,411
Add—dilutive potential common shares:		
Stock options	1,481	1,814
Restricted stock units	192	248
Weighted-average shares used in computing diluted net income per share	89,913	89,473
Net income per share of common stock:		
Basic	\$ 0.43	\$ 0.46
Diluted	\$ 0.42	\$ 0.45



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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,	
	2014	2013
Stock options	—	1
Restricted stock units	2	16
	<u>2</u>	<u>17</u>

## NOTE 5—BALANCE SHEET COMPONENTS

### *Inventories*

Inventories consisted of the following (in thousands):

	September 30, 2014	June 30, 2014
Finished goods	\$ 37,945	\$ 45,881
Raw materials	802	468
	<u>\$ 38,747</u>	<u>\$ 46,349</u>

### *Prepaid Expenses and Other Current Assets*

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

	September 30, 2014	June 30, 2014
Vendor deposits	\$ 15,741	\$ 8,043
Non-trade receivables	301	292
Other current assets	5,702	4,932
	<u>\$ 21,744</u>	<u>\$ 13,267</u>

During the three months ended September 30, 2014, the Company recorded a reserve of \$5.5 million against its vendor deposits balance to reflect the amount not recoverable due to a termination fee related to a purchase commitment entered into during fiscal 2014.

### *Property and Equipment, Net*

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

	September 30, 2014	June 30, 2014
Testing equipment	\$ 4,155	\$ 3,785
Computer and other equipment	1,271	1,019
Tooling equipment	3,308	2,898
Furniture and fixtures	1,127	973
Leasehold improvements	3,173	3,173
Software	530	521
Construction in progress	2,370	—
	<u>15,934</u>	<u>12,369</u>
Less: Accumulated depreciation and amortization	<u>(5,939)</u>	<u>(5,109)</u>
	<u>\$ 9,995</u>	<u>\$ 7,260</u>

### *Other Long-term Assets*

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

	September 30, 2014	June 30, 2014
Intangible assets, net	\$ 749	\$ 799
Other long-term assets	1,055	1,113
	<u>\$ 1,804</u>	<u>\$ 1,912</u>



The Company's intangible assets consist primarily of legal costs associated with the application for and registration of the Company's trademarks. The Company recorded \$50,000 and \$150,000 of amortization of intangible assets during the three months ended September 30, 2014 and 2013, respectively. The balance of accumulated amortization was \$500,000 and \$450,000 at September 30, 2014 and June 30, 2014, respectively. Estimated future amortization related to trademark registration fees is \$187,000, \$251,000, \$229,000, \$68,000 and \$14,000 for the remainder of fiscal 2015 and fiscal years 2016, 2017, 2018 and 2019, respectively.

### ***Other Current Liabilities***

Accrued liabilities consisted of the following (in thousands):

	September 30, 2014	June 30, 2014
Accrued compensation and benefits	\$ 2,437	\$ 3,432
Accrued accounts payable	7,651	10
Warranty accrual	2,850	2,850
Other accruals	5,676	3,538
	<u>\$ 18,614</u>	<u>\$ 9,830</u>

### **NOTE 6—ACCRUED WARRANTY**

The Company offers warranties on certain products, generally for a period of one year, and records a liability for the estimated future costs associated with potential warranty claims. The warranty costs are reflected in the Company's consolidated statement of operations within cost of revenues. The warranties are typically in effect for 12 months from the distributor's purchase date of the product. The Company's estimate of future warranty costs is largely based on historical experience factors including product failure rates, material usage, and service delivery cost 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,	
	2014	2013
Beginning balance	\$ 2,850	\$ 2,913
Accruals for warranties issued during the period	788	1,251
Warranty costs incurred during the period	(788)	(964)
	<u>\$ 2,850</u>	<u>\$ 3,200</u>

### **NOTE 7—DEBT**

On August 7, 2012, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with U.S. Bank, as syndication agent, and East West Bank, as administrative agent for the lenders party to the Loan Agreement. The Loan Agreement provides for (i) a \$50.0 million revolving credit facility, with a \$5.0 million sublimit for the issuance of letters of credit and a \$5.0 million sublimit for the making of swingline loan advances (the "Revolving Credit Facility"), and (ii) a \$50.0 million term loan facility (the "Term Loan Facility"). The Company may request borrowings under the Revolving Credit Facility until August 7, 2015. The Loan Agreement replaced a previous agreement whereby the Company had an existing term loan balance of \$29.2 million as of the date the new Loan Agreement. On August 7, 2012, the Company borrowed \$20.8 million under the Term Loan Facility, and no borrowings remain available for borrowing thereunder. On November 21, 2012, the Company borrowed \$10.0 million under the Revolving Credit Facility. On December 20, 2012, the Company borrowed an additional \$20.0 million under the Revolving Credit Facility, and \$20.0 million remains available for borrowing thereunder. During the three months ended September 30, 2013 the Company made aggregate payments of \$1.3 million against the loan balance.

On May 5, 2014, the Company and certain of its subsidiaries entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), the financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders, that provides for a \$150 million senior secured revolving credit facility, with an option to request an increase in the amount of the credit facility by up to an additional \$50 million (any such increase to be in each lender's sole discretion). The Company may borrow up to \$110 million of the facility as a U.S. sublimit. The entire amount of the facility is available to Ubiquiti International Holding Company Limited, a wholly-owned subsidiary of the Company

organized under the laws of the Cayman Islands. The credit facility includes a sub-limit of \$5 million for letters of credit and a sub-limit of \$15 million for swingline loans. In connection with the execution of the Credit Agreement, the Company terminated the \$50 million line of credit facility under the Loan Agreement with East West Bank described above. Under the Credit Agreement, revolving loans and swingline loans may be borrowed, repaid and reborrowed until May 5, 2019, at which time all amounts borrowed must be repaid. Additionally, \$72.3 million is currently outstanding under the Credit Agreement, which was borrowed by the Company to repay obligations under the Loan Agreement and to pay transaction fees and costs. Revolving 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 0.250% and 1.000% , depending on the Company's leverage ratio as of the most recently ended fiscal quarter or (ii) a per annum rate equal to the applicable LIBOR rate for a specified period, plus a margin of between 1.250% and 2.000% , depending on the Company's leverage ratio as of the most recently ended fiscal quarter. Swingline loans will bear interest at a floating rate per annum equal to the base rate plus a margin of between 0.250% and 1.000% , depending on the Company's leverage ratio as of the most recently ended fiscal quarter. Base rate is defined as the greatest of (A) Wells Fargo's prime rate, (B) the federal funds rate plus 0.500% or (C) a per annum rate equal to the rate at which dollar deposits are offered in the London interbank market for a period of one month plus 1.000% . A default interest rate shall apply on all obligations during a payment event of default under the Credit Agreement at a rate per annum equal to 2.000% 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 loans, of between 0.200% and 0.350% , depending on the Company's leverage ratio as of the most recently ended fiscal quarter. Revolving loans and swingline loans may be prepaid at any time without penalty. 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 a maximum leverage ratio and a minimum interest coverage ratio during the term of the credit facility. 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 subsidiary 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 credit facility under the Credit Agreement expires May 5, 2019.

The obligations of the Company and its subsidiaries under the Credit Agreement are collateralized by substantially all assets (excluding intellectual property) of the Company and its subsidiaries.

Wells Fargo and the lenders party to the Credit Agreement, and certain of their respective affiliates, have provided, and in the future may provide, financial, banking and related services to the Company. These parties have received, and in the future may receive, compensation from the Company for these services.

No payments were made for borrowings under the Credit Agreement with Wells Fargo in the three months ended September 30, 2014 . As of September 30, 2014 , the Company has classified \$72.3 million of long-term debt on its consolidated balance sheet related to the Credit Agreement.

The following table summarizes our estimated debt and interest payment obligations as of September 30, 2014 (in thousands):

	2015(remainder)	2016	2017	2018	2019	Total
Debt payment obligations	\$ —	\$ —	\$ —	\$ —	\$ 72,254	\$ 72,254
Interest payments on debt payment obligations	761	1,014	1,014	1,014	858	4,661
Total	<u>\$ 761</u>	<u>\$ 1,014</u>	<u>\$ 1,014</u>	<u>\$ 1,014</u>	<u>\$ 73,112</u>	<u>\$ 76,915</u>

## NOTE 8—COMMITMENTS AND CONTINGENCIES

### *Operating Leases*

Certain facilities and equipment are leased under noncancelable operating leases. The Company generally pays taxes, insurance and maintenance costs on leased facilities and equipment. The Company leases office space in San Jose, California and other locations under various non-cancelable operating leases that expire at various dates through 2018 .

At September 30, 2014 , future minimum annual payments under operating leases are as follows (in thousands):

	2015 (remainder)	2016	2017	2018	2019	Thereafter	Total
Operating leases	\$ 2,277	\$ 2,986	\$ 1,648	\$ 358	\$ 53	\$ —	\$ 7,322

### ***Purchase Commitments***

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

### ***Other Obligations***

The Company had other obligations of \$1.2 million as of September 30, 2014 , which consisted primarily of commitments to acquire capital assets, including manufacturing equipment.

### ***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.

### ***Export Compliance Matters***

In May 2011, the Company filed a self-disclosure statement with the U.S. Commerce Department, Bureau of Industry and Security's ("BIS") Office of Export Enforcement ("OEE") relating to a review conducted by the Company regarding certain export transactions from 2008 through March 2011 in which products may have been later resold into Iran by third parties. In June 2011, the Company 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. In August 2011, the Company received a warning letter from OEE stating that OEE had not referred the findings of the Company's review for criminal or administrative prosecution and closed the investigation of the Company without penalty. Based upon its review of the matter, OFAC identified certain apparent violations ("Apparent Violations") of the Iranian Transactions and Sanctions Regulations by the Company during the period of in or about March 2008 through in or about February 2011. On March 4, 2014, the Company entered into a settlement agreement with OFAC resolving this administrative matter. Pursuant to the terms of the settlement agreement, the Company agreed to make a one-time payment to the U.S. Department of the Treasury in the amount of \$504,000 in consideration of OFAC agreeing to release and forever discharge the Company from any and all civil liability in connection with the Apparent Violations. The Company previously accrued a reserve of \$1.6 million relating to this matter in fiscal 2010 and, accordingly, reversed the excess of the accrual of \$1.1 million as of the effective date of the settlement agreement.

**Shareholder Class Action Lawsuits**

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

**NOTE 9—COMMON STOCK AND TREASURY STOCK**

As of September 30, 2014 and June 30, 2014, the authorized capital of the Company included 500,000,000 shares of common stock. As of September 30, 2014, 132,582,790 shares of common stock were issued and 88,343,830 were outstanding. As of June 30, 2014, 132,418,408 shares of common stock were issued and 88,179,448 were outstanding.

**Dividend Policy**

On September 30, 2014, the Company announced that its Board of Directors had approved a new annual dividend policy. Pursuant to this dividend policy, the Company intends to pay an annual cash dividend to its shareholders of record on a record date and in an amount to be determined annually by the Board of Directors subject to the Company's financial position and other relevant factors. As of September 30, 2014, the Company's first annual dividend of \$0.17 per share was recorded as a dividend payable in its condensed consolidated balance sheet of \$15.0 million, which was paid on October 28, 2014 to stockholders of record on October 17, 2014.

**NOTE 10—STOCK BASED COMPENSATION****Stock-Based Compensation Plans**

The Company's 2010 Equity Incentive Plan and 2005 Equity Incentive Plan are described in its Annual Report. As of September 30, 2014, the Company had 9,894,037 authorized shares available for future issuance under all of its stock incentive plans.

**Stock-based Compensation**

The following table shows total stock-based compensation expense included in the Condensed Consolidated Statements of Operations for the three months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,	
	2014	2013
Cost of sales	\$ 149	\$ 144
Research and development	825	496
Sales, general and administrative	398	527
	<u>\$ 1,372</u>	<u>\$ 1,167</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, 2014 :

	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, 2014	2,657,142	\$ 2.96		
Exercised	(116,907)	3.90		
Forfeitures and cancellations	(503)	15.00		
Balance, September 30, 2014	2,539,732	\$ 2.91	4.79	\$ 87,918
Vested and expected to vest as of September 30, 2014	2,521,480	\$ 2.85	4.77	\$ 87,442
Vested and exercisable as of September 30, 2014	2,195,724	\$ 1.70	4.31	\$ 78,683

During the three months ended September 30, 2014 and 2013 , the aggregate intrinsic value of options exercised under the Company's stock incentive plans was \$4.9 million and \$10.0 million , respectively, as determined as of the date of option exercise.

As of September 30, 2014 , the Company had unrecognized compensation costs of \$1.7 million related to stock options which the Company expects to recognize over a weighted-average period of 2.0 years. Future option grants will increase the amount of compensation expense to be recorded in these periods.

The Company estimates the fair value of employee stock options using the Black-Scholes option pricing model. The fair value of employee stock options is being amortized on a straight-line basis over the requisite service period of the awards. The Company did not grant any employee stock options during the three months ended September 30, 2014 and 2013 .

### 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
Non-vested RSUs, June 30, 2014	549,702	\$ 22.65
RSUs granted	44,894	38.77
RSUs vested	(66,969)	40.24
RSUs canceled	(750)	15.06
Non-vested RSUs, September 30, 2014	526,877	\$ 21.80

The intrinsic value of RSUs vested in the three months ended September 30, 2014 and 2013 was \$2.7 million and \$1.4 million , respectively.

As of September 30, 2014 , there was unrecognized compensation costs related to RSUs of \$10.1 million which the Company expects to recognize over a weighted average period of 3.1 years.

### NOTE 11—INCOME TAXES

As of September 30, 2014 , the Company had approximately \$15.7 million of unrecognized tax benefits, substantially all of which would, if recognized, affect its tax expense. The Company has elected to include interest and penalties related to uncertain tax positions as a component of tax expense. At September 30, 2014 , an insignificant amount of interest and penalties are included in long-term income tax payable. The Company recorded an increase of its unrecognized tax benefits of \$824,000 for the three months ended September 30, 2014 . The Company does not expect any significant increases or decreases to its unrecognized tax benefits in the next twelve months.

The Company recorded an income tax provision of \$5.8 million for the three months ended September 30, 2014 . The Company's estimated 2014 effective tax rate differs from the U.S. statutory rate primarily due to profits earned in jurisdictions where the tax rate is lower than the U.S. tax rate.

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

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

Management has determined that the Company operates as one reportable and operating segment as it only reports financial information on an aggregate and consolidated basis to its chief executive officer, who is the Company's chief operating decision maker. The Company presents its revenues by product type in two primary categories, Service Provider Technology and Enterprise Technology.

- **Service Provider Technology** includes the Company's airMAX, EdgeMAX and airFiber platforms, as well as embedded radio products and other 802.11 standard products including base stations, radios, backhaul equipment and Customer Premise Equipment ("CPE"). Additionally, Service Provider Technology includes antennas and other products in the 0.9 to 6.0GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters. Service Provider Technology also includes revenues that are attributable to post contract support ("PCS").
- **Enterprise Technology** includes the Company's UniFi, mFi and UniFi Video platforms.

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

	Three Months Ended September 30,			
	2014		2013	
Service Provider Technology	\$ 107,271	71%	\$ 94,217	73%
Enterprise Technology	42,816	29%	35,470	27%
Total revenues	\$ 150,087	100%	\$ 129,687	100%

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

	Three Months Ended September 30,			
	2014		2013	
North America(1)	\$ 53,582	35%	\$ 37,433	29%
South America	31,134	21%	20,776	16%
Europe, the Middle East and Africa	50,607	34%	52,866	41%
Asia Pacific	14,764	10%	18,612	14%
Total revenues	\$ 150,087	100%	\$ 129,687	100%

(1) Revenue for the United States was \$52.0 million and \$36.3 million for the three months ended September 30, 2014 and 2013, 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,
	2014	2013	2014	2014
Customer A	10%	10%	*	13%
Customer B	*	10%	10%	12%
Customer C	*	*	11%	12%
Customer D	*	*	17%	*

\* denotes less than 10%



## NOTE 13—RELATED PARTY TRANSACTIONS AND CERTAIN OTHER TRANSACTIONS

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 \$151,000 in expenses pursuant to the Aircraft Lease Agreement during the three months ended September 30, 2014. All expenses pursuant to the Aircraft Lease Agreement have been included in the Company's sales, general and administrative expenses in the Condensed Consolidated Statements of Operations.

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

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

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

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

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

- **Rapid customer and community driven product development.** We have an active, loyal community built from our customers that we believe is a sustainable competitive advantage. Our solutions benefit from the active engagement between the Ubiquiti Community and our development engineers throughout the product development cycle, which eliminates long and expensive multistep internal processes and results in rapid introduction and adoption of our products. This approach significantly reduces our development costs and time to market.
- **Scalable sales and marketing model.** We do not currently have, nor do we plan to hire, a direct sales force, but instead utilize the Ubiquiti Community to drive market awareness and demand for our products and solutions. This community-propagated viral marketing enables us to reach underserved and underpenetrated markets far more efficiently and cost-effectively than is possible through traditional sales models. Leveraging the information transparency of the Internet allows customers to research, evaluate and validate our solutions with the Ubiquiti Community and via third party web sites. This allows us to operate a scalable sales and marketing model and effectively create awareness of our brand and products. Word of mouth referrals from the Ubiquiti Community generate high quality leads for our distributors at relatively little cost.

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

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

Our revenues increased 16% to \$150.1 million in the three months ended September 30, 2014 from \$129.7 million in the three months ended September 30, 2013 . We believe the overall increase in revenues during the three months ended September 30, 2014 was driven by increased adoption of our service provider and enterprise technologies. We had net income of \$37.7 million and \$40.5 million in the three months ended September 30, 2014 and 2013 , respectively. The increase in net income in the three months ended September 30, 2014 as compared to the same period in the prior year was primarily due to the increase in revenues.

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

### ***Revenues***

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

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

- **Service Provider Technology** includes our airMAX, EdgeMAX and airFiber platforms, as well as embedded radio products and other 802.11 standard products including base stations, radios, backhaul equipment and Customer Premise Equipment ("CPE"). Additionally, Service Provider Technology includes antennas and other products in the 2.0 to 6.0GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters. Service Provider Technology also includes revenues that are attributable to post contract support ("PCS").
- **Enterprise Technology** includes the Company's UniFi, mFi and UniFi Video platforms.

We sell substantially all of our products through a limited number of distributors and other channel partners, such as resellers and OEMs. Sales to distributors accounted for 98% of our revenues in the three months ended September 30, 2014 . Other channel partners, such as resellers and OEMs, largely accounted for the balance of our revenues.

### ***Cost of Revenues***

Our cost of revenues is comprised primarily of the costs of procuring finished goods from our contract manufacturers and chipsets that we consign to certain of our contract manufacturers. In addition, cost of revenues includes tooling, labor and other costs associated with engineering, testing and quality assurance, warranty costs, stock-based compensation, logistics related fees and excess and obsolete inventory.

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

### ***Gross Profit***

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

## ***Operating Expenses***

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

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

## ***Deferred Revenues and Costs***

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

Also included in our deferred revenues is a portion related to PCS obligations that we estimate we will perform in the future. As of September 30, 2014 and June 30, 2014, we had deferred revenues of \$3.1 million and \$2.8 million respectively, related to these obligations.

## ***Critical Accounting Policies***

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. In other cases, management's judgment is required in selecting among available alternative accounting standards that provide for different accounting treatment for similar transactions. The preparation of condensed consolidated financial statements also requires us to make estimates and assumptions that affect the amounts we report as assets, liabilities, revenues, costs and expenses and affect the related disclosures. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. In many instances, we could reasonably use different accounting estimates, and in some instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, our actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. Our critical accounting policies are discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014, as filed on August 22, 2014 with the SEC, or the Annual Report, and there have been no material changes.

## Results of Operations

### Comparison of Three Months Ended September 30, 2014 and 2013

	Three Months Ended September 30,			
	2014		2013	
	(In thousands, except percentages)			
Revenues	\$ 150,087	100%	\$ 129,687	100%
Cost of revenues <sup>(1)(2)</sup>	89,036	59%	71,664	55%
Gross profit	61,051	41%	58,023	45%
Operating expenses:				
Research and development <sup>(1)</sup>	11,721	8%	6,317	5%
Sales, general and administrative <sup>(1)</sup>	5,696	4%	5,810	4%
Total operating expenses	17,417	12%	12,127	9%
Income from operations	43,634	29%	45,896	36%
Interest expense and other, net	(58)	*	(246)	*
Income before provision for income taxes	43,576	29%	45,650	35%
Provision for income taxes	5,833	4%	5,122	4%
Net income and comprehensive income	\$ 37,743	25%	\$ 40,528	31%
* Less than 1%				
(1) Includes stock-based compensation as follows:				
Cost of revenues	\$ 149		\$ 144	
Research and development	825		496	
Sales, general and administrative	398		527	
Total stock-based compensation	\$ 1,372		\$ 1,167	
(2) Includes purchase commitment termination fee	\$ 5,500		\$ —	

## Revenues

Revenues increased \$20.4 million , or 16% , driven by increased adoption of our service provider and enterprise technologies.

### Revenues by Product Type

	Three Months Ended September 30,			
	2014		2013	
	(in thousands, except percentages)			
Service Provider Technology	\$ 107,271	71%	\$ 94,217	73%
Enterprise Technology	42,816	29%	35,470	27%
Total revenues	\$ 150,087	100%	\$ 129,687	100%

Revenues from Service Provider Technologies increased \$13.1 million , or 14% , primarily due to continued expansion of core infrastructure build-outs in our wireless markets.

Enterprise Technology revenues increased \$7.3 million , or 21% , due primarily to product expansion and further adoption of our UniFi technology platform.



### *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 in turn sell to resellers or directly to end customers, which may be different countries than the initial ship-to destination. The following are our revenues by geography for the three months ended September 30, 2014 and 2013 (in thousands, except percentages):

	Three Months Ended September 30,					
	2014		2013			
North America(1)	\$	53,582	35%	\$	37,433	29%
South America		31,134	21%		20,776	16%
Europe, the Middle East and Africa		50,607	34%		52,866	41%
Asia Pacific		14,764	10%		18,612	14%
Total revenues	\$	150,087	100%	\$	129,687	100%

(1) Revenue for the United States was \$52.0 million and \$36.3 million for the three months ended September 30, 2014 and 2013 , respectively.

### *Cost of Revenues and Gross Profit*

Cost of revenues increased \$17.4 million , or 24% , from \$71.7 million in the three months ended September 30, 2013 to \$89.0 million in the three months ended September 30, 2014 . The increase in cost of revenues in the three months ended September 30, 2014 was primarily due to a non-recurring charge associated with a termination fee of \$5.5 million for the cancellation of a purchase commitment.

Gross profit decreased to 41% in the three months ended September 30, 2014 compared to 45% in the three months ended September 30, 2013 , primarily due to a non-recurring charge associated with a termination fee of \$5.5 million for the cancellation of a purchase commitment.

### *Operating Expenses*

#### *Research and Development*

Research and development expenses increased \$5.4 million , or 86% , from \$6.3 million in the three months ended September 30, 2013 to \$11.7 million in the three months ended September 30, 2014 . As a percentage of revenues, research and development expenses increased from 5% in the three months ended September 30, 2013 to 8% in the three months ended September 30, 2014 . The increase in research and development expenses in absolute dollars and as a percentage of revenues was due to increases in headcount to support our strategy as we broadened our research and development activities to new product areas and certain one-time costs incurred for IP purchased for use in our products. Over time, we expect our research and development costs to increase in absolute dollars as we continue making investments in developing new products and developing new versions of our existing products.

#### *Sales, General and Administrative*

Sales, general and administrative expenses during the three months ended September 30, 2013 remained relatively flat compared to the same period in the prior year. Over time, we expect our sales, general and administrative expenses to increase in absolute dollars due to continued efforts to protect our intellectual property and growth in headcount to support our business and operations.

#### *Interest Expense and Other, Net*

Interest expense and other, net was \$58,000 for the three months ended September 30, 2014 , representing a decrease of \$188,000 from \$246,000 for the three months ended September 30, 2013 . The decrease in interest expense and other, net during the three months ended September 30, 2014 compared to the same period in the prior year was primarily due to more favorable interest rates during the three months ended September 30, 2013 compared to the same period in the prior year.

#### *Provision for Income Taxes*

Our provision for income taxes increased \$711,000 , or 14% , from \$5.1 million for the three months ended September 30, 2013 to \$5.8 million for the three months ended September 30, 2014 . Our effective tax rate increased to 13% for the three months ended September 30, 2014 as compared to 11% the three months ended September 30, 2013 . The higher effective tax rate was primarily due to a smaller percentage of our overall profitability occurring in foreign jurisdictions with lower income tax rates.

## Liquidity and Capital Resources

### Sources and Uses of Cash

Since inception, our operations primarily have been funded through cash generated by operations. Cash and cash equivalents increased from \$347.1 million at June 30, 2014 to \$391.0 million at September 30, 2014 .

### Consolidated Cash Flow Data

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

	Three Months Ended September 30,	
	2014	2013
	(In thousands)	
Net cash provided by operating activities	\$ 46,942	\$ 51,880
Net cash used in investing activities	(3,461)	(460)
Net cash provided by financing activities	438	483
Net increase in cash and cash equivalents	\$ 43,919	\$ 51,903

### Cash Flows from Operating Activities

Net cash provided by operating activities in the three months ended September 30, 2014 of \$46.9 million consisted primarily of net income of \$37.7 million and net changes in operating assets and liabilities that resulted in net cash inflows of \$1.4 million . These changes consisted primarily of a \$13.4 million increase in prepaid expenses and other current assets due to the timing of our payments and additional deposits with our suppliers, a \$12.4 million increase in accounts payable and accrued liabilities due primarily to our increase in cost of revenues, a \$6.9 million decrease in inventory due to our efforts to maintain optimal inventory levels and a \$2.6 million increase in taxes payable due to the timing of federal tax payments. Additionally, our net income included non-cash adjustments due to stock-based compensation, depreciation and amortization, increases to our provision for inventory obsolescence, a write-off of our intangible assets and an excess tax benefit from stock-based awards. The net of these non-cash adjustments resulted in an increase of our net cash provided by operating activities of \$7.8 million .

Net cash provided by operating activities in the three months ended September 30, 2013 of \$51.9 million consisted primarily of net income of \$40.5 million and net changes in operating assets and liabilities that resulted in net cash inflows of \$10.4 million. These changes consisted primarily of an \$8.3 million increase in accounts payable and accrued liabilities due primarily to our increase in cost of revenues, a \$2.0 million increase in taxes payable due to the timing of federal tax payments, a \$1.0 million increase in inventory due to increased product demand and a \$897,000 decrease in prepaid expenses and other current assets due to timing of our payments with our suppliers. Additionally, our net income included non-cash adjustments due to stock-based compensation, depreciation and amortization, increases to our provision for inventory obsolescence, a write-off of our intangible assets and an excess tax benefit from stock-based awards. The net of these non-cash adjustments resulted in an increase of our net cash provided by operating activities of \$1.0 million.

### Cash Flows from Investing Activities

Our investing activities consist solely of capital expenditures and purchases of intangible assets. Capital expenditures for the three months ended September 30, 2014 and 2013 were \$3.4 million and \$402,000 , respectively. Additionally, we had cash outflows related to the purchase of intangible assets of \$30,000 and \$58,000 during the three months ended September 30, 2014 and 2013 , respectively. The increase in capital expenditures during the three months ended September 30, 2014 was primarily related to our prototype manufacturing facility in Suzhou, China which supports our strategy of developing our new products more rapidly.

### Cash Flows from Financing Activities

We had \$438,000 of cash provided by financing activities during the three months ended September 30, 2014 , which consisted of cash received for stock option exercises of \$456,000 and an excess tax benefit from employee stock-based awards of \$782,000 , partially offset by tax withholdings related to net share settlements of restricted stock units of \$800,000 .

We had \$483,000 of cash provided by financing activities during the three months ended September 30, 2013 , which consisted of an excess tax benefit from employee stock-based awards of \$1.5 million and cash received for stock option exercises of \$631,000 , partially offset by repayments on our term loan balance with East West Bank of \$1.3 million and tax withholdings related to net share settlements of restricted stock units of \$410,000 .



## **Liquidity**

We believe our existing cash and cash equivalents, cash provided by operations and the availability of additional funds under our loan agreements will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. However, this estimate is based on a number of assumptions that may prove to be wrong and we could exhaust our available cash and cash equivalents earlier than presently anticipated. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support development efforts, the timing of new product introductions, market acceptance of our products and overall economic conditions. As of September 30, 2014, we held \$330.8 million of our \$391.0 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States and we will incur significant tax liabilities if we decide to repatriate those amounts.

## **Commitments and Contingencies**

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 resold 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. In August 2011, we received a warning letter from OEE stating that OEE had not referred the findings of our review for criminal or administrative prosecution and closed the investigation of us without penalty. Based upon its review of the matter, OFAC identified certain apparent violations ("Apparent Violations") of the Iranian Transactions and Sanctions Regulations by us during the period of in or about March 2008 through in or about February 2011. On March 4, 2014, we entered into a settlement agreement with OFAC resolving this administrative matter. Pursuant to the terms of the settlement agreement, we agreed to make a one-time payment to the U.S. Department of the Treasury in the amount of \$504,000 in consideration of OFAC agreeing to release and forever discharge us from any and all civil liability in connection with the Apparent Violations. We previously accrued a reserve of \$1.6 million relating to this matter in fiscal 2010 and, accordingly, reversed the excess of the accrual of \$1.1 million as of the effective date of the settlement agreement.

## **Warranties and Indemnifications**

Our products are generally accompanied by a 12 month warranty, 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"), 450-30, Loss Contingencies, we record an accrual when we believe it is estimable and probable based upon historical experience. We record a provision for estimated future warranty work in cost of goods sold upon recognition of revenues and we review the resulting accrual regularly and periodically adjust it to reflect changes in warranty estimates.

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

We have agreed to indemnify our directors, officers and certain other employees for certain events or occurrences, subject to certain limits, while such persons are or were serving at our request in such capacity. We may terminate the indemnification agreements with these persons upon the termination of their services with us but termination will not affect claims for indemnification related to events occurring prior to the effective date of termination. The maximum amount of potential future indemnification is unlimited. We have a Directors and Officers insurance policy that limits our potential exposure. We believe the fair value of these indemnification agreements is minimal. We had not recorded any liabilities for these agreements as of September 30, 2014.

Based upon our historical experience and information known as of the date of this report, we do not believe it is likely that we will have significant liability for the above indemnities at September 30, 2014.



## Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes our contractual obligations as of September 30, 2014 :

	2015 (remainder)	2016	2017	2018	2019	Thereafter	Total
Operating leases	\$ 2,277	\$ 2,986	\$ 1,648	\$ 358	\$ 53	\$ —	\$ 7,322
Debt payment obligations	—	—	—	—	72,254	—	72,254
Interest payments on debt payment obligations	761	1,014	1,014	1,014	858	—	4,661
Purchase obligations	222	—	—	—	—	—	222
Other obligations	1,109	20	20	3	—	—	1,152
Total	<u>\$ 4,369</u>	<u>\$ 4,020</u>	<u>\$ 2,682</u>	<u>\$ 1,375</u>	<u>\$ 73,165</u>	<u>\$ —</u>	<u>\$ 85,611</u>

### *Operating Leases*

We lease our headquarters in San Jose, California and other locations worldwide under non-cancelable operating leases that expire at various dates through fiscal 2019.

### *Debt and Interest Payment Obligations*

On May 5, 2014, we entered into a credit agreement ("the Credit Agreement") with Wells Fargo Bank, National Association, or Wells Fargo, the financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders, that provides for a \$150 million senior secured revolving credit facility, with an option to request an increase in the amount of the credit facility by up to an additional \$50 million (any such increase to be in each lender's sole discretion). We initially borrowed \$72.3 million under the Credit Agreement, which was used to repay obligations under our Loan Agreement with East West Bank and to pay transaction fees and costs.

### *Purchase Obligations*

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

### *Other Obligations*

We had other obligations of \$1.2 million as of September 30, 2014 , which consisted primarily of commitments to acquire capital assets, including manufacturing equipment.

### *Unrecognized Tax Benefits*

As of September 30, 2014 , we had \$15.7 million of unrecognized tax benefits, substantially all of which would, if recognized, affect our tax expense. We have elected to include interest and penalties related to uncertain tax positions as a component of tax expense. We do not expect any significant increases or decreases to our unrecognized tax benefits in the next twelve months.

## Recent Accounting Pronouncements

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

### *Non-GAAP Financial Measures*

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

Our Non-GAAP measures primarily exclude stock-based compensation, net of taxes and other special charges and credits. Additionally, during the three months ended September 30, 2014 we recorded a one-time charge of \$5.5 million due to a termination fee related to a purchase commitment entered into during fiscal 2014. Management believes these Non-GAAP financial measures provide meaningful supplemental information regarding our strategic and business decision making, internal budgeting, forecasting and resource allocation processes. In addition, these Non-GAAP financial measures facilitate management's internal comparisons to our historical operating results and comparisons to competitors' operating results.

We use each of these Non-GAAP financial measures for internal managerial purposes, when providing our financial results and business outlook to the public and to facilitate period-to-period comparisons. Management believes that these Non-GAAP measures provide meaningful supplemental information regarding our operational and financial performance of current and historical results. Management uses these Non-GAAP measures for strategic and business decision making, internal budgeting, forecasting and resource allocation processes. In addition, these Non-GAAP financial measures facilitate management's internal comparisons to our historical operating results and comparisons to competitors' operating results.

The following table shows our Non-GAAP financial measures:

	Three Months Ended September 30,	
	2014	2013
	(In thousands, except per share amounts)	
Non-GAAP net income and comprehensive income	\$ 43,406	\$ 41,228
Non-GAAP diluted net income per share of common stock	\$ 0.48	\$ 0.46

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

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

	Three Months Ended September 30,	
	2014	2013
	(In thousands, except per share amounts)	
Net income and comprehensive income	\$ 37,743	\$ 40,528
Stock-based compensation:		
Cost of revenues	149	144
Research and development	825	496
Sales, general and administrative	398	527
Purchase commitment termination fee	5,500	—
Tax effect of non-GAAP adjustments	(1,209)	(467)
Non-GAAP net income and comprehensive income	\$ 43,406	\$ 41,228
Non-GAAP diluted net income per share of common stock	\$ 0.48	\$ 0.46
Weighted-average shares used in computing non-GAAP diluted net income per share of common stock	89,913	89,473

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

#### Interest Rate Sensitivity

We have interest rate risk from the LIBOR index that is used to determine the interest rates on our Credit Agreement with Wells Fargo. Revolving loans bear interest, at our option, at either (i) a floating rate per annum equal to the base rate plus a margin of between 0.250% and 1.000%, depending on our leverage ratio as of the most recently ended fiscal quarter or (ii) a per annum

rate equal to the applicable LIBOR rate for a specified period, plus a margin of between 1.250% and 2.000%, depending on our leverage ratio as of the most recently ended fiscal quarter. Swingline loans will bear interest at a floating rate per annum equal to the base rate plus a margin of between 0.250% and 1.000%, depending on our leverage ratio as of the most recently ended fiscal quarter. Base rate is defined as the greatest of (A) Wells Fargo's prime rate, (B) the federal funds rate plus 0.500% or (C) a per annum rate equal to the rate at which dollar deposits are offered in the London interbank market for a period of one month plus 1.000%. A default interest rate shall apply on all obligations during a payment event of default under the Credit Agreement at a rate per annum equal to 2.000% above the applicable interest rate. Based on a sensitivity analysis, as of September 30, 2014, an instantaneous and sustained 200-basis-point increase in interest rates affecting our floating rate debt obligations, and assuming that we take no counteractive measures, would result in a charge to our income before income taxes of approximately \$1.4 million over the next 12 months.

We had cash and cash equivalents of \$391.0 million and \$347.1 million as of September 30, 2014 and June 30, 2014, respectively. These amounts were held primarily in cash deposit accounts. The fair value of our cash and cash equivalents would not be significantly affected by either a 10% increase or decrease in interest rates due mainly to the short-term nature of these instruments.

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

Most of our sales are denominated in U.S. dollars, and therefore, our revenues are not currently subject to significant foreign currency risk. 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, Lithuanian Lita and Taiwan Dollar. Our financial position or results of operations would not be significantly affected by a 10% appreciation or depreciation in the value of the U.S. dollar relative to the other currencies in which our expenses are denominated.

## **Item 4. Controls and Procedures**

### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2014. 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 and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ***Limitations on the Effectiveness of Controls***

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

## **PART II: OTHER INFORMATION**

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

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

### **Item 1A. Risk Factors**

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

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

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

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

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

- varying demand for our products due to the financial and operating condition of our distributors and their customers, distributor inventory management practices and general economic conditions;
- shifts in our fulfillment practices including increasing inventory levels as part of efforts to decrease our delivery lead times;
- failure of our 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, such as video surveillance, wireless backhaul, and machine-to-machine communications.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***The markets in which we compete are highly competitive.***

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

- our ability to rapidly develop and introduce new high performance integrated solutions;
- the price and total cost of ownership and return on investment associated with the solutions;
- the simplicity of deployment and use of the solutions;

- the reliability and scalability of the solutions;
- the market awareness of a particular brand;
- our ability to provide secure access to wireless networks;
- our ability to offer a suite of products and solutions;
- our ability to allow centralized management of the solutions; and
- our ability to provide quality product support.

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

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

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

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

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

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

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

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

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

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

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

We may have experienced cyber attacks in the past, and may experience cyber attacks in the future. As a result, unauthorized parties may have obtained, and may in the future obtain, access to our systems, data or our users' or customers' data. Our security measures may also be breached due to employee error, malfeasance, or otherwise. Third parties may also attempt to induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or



customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our products and services. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

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

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

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

***We rely on the Ubiquiti Community to provide our engineers with valuable feedback that is important in our research and development processes.***

We rely on the Ubiquiti Community to provide rapid and substantive feedback on the functionality and effectiveness of our products. The insights, problems and suggestions raised by the Ubiquiti Community enable our engineers to quickly resolve issues with our existing products and improve functionality in subsequent product releases. If the members of the Ubiquiti Community were to become less engaged or otherwise ceased providing valuable, timely feedback, our internal research and development costs and our time to market could increase, which could cause us to incur additional expenses or make our products less attractive to customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Any decisions to reduce or discontinue paying cash dividends to our stockholders, or repurchase shares of our common stock pursuant to our previously announced stock repurchase program, could cause the market price for our common stock to decline.***

Our payment of cash dividends will be subject to, among other things, our financial position and results of operations, available cash and cash flow, capital requirements, and other factors. These and other factors may also affect the continuation of, or activity under, our previously announced stock repurchase program. Any reduction or discontinuance by us of the payment of cash dividends could cause the market price of our common stock to decline. In the event our payment of cash dividends is reduced or discontinued, our failure or inability to resume paying cash dividends at prior levels could also result in a lower market price of our common stock. The discontinuance of, or activity under, our previously announced stock repurchase program could also result in a lower market price of our common stock.

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

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

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

- the burdens of complying with a wide variety of foreign laws and regulations, and the risks of non-compliance;
- fluctuations in currency exchange rates;



- increasing labor costs, especially in China;
- difficulties in managing the geographically remote personnel;
- the complexities of foreign tax systems and changes in their tax rates and rules;
- limited protection and enforcement regimes for intellectual property rights in some countries;
- increased financial accounting and reporting burdens and complexity; and
- political, social and economic instability in some jurisdictions.

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

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

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

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

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

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

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

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

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

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

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

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

### **Risks Related to Intellectual Property**

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

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

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

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

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

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

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

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

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

***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. We cannot determine with certainty whether any existing or future third party intellectual property rights would require us to alter our technologies, obtain licenses or cease certain activities.

We have received, and may in the future receive, claims from third parties asserting intellectual property infringement and other related claims. As our revenues grow and our profile increases, the frequency and significance of these claims may increase. Whether or not there is merit to a given claim, it can be time consuming and costly to defend against, and could:

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

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

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

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

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

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

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

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

**Risks Related to Our Management and Structure**

***We may lose the services of our founder and chief executive officer, Robert J. Pera, or other key personnel.***

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

Our business model relies in part on leanly staffed, independent and efficient research and development teams. Our research and development teams are organized around small groups or individual contributors for a given platform, and there is little overlap in knowledge and responsibilities. In the event that we are unable to retain the services of any key contributors, we may



be unable to bring our products or product improvements to market in a timely manner, if at all, due to disruption in our development activities.

Our future success also depends on our ability to attract, retain and motivate skilled personnel. All of our employees work for us on an at will basis. Competition for personnel is intense in the networking equipment industry, particularly for persons with specialized experience in areas such as antenna design and radio frequency equipment. If we are unable to attract and retain the necessary personnel our business could be materially adversely affected.

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

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

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

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

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

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

Over the past several years, we have increased our expenditure on infrastructure to support our anticipated growth and as a result of our being a public company. We are continuing to 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 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.

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

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

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

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

As of September 30, 2014, our balance outstanding under our existing credit facility was \$72.3 million. In the future we may need to raise additional capital to fund our growth and operational goals. If additional financing is not available when required or on acceptable terms, we may not be able to expand our business, develop or enhance our products, take advantage of



business opportunities or respond to competitive pressures, which could result in lower revenues and reduce the competitiveness of our products.

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

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

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

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

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

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





## **Risks Related to Regulatory, Legal and Tax Matters**

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

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

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

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

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

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

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

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

***Our products rely on the availability of specific unlicensed radio frequency spectrum.***

Our products operate in unlicensed radio frequency ("RF") spectrum, which is used by a wide range of devices such as cordless phones, baby monitors, and microwave ovens, and is becoming increasingly crowded. If such spectrum usage continues to increase through the proliferation of consumer electronics and products competitive with ours, and others, the resultant higher levels of clutter and interference in the bands of operation our products use could decrease. Our business could be further harmed if currently unlicensed RF spectrum becomes subject to licensing in the United States or elsewhere. Network operators and service providers that use our products may be unable to obtain licenses for RF spectrum at reasonable prices or at all. Even if the unlicensed spectrum remains unlicensed, existing and new government regulations may require we make changes in our products. For example, to provide products for network operators and service providers who utilize unlicensed RF



spectrum, we may be required to limit their ability to use our products in licensed RF spectrum. The operation of our products by network operators or service providers in the United States or elsewhere in a manner not in compliance with local law could result in fines, operational disruption, or harm to our reputation. In addition, if new spectrums, either licensed or unlicensed, are made available by government regulatory agencies for broadband wireless communication that may disrupt the competitive landscape of our industry and impact our business.

***We could be adversely affected by unfavorable results in litigation.***

We may be involved, from time to time, in a variety of claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters and other litigation matters relating to various claims that arise in the normal course of business and otherwise. It can be difficult or impossible to predict the outcome of legal proceedings with any degree of certainty, particularly given that laws may be ambiguous and factual findings can often be the result of incomplete evidence, opinions, varying standards or proof, and extraneous factors. If one or more of the legal proceedings to which we may be or become a party are resolved against us, our results of operations and financial condition could adversely affected.

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

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

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

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

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

Section 404 of the Sarbanes-Oxley Act requires our management to furnish a report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. The applicable rules require us to disclose any material weaknesses in our internal controls over financial reporting. In the event that we disclose a material weakness in our internal controls over financial reporting, investor perceptions of our company may be adversely affected and could cause a decline in the market price of our stock.

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

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

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

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

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

The legislative bodies in many jurisdictions regularly consider proposed legislation that, if adopted, could affect our tax rate in such jurisdictions, and the carrying value of our deferred tax assets or our tax liabilities.

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

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

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

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

None.

**Item 6. Exhibits**

<b>Exhibit Number</b>		<b>Incorporated by Reference from Form</b>	<b>Incorporated by Reference from Exhibit Number</b>	<b>Date Filed</b>
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.			
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.			
32.1	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.			
101.INS(1)	XBRL Instance Document			
101.SCH(1)	XBRL Taxonomy Schema Linkbase Document			
101.CAL(1)	XBRL Taxonomy Calculation Linkbase Document			
101.DEF(1)	XBRL Taxonomy Definition Linkbase Document			
101.LAB(1)	XBRL Taxonomy Labels Linkbase Document			
101.PRE(1)	XBRL Taxonomy Presentation Linkbase Document			
(1) In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.				

## Signatures

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

### UBIQUITI NETWORKS, INC.

Dated: November 6, 2014

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

Dated: November 6, 2014

By: /s/ Craig L. Foster  
Craig L. Foster  
*Chief Financial Officer*  
*(Principal Financial Officer)*

**Exhibit Index**

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert J. Pera, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ubiquiti Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2014

/s/ Robert J. Pera

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Robert J. Pera  
Chief Executive Officer and Director  
(Principal Executive Officer)



**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Craig L. Foster, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ubiquiti Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2014

/s/ Craig L. Foster

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Craig L. Foster  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert J. Pera, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Ubiquiti Networks, Inc. on Form 10-Q for the fiscal quarter ended September 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Ubiquiti Networks, Inc.

Date: November 6, 2014

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

I, Craig L. Foster certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Ubiquiti Networks, Inc. on Form 10-Q for the fiscal quarter ended September 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Ubiquiti Networks, Inc.

Date: November 6, 2014

By: /s/ Craig L. Foster  
Name: Craig L. Foster  
Title: Chief Financial Officer  
(Principal Financial Officer)