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 quarter ended September 30, 2012

OR

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

For the transition period from to

Commission File No. 001-35300

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

Delaware	**32-0097377**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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 ☐		Accelerated filer	☐
Non-accelerated filer ☒	(Do not check if a smaller reporting company)	Smaller reporting company	☐

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 5, 2012, 88,543,801 shares of Common Stock, par value $0.001, were issued and outstanding.

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UBIQUITI NETWORKS, INC.

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QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

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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, 2012	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 132,486	$122,060
Accounts receivable, net of allowance for doubtful accounts of $1,765 and $1,266, respectively	60,877	75,644
Inventories	7,632	7,734
Current deferred tax asset	882	882
Prepaid expenses and other current assets	2,428	1,577
Total current assets	204,305	207,897
Property and equipment, net	5,042	4,471
Long-term deferred tax asset	232	232
Other long–term assets	1,577	1,136
Total assets	$ 211,156	$213,736
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 25,465	$ 26,450
Customer deposits	384	235
Deferred revenues	798	805
Income taxes payable	3,284	946

Debt - short-term	5,008	6,968
Other current liabilities	10,031	17,031
Total current liabilities	44,970	52,435
Long-term taxes payable	7,727	7,727
Debt - long-term	44,843	22,623
Total liabilities	97,540	82,785
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock—$0.001 par value; 50,000,000 shares authorized; none issued	—	—
Common stock—$0.001 par value; 150,000,000 shares authorized:		
88,914,077 and 92,049,978 outstanding at September 30, 2012 and June 30, 2012, respectively	89	92
Additional paid–in capital	129,725	128,981
Treasury stock—42,251,824 and 39,079,910 shares held in treasury at September 30, 2012 and June 30, 2012, respectively	(100,770)	(69,515)
Retained earnings	84,572	71,393
Total stockholders' equity	113,616	130,951
Total liabilities and stockholders' equity	$ 211,156	$213,736

See notes to condensed consolidated financial statements.

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UBIQUITI NETWORKS, INC.

Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Revenues	$61,535	$ 79,167
Cost of revenues(1)	36,515	46,154
Gross profit	25,020	33,013
Operating expenses:		
Research and development(1)	4,711	3,369
Sales, general and administrative(1)	4,534	2,144
Total operating expenses	9,245	5,513
Income from operations	15,775	27,500
Interest expense and other, net	(86)	(634)
Income before provision for income taxes	15,689	26,866
Provision for income taxes	2,510	5,373
Net income	13,179	21,493
Preferred stock cumulative dividend and accretion of cost of preferred stock	—	(102,727)
Net income (loss) attributable to common stockholders—diluted	$13,179	$ (81,234)
Net income (loss) per share of common stock:		
Basic	$ 0.14	$ (1.30)
Diluted	$ 0.14	$ (1.30)
Weighted average shares used in computing net income (loss) per share of common stock:		

Basic	90,970	62,717
Diluted	92,925	62,717

(1) Includes stock-based compensation as follows

Cost of revenues	$ 81	$ 6
Research and development	266	116
Sales, general and administrative	309	229

See notes to condensed consolidated financial statements.

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UBIQUITI NETWORKS, INC.

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	$ 13,179	$ 21,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	349	121
Provision for inventory obsolescence	25	—
Stock-based compensation	656	351
Provision for doubtful accounts	500	75
Changes in operating assets and liabilities:		
Accounts receivable	14,267	(8,345)
Inventories	77	(2,711)
Deferred cost of revenues	—	(26)
Prepaid expenses and other assets	(1,260)	—
Accounts payable	(336)	3,945
Taxes payable	2,338	2,907
Deferred revenues	(7)	514
Accrued liabilities and other	(6,093)	(2,605)
Net cash provided by operating activities	23,695	15,719
Cash Flows from Investing Activities:		
	(2,349)	(205)

Purchase of property and equipment and other long-term assets		
Net cash used in investing activities	(2,349)	(205)
Cash Flows from Financing Activities:		
Proceeds from term loan, net	20,833	34,879
Repayments on term loan balance	(583)	—
Repurchases of common stock	(31,258)	—
Repurchase of Series A convertible preferred stock	—	(40,000)
Payment of convertible subordinated promissory notes	—	(34,000)
Proceeds from exercise of stock options	102	143
Tax withholdings related to net share settlements of restricted stock units	(14)	—
Payment of deferred offering costs	—	(321)
Net cash used in financing activities	(10,920)	(39,299)
Net increase (decrease) in cash and cash equivalents	10,426	(23,785)
Cash and cash equivalents at beginning of period	122,060	76,361
Cash and cash equivalents at end of period	$132,486	$ 52,576

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. and commenced its current operations in 2005 and changed its name to Ubiquiti Networks, Inc. at that time. In June 2010, the Company changed its state of incorporation to Delaware by merging with and into Ubiquiti Networks, Inc., a Delaware corporation.

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.

On October 13, 2011, the Company entered into an underwriting agreement for its initial public offering of its common stock at $15.00 per share, which closed on October 19, 2011. Immediately prior to the closing of the initial public offering, all outstanding shares of the Company's preferred stock converted to common stock on a one for one basis.

The Company operates on a fiscal year ending June 30. In this Quarterly Report, the fiscal year ended June 30, 2013 is referred to as "fiscal 2013" and the fiscal year ending June 30, 2012 is referred to as "fiscal 2012."

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, 2012 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, 2012 included in its Annual Report on Form 10-K, as filed on September 28, 2012 with the SEC (the "Annual Report"). The results of operations for the three months ended September 30, 2012 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, 2012 included in the Annual Report.

Recent Accounting Pronouncements

The Company does not believe there have been any recent accounting pronouncements that would have a significant impact on the Company's financial statements.

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 of 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.

The Company's financial assets at September 30, 2012 and June 30, 2012 included money market funds which were valued based on quoted prices in active markets for substantially similar assets and, therefore, were Level 1 instruments. Additionally, at September 30, 2012 the Company had debt associated with its Loan and Security Agreement with East West Bank (See Note 8). The fair value of the Company's debt was estimated based on the current rates offered to the Company for debt with the same remaining maturities.

As of September 30, 2012 and June 30, 2012, the fair value hierarchy for the Company's financial assets and financial liabilities was as follows (in thousands):

	September 30, 2012				June 30, 2012			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets:								
Money market funds	$118,306	$118,306	$ —	$ —	$108,228	$108,228	$ —	$ —
Liabilities:								
Debt	$ 49,851	$ —	$49,851	$ —	$ 29,591	$ —	$29,591	$ —

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,	
	2012	2011
Numerator:		
Net income (loss) attributable to common stockholders—basic	$ 13,179	$ (81,234)
Net income (loss) attributable to common stockholders—diluted	$ 13,179	$ (81,234)
Denominator:		
Weighted-average shares used in computing basic net income (loss) per share	90,970	62,717
Add—dilutive potential common shares:		
Stock options	1,807	—
Restricted stock units	148	—
	92,925	62,717

Weighted-average shares used in computing diluted net income (loss) per share		
Net income (loss) per share of common stock:		
Basic	$ 0.14	$ (1.30)
Diluted	$ 0.14	$ (1.30)

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,	
	2012	2011
Stock options	36	6,181
Restricted stock units	297	485
Convertible preferred stock	—	23,993
Shares subject to conversion per convertible promissory note	—	3,791
	333	34,450

NOTE 5—CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following (in thousands):

	September 30, 2012	June 30, 2012
Cash	$ 14,180	$ 13,832
Money market funds	118,306	108,228
	$ 132,486	$ 122,060

NOTE 6—BALANCE SHEET COMPONENTS

Inventories

Inventories consisted of the following (in thousands):

	September 30, 2012	June 30, 2012
Raw materials	$ 5,026	$ 4,668
Finished goods	2,606	3,066
	$ 7,632	$ 7,734

Prepaid Expenses and Other Current Assets

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

	September 30, 2012	June 30, 2012
Vendor deposits	$ 875	$ 129
Other current assets	1,553	1,448
	$ 2,428	$ 1,577

Property and Equipment, Net

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

	September 30, 2012	June 30, 2012
Testing equipment	$ 2,815	$ 2,293
Computer and other equipment	648	578
Tooling equipment	842	532
Furniture and fixtures	608	595
Leasehold improvements	1,430	1,424
Software	77	77
	6,420	5,499
Less: Accumulated depreciation and amortization	(1,378)	(1,028)
	$ 5,042	$ 4,471

Other Long-term Assets

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

	September 30, 2012	June 30, 2012
Intangible assets, net	$ 780	$ 748
Other long-term assets	797	388
	$ 1,577	$ 1,136

Other Current Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2012	June 30, 2012
Accrued compensation and benefits	$ 2,753	$ 2,657
Accrued accounts payable	265	6,636
Accrual for an export compliance matter	1,625	1,625
Warranty accrual	1,765	1,381
Other accruals	3,623	4,732
	$ 10,031	$ 17,031

NOTE 7—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,	
	2012	2011
Beginning balance	$ 1,381	$ 806
Accruals for warranties issued during the period	958	519
Warranty costs incurred during the period	(574)	(326)
	$ 1,765	$ 999

NOTE 8—DEBT

In July 2011, the Company repurchased an aggregate of 12,041,700 shares of the Company's Series A convertible preferred stock from entities affiliated with Summit Partners, L.P., one of the Company's major stockholders, at a price of $8.97 per share for an aggregate consideration of $108.0 million. Of the aggregate purchase price, $40.0 million was paid in cash at the time of closing and the balance of the shares were paid for through the issuance of convertible subordinated promissory notes in the aggregate principal amount of $68.0 million. On September 15, 2011, $34.0 million was paid against the notes reducing the aggregate principal amount outstanding to $34.0 million. The remainder of the notes were retired in October 2011 with the proceeds of the Company's initial public offering and existing cash balances. The interest rate on the notes started at 5% per annum and increased by two percentage points every three months until it would have reached 9% in January 2012. The notes were prepayable without penalty prior to April 21, 2012, and were required to be paid in the event of the Company's initial public offering or third party financing prior to April 21, 2012. The notes matured on July 21, 2021. The unpaid principal on the notes was convertible into shares of Series A preferred stock at $8.97 per share at any point after July 21, 2012. The difference between the repurchase price and the carrying value of the repurchased preferred stock on June 30, 2011 was $59.0 million. The difference was debited to available retained earnings with the remaining amount debited to additional paid-in capital and reduced the net income attributable to common stock shareholders resulting in a reduction of basic and diluted net income per share.

On September 15, 2011, the Company entered into a Loan and Security Agreement with East West Bank, (the "EWB Loan Agreement"). The credit facilities available under the EWB Loan Agreement consist of a $35.0 million term loan facility and a $5.0 million revolving line of credit facility. The term loan matures on September 15, 2016 with principal and interest to be repaid in 60 monthly installments. The Company used $34.0 million of the term loan to repay a portion of the outstanding convertible subordinated promissory notes held by entities affiliated with Summit Partners, L.P. leaving an aggregate amount owed under the promissory note of $34.0 million. The $5.0 million revolving line of credit may be drawn at any time prior to September 15, 2013. The amounts outstanding under both the term loan and the revolving line of credit facility may be voluntarily prepaid at any time without premium or penalty, subject to certain conditions. Interest will accrue on the outstanding principal amount of the term loan at a rate per annum equal to an adjusted LIBOR rate (based on one, two or three month interest periods) plus a spread of either 2.50% or 3.00%, which spread shall be determined based on the debt service ratio for the preceding four fiscal quarter period. Interest will accrue on the drawn portion of the revolving credit facility at the prime rate plus a spread of 0.25%, provided that such rate shall not be less than the one-month adjusted LIBOR rate plus a spread of 1.00%, and will be paid monthly. The Company is required to pay a commitment fee of 0.15% per annum on the undrawn portion of the revolving credit facility on a quarterly basis. The EWB Loan Agreement includes customary covenants, including financial reporting requirements and compliance with a debt service coverage ratio and a total leverage ratio, and customary events of default. The Company's obligations under the EWB Loan Agreement are secured by a first priority security position on substantially all of the Company's current and future assets, subject to certain exceptions (including a negative pledge on the Company's intellectual property) and permitted liens.

Additionally, 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. The Loan Agreement replaces the EWB Loan Agreement as discussed above. 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. On August 7, 2012, the Company borrowed an additional $20.8 million of term loans under the Term Loan Facility.

The loans bear interest, at the Company's option, at the base rate plus a spread of 1.25% to 1.75% or an adjusted LIBOR rate (based, at the Company's election, on a period of 30, 60, or 90 days) plus a spread of 2.25% to 2.75%, in each case with such spread being determined based on the debt service coverage ratio for the last fiscal quarter. The base rate means the highest of East West Bank's prime rate, the federal funds rate plus a margin equal to 0.50%, or the adjusted LIBOR rate for a period of 30, 60, or 90 days plus a margin equal to 1.00%. The Company is also obligated to pay other customary closing fees, arrangement fees, administration fees, commitment fees and letter of credit fees for a credit facility of this size and type.

Interest is due and payable in arrears monthly in the case of loans bearing interest at the base rate and at the end of an interest period (or quarterly in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. Principal payments under the Term Loan Facility will be made in quarterly installments, each such quarterly installment shall be equal to $1.25 million until August 7, 2014, then equal to $1.875 million until August 7, 2015, and then equal to $2.5 million until August 7, 2017, subject to adjustment as a result of any prepayments, with the remaining outstanding principal balance and all accrued and unpaid interest due on August 7, 2017. All outstanding loans under the Revolving Credit Facility, together with all accrued and unpaid interest, are due on August 7, 2015.

The Company may prepay the loans, in whole or in part, at any time without premium or penalty, subject to certain conditions including minimum amounts and reimbursement of certain costs in the case of prepayments of LIBOR loans. In addition, the Company is required to prepay the loan under the Term Loan Facility with the proceeds from certain financing transactions or asset sales (subject, in the case of asset sales, to reinvestment rights) and with 25.0% of the Company's excess cash flow, as determined after each fiscal year and in accordance with the Loan Agreement, provided that the Company shall not be required to prepay the loan out of its excess cash flow if its leverage ratio is greater than 1.50:1.00 on the last day of such fiscal year.

All of the obligations under the Loan Agreement are secured by substantially all of the Company's assets, including all of the capital stock of the Company's future domestic subsidiaries and 65% of the capital stock of the Company's existing and future foreign subsidiaries, but excluding the Company's intellectual property. All of the Company's future domestic subsidiaries are required to guaranty the obligations under the Loan Agreement. Such guarantees by future subsidiaries will be secured by substantially all of the property of such subsidiaries, excluding intellectual property.

The Loan Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, pay dividends or make distributions, make investments, make acquisitions, prepay certain indebtedness, change the nature of its business, enter into certain transactions with affiliates, enter into restrictive agreements, and make capital expenditures, in each case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with a debt service coverage ratio, a leverage ratio, and a minimum level of liquidity.

The Loan Agreement includes customary events of default that, include among other things, non-payment defaults, defaults due to the inaccuracy of representations and warranties, covenant defaults, cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, defaults due to the unenforceability of a guaranty, and defaults due to circumstances that have or could have a material adverse effect. The occurrence of an event of default could result in the acceleration of the obligations under the Loan Agreement. During the existence of an event of default, interest on the obligations under the Loan Agreement could be increased by 2.00% above the otherwise applicable interest rate.

During the three months ended September 30, 2012, the Company made aggregate payments of $583,000 against the loan balance. As of September 30, 2012, the Company has classified $5.0 million and $44.8 million in short-term and long-term debt, respectively, on its consolidated balance sheet related to the Loan Agreement.

The following table summarizes our estimated debt and interest payment obligations as of September 30, 2012 (in thousands):

	2013 (remainder)	2014	2015	2016	2017	Thereafter	Total
Debt payment obligations	$ 3,750	$5,000	$6,875	$ 9,375	$10,000	$ 15,000	$50,000
Interest payments on debt payment obligations	914	1,110	973	777	531	172	4,477
Total	$ 4,664	$6,110	$7,848	$10,152	$10,531	$ 15,172	$54,477

NOTE 9—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 2017.

In December 2011, the Company entered into an agreement to lease approximately 64,512 square feet of office and research and development space located in San Jose, California, which will be used as the Company's corporate headquarters. The lease term is from April 1, 2012, through June 30, 2017. The lease has been categorized as an operating lease, and the total estimated rent expense to be recognized is $4.9 million.

At September 30, 2012, future minimum annual payments under operating leases are as follows (in thousands):

	2013 (remainder)	2014	2015	2016	2017	Thereafter	Total
Operating leases	$ 1,078	$1,384	$1,396	$1,428	$1,122	$ —	$6,408

Purchase Commitments

The Company 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 accruals have been recorded. The Company's consolidated financial position and results of operations could be negatively impacted if it were required to compensate the contract manufacturers for any liabilities incurred.

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 Ubiquiti 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. Because of the uncertainties related to both the amount and ranges of possible loss from pending litigation matters, the Company is unable to predict with certainty the precise liability that could finally result from a range of possible unfavorable outcomes. 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. Litigation can be costly, diverting management's attention and could, upon resolution, have a material adverse effect on the Company's business, results of operations, financial condition, and cash flows.

Export Compliance Matters

In January 2011, the U.S. Commerce Department, Bureau of Industry and Security's ("BIS") Office of Export Enforcement ("OEE") contacted the Company to request that the Company provide information related to its relationship with a logistics company in the UAE and with a company in Iran, as well as information on the export classification of its products. As a result of this inquiry the Company, assisted by outside counsel, conducted a review of the Company's export transactions from 2008 through March 2011 to not only gather information responsive to the OEE's request but also to review the Company's overall compliance with export control and sanctions laws. It was in the course of this review that the Company identified the Iranian sales of two of its distributors.

In May 2011, the Company filed a self-disclosure with the BIS and Security's Office of Export Enforcement OEE and in June 2011, filed one with U.S. Department of the Treasury's Office of Foreign Asset Control ("OFAC") regarding the compliance issues noted above. The disclosures address the above described findings and the remedial actions the Company had taken to date. However, the findings also indicate that both distributors continued to sell, directly or indirectly, the Company's products into Iran during the period from February 2010 through March 2011 and that the Company received various communications from them indicating that they were continuing to do so. Since January 2011, the Company has cooperated with OEE and, prior to its disclosure filing, the Company informally shared with the OEE the substance of its findings with respect to both distributors. From May 2011 to August 2011, the Company provided additional information regarding its review and its findings to OEE to facilitate its investigation and OEE advised the Company in August 2011 that it had completed its investigation of the Company. 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 of us and closed the investigation of the Company without penalty.

OFAC is still reviewing the Company's voluntary disclosure. In the Company's submission, the Company provided OFAC with an explanation of the activities that led to the sales of its products in Iran and the failure to comply with the Export Administration Regulations (the "EAR") and OFAC sanctions. Although the Company's OFAC and OEE voluntary disclosures covered similar sets of facts, which led the OEE to resolve the case with the issuance of a warning letter, OFAC may conclude that the Company's actions resulted in violations of U.S. export control and economic sanctions laws and warrant the imposition of penalties that could include fines, termination of the Company's ability to export its products, and/or referral for criminal prosecution. Any such fines may be material to the Company's financial results in the period in which they are imposed. The penalties may be imposed against the Company and/or its management. The maximum civil monetary penalty for the violations is up to $250,000 or twice the value of the transaction, whichever is greater, per violation. The Company cannot predict when OFAC will complete its review or decide upon the imposition of possible penalties.

Based on the facts known to the Company to date, the Company recorded an expense of $1.6 million for this export compliance matter in fiscal 2010, which represents management's estimated exposure for fines in accordance with applicable accounting literature. This amount was calculated from information discovered through the Company's internal review and this loss is deemed to be probable and reasonably estimable. However, the Company also believes that it is reasonably possible that the loss may be higher, but the Company cannot reasonably estimate the range of any further potential losses. Specific information has come to management's attention and as such management cannot estimate any further range of possible losses. Should additional facts be discovered in the future and/or should actual fines or other penalties substantially differ from the Company's estimates, its business, financial condition, cash flows and results of operations would be materially negatively impacted.

Shareholder Class Action Lawsuits

Beginning on September 7, 2012, two shareholder class action complaints were filed against the Company, certain of its officers and directors and the underwriters of the Company's initial public offering in the United States District Court for the Northern District of California. The complaints purport to bring claims under the Securities Act of 1933, the Securities Exchange Act of 1934 and SEC Rule 10b-5 on behalf a class of purchasers of the Company's common stock from October 14, 2011 through August 9, 2012 and/or who acquired the Company's stock pursuant to or traceable to the registration statement for the initial public offering. The complaints seek, among other things, compensatory damages, rescission, and attorneys' fees and costs.

The Company believes that the allegations in the complaints are without merit and intend to vigorously contest the litigation. However, there can be no assurance that the Company will be successful in its defense. The Company cannot currently estimate the loss or the range of possible losses it may experience in connection with this litigation.

NOTE 10—PREFERRED STOCK

Preferred Stock

In July 2011, the Company repurchased an aggregate of 12,041,700 shares of the Company's Series A convertible preferred stock from entities affiliated with Summit Partners, L.P., one of the Company's major stockholders, at a price of $8.97 per share for an aggregate consideration of $108.0 million. Of the aggregate purchase price, $40.0 million was paid in cash at the time of closing and the balance of the shares were paid for through the issuance of convertible subordinated promissory notes in the aggregate principal amount of $68.0 million. The $68.0 million was paid down primarily using proceeds from the EWB Loan Agreement and the remaining balance was subsequently paid down by funds raised upon the completion of the Company's initial public offering on October 19, 2011 and the Company's existing cash balances.

NOTE 11—COMMON STOCK AND TREASURY STOCK

As of September 30, 2012 and June 30, 2012, the authorized capital of the Company included 150,000,000 shares of common stock. As of September 30, 2012, 131,165,901 shares of common stock were issued and 88,914,077 were outstanding. As of June 30, 2012, 131,129,888 shares of common stock were issued and 92,049,978 were outstanding.

Common Stock Repurchases

On August 9, 2012, the Company announced that its Board of Directors authorized the Company to repurchase up to $100 million of its common stock. The share repurchase program commenced Monday, August 13, 2012. The share repurchase program will be funded from proceeds from the Loan Agreement as discussed in Note 8 and from existing cash on hand.

Common stock repurchase activity during the three months ended September 30, 2012 was as follows (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Dollar Value of Shares that May Yet Be Purchased
August 13, 2012 – August 31, 2012	2,179,900	$ 8.88	$ 80,599
September 1, 2012 – September 30, 2012	992,014	$ 11.93	$ 68,742
Total	3,171,914	$ 9.83	$ 68,742

NOTE 12—STOCK BASED COMPENSATION

Stock-Based Compensation Plans

The Company's 2010 Equity Incentive Plan and 2005 Equity Incentive Plan are described in its Annual Report. As of September 30, 2012, the Company had 1,414,579 authorized shares available for future issuance under all of its stock incentive plans.

Employee Stock-based Compensation

The following table shows total stock-based compensation expense included in the Condensed Consolidated Statements of Operations for the months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30, 2012	2011
Cost of sales	$ 81	$ 6
Research and development	266	116
Sales, general and administrative	309	229
	$ 656	$ 351

Stock Options

The following is a summary of option activity for the Company's stock incentive plans for the three months ended September 30, 2012:

	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, 2012	3,347,445	1.45		
Granted	—	—		
Exercised	(29,705)	3.42		
Forfeitures and cancellations	(11,803)	5.53		

Balance, September 30, 2012	3,305,937	$ 1.42	6.34	$ 34,809
Vested and expected to vest as of September 30, 2012	3,274,056	$ 1.39	6.32	$ 34,570
Vested and exercisable as of September 30, 2012	2,563,713	$ 0.63	5.83	$ 28,903

During the three months ended September 30, 2012 and 2011, the aggregate intrinsic value of options exercised under the Company's stock incentive plans was $178,000 and $397,000, respectively, as determined as of the date of option exercise.

As of September 30, 2012, the Company had unrecognized compensation costs of $1.6 million related to stock options which the Company expects to recognize over a weighted-average period of 2.4 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, 2012. For the three months ended September 30, 2011, the fair value of employee stock options was estimated using the following weighted average assumptions:

	Three Months Ended September 30, 2011
Expected term	6.1 years
Expected volatility	49%
Risk-free interest rate	1.8%
Expected dividend yield	—
Weighted average grant date fair value	$ 4.03

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, 2012	453,620	$ 9.42
RSUs granted	257,500	13.86
RSUs vested	(7,290)	12.14
RSUs cancelled	(10,000)	28.78
Non-vested RSUs, September 30, 2012	693,830	$ 10.76

The intrinsic value of RSUs vested in the three months ended September 30, 2012 and 2011 was $91,000 and $25,000, respectively. The total intrinsic value of all outstanding RSUs was $8.3 million as of September 30, 2012.

As of September 30, 2012, there was unrecognized compensation costs related to RSUs of $6.2 million which the Company expects to recognize over a weighted average period of 3.8 years.

NOTE 13—INCOME TAXES

As of September 30, 2012, the Company had approximately $8.4 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, 2012, 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 $607,000 for the three months ended September 30, 2012. The Company does not expect any significant increases or decreases to its unrecognized tax benefits in the next twelve months.

The Company recorded a tax provision of $2.5 million for the three months ended September 30, 2012. The Company's estimated 2012 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 2009 and onwards could be subject to examinations by tax authorities.

NOTE 14—SEGMENT INFORMATION, REVENUES BY GEOGRAPHY AND SIGNIFICANT CUSTOMERS

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

	Three Months Ended September 30,			
	2012		2011	
airMAX	$32,057	52%	$49,835	63%
New platforms	15,628	25%	2,734	4%
Other systems	3,784	6%	12,765	16%
Systems	51,469	83%	65,334	83%
Embedded radio	1,714	3%	3,225	4%
Antennas/other	8,352	14%	10,608	13%
Total revenues	$61,535	100%	$79,167	100%

The Company generally forwards products directly from its manufacturers to its distributors in Hong Kong, who in turn ship to other locations throughout the world. The Company has determined the geographical distribution of product revenues based upon the ship-to destinations.

Revenues by geography were as follows (in thousands, except percentages):

	Three Months Ended September 30,			
	2012		2011	
North America(1)	$20,361	33%	$24,941	32%
South America	10,243	17%	19,835	25%
Europe, the Middle East and Africa	23,144	37%	24,783	31%
Asia Pacific	7,787	13%	9,608	12%
Total revenues	$61,535	100%	$79,167	100%

(1) Revenue for the United States was $19.3 million and $24.4 million for the three months ended September 30, 2012 and 2011, 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 (in thousands, except percentages):

	Percentage of Revenues		Percentage of Accounts Receivable	
	Three Months Ended September 30,		September 30,	June 30,
	2012	2011	2012	2012
Distributor A	15%	18%	14%	11%

Distributor B	*	16%	12%	19%
Distributor C	*	*	11%	12%

* *denotes less than 10%*

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.

Overview

We are a product driven company that leverages innovative proprietary technologies to deliver networking solutions with compelling price-performance characteristics to both start-up and established network operators and service providers. Our products bridge the digital divide by fundamentally changing the economics of deploying high performance networking solutions in underserved and underpenetrated wireless broadband access markets globally. These markets include emerging markets and other areas where individual users and small and medium sized enterprises do not have access to the benefits of carrier class broadband networking. Our business model has enabled us to break down traditional barriers, such as high product and network deployment costs, which are driven by business model inefficiencies and achieve rapid market adoption of our products and solutions in previously underserved and underpenetrated markets. Our business model and proprietary technologies provide us with a significant and sustainable competitive advantage over incumbents, who we believe are unable to respond effectively due to their higher cost business models.

We offer a broad and expanding portfolio of networking products and solutions and in the outdoor wireless, enterprise WLAN, video surveillance, wireless backhaul and machine-to-machine communications markets. We began shipping embedded radios in fiscal 2006. In fiscal 2008 we introduced a line of products based on 802.11 standard protocols and in early fiscal 2010, we introduced a number of new products based on our proprietary airMAX protocol, which have been rapidly adopted by network operators and high-performance proprietary airMAX service providers. Since the beginning of fiscal 2011, we have introduced UniFi, airVision, airFiber, mFi and EdgeMAX, which are collectively referred to in this report as our New Platforms. In both the three months ended September 30, 2012 and 2011, our systems revenue accounted for 83% of our revenues. In the future, we expect sales of our airMAX platform and our new product platforms to continue to represent a growing portion of our revenues and the portion of our revenues derived from our 802.11 standard products to decline as a percentage of total revenues.

Building on our leadership in the underserved and underpenetrated segments of the wireless broadband access market, we intend to expand our product offerings in our existing market and enter adjacent markets by relying on the combination of our efficient business model and proprietary technologies. For example, we have introduced products and solutions for the enterprise WLAN, video surveillance, and since late fiscal 2011 licensed microwave wireless backhaul, machine-to-machine communication and router markets. As we enter such new markets, we plan to leverage existing distributor relationships and establish engaged communities similar to that of the Ubiquiti Community to keep our operating expenses in line with our current model and enable us to offer products in these new markets with compelling price-performance characteristics.

Our revenues decreased 22% to $61.5 million in the three months ended September 30, 2012 from $79.2 million in the three months ended September 30, 2011. We believe the overall decrease in revenues during the three months ended September 30, 2012 was primarily driven by lost sales due to the proliferation of counterfeit versions of our products, which has also created customer uncertainty regarding the authenticity of their potential purchases. We had net income of $13.2 million and $21.5 million in the three months ended September 30, 2012 and 2011, respectively.

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 three product categories: systems, embedded radios and antennas/other.

- Systems consists of three product categories:
  - Our proprietary airMAX platform products for network operators and service providers;
  - Our new platform products which include significant platforms introduced in late fiscal 2011 and during 2012 which includes the UniFi, airVision and airFiber, mFi and EdgeMAX platforms; and
  - Other 802.11 standard products including base stations, radios, backhaul equipment and CPE.
- Embedded radios consist of more than 25 radio products primarily for OEMs, including both point to point and point to multipoint radios in the 2.0 to 6.0GHz spectrum, that are offered with a variety of features.
- Antennas/other consist of antenna products in the 2.0 to 6.0GHz spectrum, as well as miscellaneous products such as mounting brackets, cables and power over Ethernet adapters. These products include both high performance sector and directional antennas. This category also includes our allocation of revenues to PCS.

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 97% and 98% of our revenues in the three months ended September 30, 2012 and 2011, respectively. Other channel partners, such as resellers and OEMs, largely accounted for the balance of our revenues. We sell our products without any right of return.

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 and excess and obsolete inventory.

We outsource our manufacturing and order fulfillment and utilize contract manufacturers 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 manufacturing 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, 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 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, expand our registration and defense of trademarks and patents efforts and to support our business and operations as a public company.

Deferred Revenues and Costs

In the event that collectability of a receivable from products we have shipped is not probable, we classify those amounts as deferred revenues on our balance sheet until such time as we receive payment of the accounts receivable. We classify the cost of products associated with these deferred revenues as deferred costs of revenues. At September 30, 2012 and June 30, 2012, we did not have any revenue deferred for transactions where we lacked evidence that collectability of the receivables recorded was reasonably probable.

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, 2012 and June 30, 2012, we had deferred revenues of $798,000 and $805,000 respectively, related to these obligations.

Prepayments

We have historical agreements with certain contract manufacturers whereby we prepay for a portion of the product costs to assure the manufacture and timely delivery of our products. As of September 30, 2012 and June 30, 2012, we had prepayment balances of $875,000 and $129,000, respectively.

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, 2012, as filed on September 28, 2012 with the SEC, or the Annual Report, and there have been no material changes.

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Results of Operations

Comparison of Three Months Ended September 30, 2012 and 2011

	Three Months Ended September 30,			
	2012		2011	
	(In thousands, except percentages)			
Revenues	$61,535	100%	$79,167	100%
Cost of revenues(1)	36,515	59%	46,154	58%
Gross profit	25,020	41%	33,013	42%
Operating expenses:				
Research and development(1)	4,711	8%	3,369	4%
Sales, general and administrative(1)	4,534	7%	2,144	3%
Total operating expenses	9,245	15%	5,513	7%
Income from operations	15,775	26%	27,500	35%
Interest expense and other, net	(86)	*%	(634)	(1)%
Income before provision for income taxes	15,689	25%	26,866	34%
Provision for income taxes	2,510	4%	5,373	7%
Net income	$13,179	21%	$21,493	27%

* *Less than 1%*

(1) Includes stock-based compensation as follows:

	2012	2011
Cost of revenues	$ 81	$ 6
Research and development	266	116
Sales, general and administrative	309	229
Total stock-based compensation	$ 656	$ 351

Revenues

Revenues decreased $17.6 million, or 22%, from $79.2 million in the three months ended September 30, 2011 to $61.5 million in the three months ended September 30, 2012. We believe the overall decrease in revenues during the three months ended September 30, 2012 was primarily driven by lost sales due to the proliferation of counterfeit versions of our products, which has also created customer uncertainty regarding the authenticity of their potential purchases, and the effects of a buildup in channel inventory with our distributors. This has had the most significant impact on our airMAX platform which decreased $17.8 million.

In the three months ended September 30, 2012, revenues from Distributor A represented 15% of our revenues. In the three months ended September 30, 2011, revenues from Distributor A and Distributor B represented 18% and 16% of our revenues, respectively. No other distributor or customer represented more than 10% of our revenues in the three months ended September 30, 2012 or 2011.

Revenues by Product Type

	Three Months Ended September 30,			
	2012		2011	
	(in thousands, except percentages)			
airMAX	$32,057	52%	$49,835	63%
New platforms	15,628	25%	2,734	4%
Other systems	3,784	6%	12,765	16%
Systems	51,469	83%	65,334	83%
Embedded radio	1,714	3%	3,225	4%
Antennas/other	8,352	14%	10,608	13%
Total revenues	$61,535	100%	$79,167	100%

Systems revenues decreased $13.9 million, or 21%, from $65.3 million in the three months ended September 30, 2011 to $51.5 million in the three months ended September 30, 2012. As noted above, we believe the decrease in systems revenues was primarily driven by lost sales due to the proliferation of counterfeit versions of our products, in particular our airMAX product line. The decrease in our airMAX product line was partially offset by increased sales in our new platforms category, which includes significant platforms introduced since late fiscal 2011. Our new platforms contributed $15.6 million and $2.7 million of revenue the three months ended September 30, 2012 and 2011, respectively. Our other systems revenue decreased $9.0 million during the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 due primarily to our September 2011 quarter including a large order to a direct customer.

Embedded radio revenues decreased $1.5 million from the three months ended September 30, 2011 to 2012. We anticipate that embedded radio products will decline as a percentage of revenues in future periods as sales of these products are outpaced by sales of systems products.

Antennas/other revenues decreased $2.3 million, or 21% from $10.6 million in the three months ended September 30, 2011 to $8.4 million in the three months ended September 30, 2012. The decline in antennas/other revenues was primarily due to the decreased sales of our systems platforms, which negatively impacted the demand for associated antennas. Other revenues also include revenues that are attributable to PCS. Antenna/other revenues may continue to increase in absolute dollars in future periods but will decline as a percentage of total revenues due to more rapid growth of systems revenues.

Revenues by Geography

We generally forward products directly from our manufacturers to freight companies in Hong Kong, which have been retained by our distributors and who in turn ship to other locations throughout the world. We have determined the geographical distribution of our product revenues based on ship-to destinations. A majority of our sales are to distributors who in turn sell to resellers or directly to end customers. As a result of these factors, we believe that sales to certain geographic locations might be higher or lower, as the ultimate destinations are difficult to ascertain. Revenues in North Americas decreased primarily due to a significant decline in orders from one of our distributors. We believe the decrease in revenues in South American and Europe, the Middle East and Africa was primarily driven by the proliferation of counterfeit versions of our products, which has also created customer uncertainty regarding the authenticity of their potential purchases. Revenues in the Asia Pacific region tend to be volatile given the low levels of revenues. The following are our revenues by geography for the three months ended September 30, 2012 and 2011 (in thousands, except percentages):

	Three Months Ended September 30,			
	2012		2011	
	(In thousands, except percentages)			
North America(1)	$20,361	33%	$24,941	32%
South America	10,243	17%	19,835	25%
Europe, the Middle East and Africa	23,144	37%	24,783	31%
Asia Pacific	7,787	13%	9,608	12%
Total revenues	$61,535	100%	$79,167	100%

(1) Revenue for the United States was $19.3 million and $24.4 million for the three months ended September 30, 2012 and 2011, respectively.

Cost of Revenues and Gross Margin

Cost of revenues decreased $9.6 million, or 21%, from $46.2 million in the three months ended September 30, 2011 to $36.5 million in the three months ended September 30, 2012, primarily due to decreased revenues and to a lesser extent, changes in product mix. Gross margin decreased from 42% in the three months ended September 30, 2011 to 41% in the three months ended September 30, 2012, reflecting an increase in variable operating costs.

Operating Expenses

Research and Development

Research and development expenses increased $1.3 million, or 40%, from $3.4 million in the three months ended September 30, 2011 to $4.7 million in the three months ended September 30, 2012. As a percentage of revenues, research and development expenses increased from 4% in the three months ended September 30, 2011 to 8% in the three months ended September 30, 2012. The increase in research and development expenses in absolute dollars was due to increases in headcount as we broadened our research and development activities to new product areas. As a percentage of revenues, research and development expenses increased primarily due to our overall decrease in revenues. Over time, we expect our research and development costs to increase in absolute dollars as we continue making significant investments in developing new products and developing new versions of our existing products.

Sales, General and Administrative

Sales, general and administrative expenses increased $2.4 million, or 111%, from $2.1 million in the three months ended September 30, 2011 to $4.5 million in the three months ended September 30, 2012. As a percentage of revenues, sales, general and administrative expenses increased from 3% in the three months ended September 30, 2011 to 7% in the three months ended September 30, 2012. Sales, general and administrative expenses increased due largely to increased legal expenses associated with our anti-counterfeiting litigation, increased marketing and tradeshow activity and bad debt expense. As a percentage of revenues sales, general and administrative expenses increased primarily due to our overall revenue decrease in revenues. 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 $86,000 for the three months ended September 30, 2012, representing an increase of $548,000 from $634,000 for the three months ended September 30, 2011. During the three months ended September 30, 2011, we incurred interest expense on our convertible subordinated promissory notes issued as part of the repurchase of Series A convertible preferred stock from entities affiliated with Summit Partners, L.P. in July 2011. The convertible subordinated promissory notes were repaid in full in October 2011.

Provision for Income Taxes

Our provision for income taxes decreased $2.9 million, or 53%, from $5.4 million for the three months ended September 30, 2011 to $2.5 million for the three months ended September 30, 2012. Our effective tax rate decreased to 16% for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 due to a larger 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, cash equivalents and short-term marketable securities increased from $122.1 million at June 30, 2012 to $132.5 million at September 30, 2012.

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,	
	2012	2011
	(In thousands)	
Net cash provided by operating activities	$ 23,695	$ 15,719
Net cash used in investing activities	(2,349)	(205)
Net cash used in financing activities	(10,920)	(39,299)
Net increase (decrease) in cash and cash equivalents	$ 10,426	$ (23,785)

Cash Flows from Operating Activities

Net cash provided by operating activities in the three months ended September 30, 2012 of $23.7 million consisted primarily of net income of $13.2 million and by net increases in operating assets and liabilities of 9.0 million. These changes consisted primarily of a $14.3 million decrease in accounts receivable due to decreased revenues, a $6.4 million decrease in accounts payable and accrued liabilities due to decreased overall business activity, a $2.3 million increase in taxes payable due the timing of federal tax payments and a $1.3 million increase in prepaid expenses and other current assets due primarily to increased deposits with our vendors. Additionally, our net income included non-cash adjustments due to stock-based compensation, depreciation and amortization, adjustments to our provisions for doubtful accounts and inventory obsolescence 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 $1.5 million.

Net cash provided by operating activities in the three months ended September 30, 2011 of $15.7 million consisted primarily of net income of $21.5 million offset by net decreases in operating assets and liabilities of $6.3 million. Changes in operating assets and liabilities consisted primarily of an $8.3 million increase in accounts receivable due to our overall revenue growth, a $2.9 million increase in taxes payable, a $2.7 million increase in inventories, a $1.3 million increase in accounts payable and accrued liabilities and an increase of $488,000 in deferred revenues and deferred cost of revenues.

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, 2012 and 2011 were $1.6 million and $205,000, respectively. Additionally, we had cash outflows related to the purchase of intangible assets of $748,000 during the three months ended September 30, 2012.

Cash Flows from Financing Activities

On August 7, 2012, we entered into a Loan and Security Agreement (the "Loan Agreement") with U.S. Bank, as syndication agent, and East West Bank, as administrative agent. The Loan Agreement replaces the EWB Loan Agreement as discussed below. 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"). We may request borrowings under the Revolving Credit Facility until August 7, 2015. On August 7, 2012, we borrowed an additional $20.8 million of term loans under the Term Loan Facility.

On August 9, 2012, we announced that our Board of Directors authorized us to repurchase up to $100 million of our common stock. The share repurchase program commenced August 13, 2012. During the three months ended September 30, 2012 we repurchased 3,171,914 shares for a total cost of $31.3 million.

In July 2011, we repurchased an aggregate of 12,041,700 shares of our Series A preferred stock from entities affiliated with Summit Partners, L.P., one of our major stockholders, at a price of $8.97 per share for an aggregate consideration of $108.0 million. Of the aggregate purchase price, $40.0 million was paid in cash at the time of closing and the balance of the shares were paid for through the issuance of convertible subordinated promissory notes in the aggregate principal amount of $68.0 million. On September 15, 2011, $34.0 million was paid against the notes reducing the aggregate principal amount outstanding to $34.0 million.

On September 15, 2011, we entered into a Loan and Security Agreement with East West Bank, (the "EWB Loan Agreement"). The EWB Loan Agreement consisted of a $35.0 million term loan facility and a $5.0 million revolving line of credit facility. The term loan was scheduled to mature on September 15, 2016 with principal and interest to be repaid in 60 monthly installments. During the three months ended September 30, 2011, we used $34.0 million of the term loan to repay a portion of our outstanding convertible subordinated promissory notes held by entities affiliated with Summit Partners, L.P. The EWB Agreement was replaced by the Loan Agreement on August 7, 2012 as discussed above.

Liquidity

We believe our existing cash and cash equivalents will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. 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, 2012, we held $118.1 million of our $132.5 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 January 2011, the U.S. Department of Commerce's Bureau of Industry and Security's Office of Export Enforcement ("OEE") contacted us to request that we provide information related to our relationship with a logistics company in the United Arab Emirates ("UAE") and with a company in Iran, as well as information on the export classification of our products. As a result of this inquiry we, assisted by outside counsel, conducted a review of our export transactions from 2008 through March 2011 to not only gather information responsive to the OEE's request but also to review our overall compliance with export control and sanctions laws. We believe our products have been sold into Iran by third parties. We do not believe that we directly sold, exported or shipped our products into Iran or any other country subject to a U.S. embargo. However, until early 2010, we did not prohibit our distributors from selling our products into Iran or any other country subject to a U.S. embargo. In the course of this review we identified that two distributors may have sold Ubiquiti products into Iran. Our review also found that while we had obtained required Commodity Classification Rulings for our products in June 2010 and November 2010, we did not advise our shipping personnel to change the export authorizations used on our shipping documents until February 2011. During the course of our export control review, we also determined that we had failed to maintain adequate records for the five year period required by the EAR and the sanctions regulations due to our lack of infrastructure and because it was prior to our transition to our system of record, NetSuite. See " *Risk Factors—We are subject to numerous U.S. export control and economic sanctions laws and a substantial majority of our sales are into countries outside of the United States. Although we did not intend to do so, we have violated certain of these laws in the past, and we cannot currently assess the nature and extent of any fines or other penalties, if any, that U.S. governmental agencies may impose against us or our employees for any such violations. Any fines, if materially different from our estimates, or other penalties, could have a material adverse effect on our business and financial results.* "

In May 2011, we filed a self-disclosure with OEE and, in June 2011 we filed one with U.S. Department of the Treasury's Office of Foreign Asset Control ("OFAC"), regarding the compliance issues noted above. The disclosures address the above described findings and the remedial actions we have taken to date. However, the findings also indicate that both distributors continued to sell, directly or indirectly, our products into Iran during the period from February 2010 through March 2011 and that we received various communications from them indicating that they were continuing to do so. Since January 2011, we have cooperated with OEE and, prior to our disclosure filing, we informally shared with the OEE the substance of our findings with respect to both distributors. From May

2011 to August 2011, we provided additional information regarding our review and our findings to OEE to facilitate its investigation and OEE advised us in August 2011 that it had completed its investigation of us. 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 of us and closed the investigation of us without penalty.

OFAC is still reviewing our voluntary disclosure. In our submission, we have provided OFAC with an explanation of the activities that led to the sales of our products in Iran and the failure to comply with the EAR and OFAC sanctions. Although our OFAC and OEE voluntary disclosures covered similar sets of facts, which led OEE to resolve the case with the issuance of a warning letter, OFAC may conclude that our actions resulted in violations of U.S. export control and economic sanctions laws and warrant the imposition of penalties that could include fines, termination of our ability to export our products and/or referral for criminal prosecution. Any such fines may be material to our financial results in the period in which they are imposed. The penalties may be imposed against us and/or our management. The maximum civil monetary penalty for the violations is up to $250,000 or twice the value of the transaction, whichever is greater, per violation. Also, disclosure of our conduct and any fines or other action relating to this conduct could harm our reputation and indirectly have a material adverse effect on our business. We cannot predict when OFAC will complete its review or decide upon the imposition of possible penalties.

Based on the facts known to us to date, we recorded an expense of $1.6 million for this export compliance matter in fiscal 2010, which represents management's estimated exposure for fines in accordance with applicable accounting literature. Should additional facts be discovered in the future and/or should actual fines or other penalties substantially differ from our estimates, our business, financial condition, cash flows and results of operations would be materially negatively impacted.

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 director and officer 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, 2012 or 2011.

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, 2012.

Contractual Obligations and Off-Balance Sheet Arrangements

We lease our headquarters in San Jose, California and other locations worldwide under noncancelable operating leases that expire at various dates through fiscal 2017.

In December 2011, we entered into an agreement to lease approximately 64,512 square feet of office and research and development space located in San Jose, California, which will be used as our corporate headquarters. The lease term is from April 1, 2012, though June 30, 2017. The lease has been categorized as an operating lease, and the total estimated lease obligation is approximately $4.9 million.

On August 7, 2012, we entered into the Loan Agreement with U.S. Bank, as syndication agent, and East West Bank, as administrative agent. 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, and (ii) a $50.0 million Term Loan Facility. We may request borrowings under the Revolving Credit Facility until August 7, 2015. On August 7, 2012, we borrowed an additional $20.8 million of term loans under the Term Loan Facility.

The following table summarizes our contractual obligations as of September 30, 2012:

	2013 (remainder)	2014	2015	2016	2017	Thereafter	Total
Operating leases	$ 1,078	$1,384	$1,396	$ 1,428	$ 1,122	$ —	$ 6,408
Debt payment obligations	3,750	5,000	6,875	9,375	10,000	15,000	50,000
Interest payments on debt payment obligations	914	1,110	973	777	531	172	4,477
Total	$ 5,742	$7,494	$9,244	$11,580	$11,653	$ 15,172	$60,885

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 accruals 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.

As of September 30, 2012, we had $8.4 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

We do not believe there have been any recent accounting pronouncements that would have a significant impact on our 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. 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, 2012	Three Months Ended September 30, 2011
	(In thousands, except per share amounts)	
Non-GAAP net income	$ 13,572	$ 21,704
Non-GAAP diluted net income per share of common stock	$ 0.15	$ 0.23

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 to non-GAAP net income:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
	(In thousands, except per share amounts)	
Net Income	$ 13,179	$ 21,493
Stock-based compensation:		
Cost of revenues	81	6
Research and development	266	116
Sales, general and administrative	309	229
Tax effect of non-GAAP adjustments	(263)	(140)
Non-GAAP net income	$ 13,572	$ 21,704
Non-GAAP diluted net income per share of common stock (1)	$ 0.15	$ 0.23
Weighted-average shares used in computing non-GAAP diluted net income per share of common stock (1)	92,925	93,467

(1) Non-GAAP diluted net income per share of common stock is calculated using non-GAAP net income excluding stock-based compensation, net of taxes and weighted-average shares outstanding as if Series A preferred stock is treated as common stock for the periods presented.

The following table shows a reconciliation of weighted-average shares used in computing net loss per share of common stock-diluted to weighted-average shares used in computing non-GAAP diluted net income per share of common stock:

	Three Months Ended September 30,	
	2012	2011
	(In thousands)	
Weighted average shares used in computing net loss per share of common stock- diluted	92,925	62,717
Weighted average dilutive effect of stock options and restricted stock units	—	3,877
Weighted average shares of Series A preferred stock outstanding	—	26,873
Weighted-average shares used in computing non-GAAP diluted income per share of common stock	92,925	93,467

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 Loan Agreement. Interest will accrue on the outstanding principal amount of the term loan at a rate per annum equal to an adjusted LIBOR rate (based on one, two or three month interest periods) plus a spread of either 2.50% or 3.00%, which spread shall be determined based on the debt service ratio for the preceding four fiscal quarter period. The loans bear interest, at the Company's option, at the base rate plus a spread of 1.25% to 1.75% or an adjusted LIBOR rate (based, at the Company's election, on a period of 30, 60, or 90 days) plus a spread of 2.25% to 2.75%, in each case with such spread being determined based on the debt service coverage ratio for the last fiscal quarter. The base rate means the highest of East West Bank's prime rate, the federal funds rate plus a margin equal to 0.50%, or the adjusted LIBOR rate for a period of 30, 60, or 90 days plus a margin equal to 1.00%. Based on a sensitivity analysis, as of September 30, 2012, 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 significant change in net income (loss) before income taxes over the next 12 months.

We had cash and cash equivalents of $132.5 million and $122.1 million as of September 30, 2012 and June 30, 2012, respectively. These amounts were held primarily in cash deposits and money market funds. 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. During the three months ended September 30, 2012, a 10% appreciation or depreciation in the value of the U.S. dollar relative to the other currencies in which our expenses are denominated would not have had a material impact on our financial position or results of operations.

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, 2012. 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, 2012, 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, 2012 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

Intellectual Property

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business regarding the rights and use of our intellectual property. We have received, and may in the future continue to receive, claims from third parties asserting infringement of their intellectual property rights. Future litigation may be necessary to defend ourselves and our wireless carriers by determining the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights.

Anti-Counterfeiting Litigation

In May, 2012, we filed a lawsuit in the U.S. federal court for the Northern District of California against Kozumi USA Corp. and its owner Shao Wei (William) Hsu. The lawsuit alleged that Kozumi and Mr. Hsu have engaged in intellectual property theft, and illegal manufacturing and sale of counterfeit Ubiquiti products. In June, the court granted our application for a temporary restraining order enjoining Kozumi and Mr. Hsu and anyone in active concert or participation with them from using our trademarks, destroying evidence of counterfeiting and infringement, or assisting, aiding or abetting any other person or business entity in engaging in or performing any of such activities. In July 2012, the court issued a preliminary injunction against Kozumi and Mr. Hsu to the same effect and froze Mr. Hsu's real estate assets in the U.S. We intend to vigorously pursue this and other legal actions against the counterfeiters.

Export Compliance

In January 2011, the U.S. Department of Commerce's Bureau of Industry and Security's Office of Export Enforcement ("OEE") contacted us to request that we provide information related to our relationship with a logistics company in the United Arab Emirates ("UAE") and with a company in Iran, as well as information on the export classification of our products. As a result of this inquiry we, assisted by outside counsel, conducted a review of our export transactions from 2008 through March 2011 to not only gather information responsive to the OEE's request but also to review our overall compliance with export control and sanctions laws. We believe our products have been sold into Iran by third parties. We do not believe that we directly sold, exported or shipped our products into Iran or any other country subject to a U.S. embargo. However, until early 2010, we did not prohibit our distributors from selling our products into Iran or any other country subject to a U.S. embargo. In the course of this review we identified that two distributors may have sold Ubiquiti products into Iran. Our review also found that while we had obtained required Commodity Classification Rulings for our products in June 2010 and November 2010, we did not advise our shipping personnel to change the export authorizations used on our shipping documents until February 2011. During the course of our export control review, we also determined that we had failed to maintain adequate records for the five year period required by the EAR and the sanctions regulations due to our lack of infrastructure and because it was prior to our transition to our system of record, NetSuite. See " *Risk Factors—We are subject to numerous U.S. export control and economic sanctions laws and a substantial majority of our sales are into countries outside of the United States. Although we did not intend to do so, we have violated certain of these laws in the past, and we cannot currently assess the nature and extent of any fines or other penalties, if any, that U.S. governmental agencies may impose against us or our employees for any such violations. Any fines, if materially different from our estimates, or other penalties, could have a material adverse effect on our business and financial results.* "

In May 2011, we filed a self-disclosure with OEE and, in June 2011 we filed one with OFAC, regarding the compliance issues noted above. The disclosures address the above described findings and the remedial actions we have taken to date. However, the findings also indicate that both distributors continued to sell, directly or indirectly, our products into Iran during the period from February 2010 through March 2011 and that we received various communications from them indicating that they were continuing to do so. Since January 2011, we have cooperated with OEE and, prior to our disclosure filing, we informally shared with the OEE the substance of our findings with respect to both distributors. From May 2011 to August 2011, we provided additional information regarding our review and our findings to OEE to facilitate its investigation and OEE advised us in August 2011 that it had completed its investigation of us. 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 of us and closed the investigation of us without penalty.

OFAC is still reviewing our voluntary disclosure. In our submission, we have provided OFAC with an explanation of the activities that led to the sales of our products in Iran and the failure to comply with the EAR and OFAC sanctions. Although our OFAC and OEE voluntary disclosures covered similar sets of facts, which led OEE to resolve the case with the issuance of a warning letter, OFAC may conclude that our actions resulted in violations of U.S. export control and economic sanctions laws and warrant the imposition of penalties that could include fines, termination of our ability to export our products and/or referral for criminal prosecution. Any such fines may be material to our financial results in the period in which they are imposed. The penalties may be imposed against us and/or our management. The maximum civil monetary penalty for the violations is up to $250,000 or twice the value of the transaction, whichever is greater, per violation. Also, disclosure of our conduct and any fines or other action relating to this conduct could harm our reputation and indirectly have a material adverse effect on our business. We cannot predict when OFAC will complete its review or decide upon the imposition of possible penalties.

Based on the facts known to us to date, we recorded an expense of $1.6 million for this export compliance matter in fiscal 2010, which represents management's estimated exposure for fines in accordance with applicable accounting literature. Should additional facts be discovered in the future and/or should actual fines or other penalties substantially differ from our estimates, our business, financial condition, cash flows and results of operations would be materially negatively impacted.

Shareholder Class Action Lawsuits

Beginning on September 7, 2012, two shareholder class action complaints were filed against us, certain of our officers and directors and the underwriters of our initial public offering in the United States District Court for the Northern District of California. The complaints purport to bring claims under the Securities Act of 1933, the Securities Exchange Act of 1934 and SEC Rule 10b-5 on behalf a class of purchasers of our common stock from October 14, 2011 and August 9, 2012 and/or who acquired their stock pursuant to or traceable to the registration statement for the IPO. The complaints seek, among other things, compensatory damages, rescission, and attorneys' fees and costs.

We believe that the allegations in the complaints are without merit and intend to vigorously contest the litigation. However, there can be no assurance that we will be successful in our defense. We cannot currently estimate the loss or the range of possible losses we may experience in connection with this litigation.

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. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs and have material adverse effects on our business, financial condition and results of operations could be seriously harmed.

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

Because of our limited visibility into 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, resellers and OEMs. We do not employ a direct sales force. Sales to distributors accounted for 97% and 98% of our revenues in the three months ended September 30, 2012 and 2011, respectively. Generally, our distributors are not obligated to promote our products and solutions and are free to promote and sell the products and solutions of our competitors. We sell our products to our distributors on a purchase order basis. Our distributors do not typically provide us with information about market demand for our products. While we have recently begun efforts to obtain inventory level and sales data from our distributors, this information has been difficult to obtain in a timely manner. Since we have only recently begun gathering this data, we cannot be certain that the information is reliable. Our operating expenses are relatively low and fixed in the short-term, and we may not be able to decrease our expenses to offset any shortfall in revenues. If we under forecast demand, our ability to fulfill sales orders will be compromised and sales may be deferred or lost altogether as potential purchasers seek alternative solutions.

We are subject to risks associated with our distributors' inventory management practices. Should any of our distributors fail to resell our products in the period of time they anticipate or overstock inventories to address anticipated supply interruptions that do not occur, our revenues and operating results would suffer in future periods.

Our distributors are required to purchase and maintain their own inventories of our products and have no right to return the products they have purchased. We receive limited information from the distributors regarding their inventory levels and their sales of our products. If our distributors are unable to sell an adequate amount of their inventories of our products, their financial condition may be adversely affected, which could result in a decline in our sales to these distributors. Distributors with whom we do business may face issues maintaining sufficient working capital and liquidity or obtaining credit, which could impair their ability to make timely payments to us. In addition, in the past we have experienced shortages of our products and our distributors have ordered quantities in excess of their anticipated near term demand to insulate themselves from supply interruptions. If, in the future, some distributors decide to purchase more of our products than are required to satisfy customer demand in any particular quarter, inventories at these distributors would grow. These distributors likely would reduce future orders until inventory levels realign with customer demand, which could adversely affect our revenues in a subsequent quarter.

We rely on a limited number of distributors, and the loss of existing, or a need to add new distributors may cause disruptions in our shipments, which may materially adversely affect our ability to sell our products and achieve our revenue forecasts and we may be unable to sell inventory we have manufactured to meet expected demand in a timely manner, if at all.

Although we have a large number of distributors who sell our products, we sell a substantial majority of our products through a limited number of these distributors. In the three months ended September 30, 2012, revenues from Distributor A represented 15% of our revenues. In the three months ended September 30, 2011, revenues from Distributor A and Distributor B represented 18% and 16% of our revenues, respectively. We anticipate that we will continue to be dependent upon a limited number of distributors for a significant portion of our revenues for the foreseeable future. The portion of our revenues attributable to a given distributor may also fluctuate in the future. 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 have experienced, and may in the future experience, reduced sales levels and damage to our brand due to production of counterfeit versions of our products.

We have recently identified parties that are manufacturing and selling counterfeit products that infringe our intellectual property rights. Given the increased popularity of our products, we believe there is a high likelihood that counterfeit products or other products infringing on our intellectual property rights will continue to emerge, seeking to benefit from the consumer demand for our products. In order to combat counterfeit goods, we may be required to spend significant resources to monitor and protect our intellectual property rights. We may not be able to detect infringement and may lose our competitive position in the market before we are able to do so. If the quality of counterfeit products is not representative of the quality of our products, further damage could be done to our brand. In addition, enforcing rights to our intellectual property may be difficult and expensive, and we may not be successful in combating counterfeit products and stopping infringement of our intellectual property rights, particularly in some foreign countries, where we could lose sales.

Our operating results will vary over time and such fluctuations 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 we expect them to continue to do so. Our revenues were $61.5 million, $94.9 million, $91.7 million, $87.8 million and $79.2 million and our net income was $13.2 million, $28.5 million, $27.9 million, $24.7 million and $21.5 million in the three months ended September 30, 2012, June 30, 2012, March 31, 2012, December 31, 2011 and September 30, 2011, respectively. Because revenues for any future period are not predictable with any significant degree of certainty, 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. The Company's stock has recently experienced substantial price volatility. For example, from our initial public offering through September 30, 2012, the price of our common stock ranged from $7.80 to $35.99 per share. Additionally, the stock market as a whole has experienced extreme 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. If the Company fails to meet these expectations its stock price may significantly decline, which could have a material adverse impact on investor confidence and employee retention.

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 in attempt to decrease customer lead times;
- inability of our contract manufacturers and suppliers to meet our demand;
- success and timing of new product introductions by us and the performance of our products;
- announcements by us or our competitors regarding products, promotions or other transactions;
- lost sales due to the proliferation of counterfeit versions of our products;
- costs related to the protection of our intellectual property, including defense against counterfeiting efforts;
- costs related to responding to government inquiries related to regulatory compliance;
- our ability to control and reduce product costs;
- expenses of our entry into new markets, such as video surveillance microwave backhaul and machine-to-machine communications;
- commencement of litigation or adverse results in litigation;
- changes in the manner in which we sell products;
- increased warranty costs;

- volatility in foreign exchange rates, changes in interest rates and/or the availability and cost of financing or other working capital to our distributors and their customers;

- the impact of write downs of excess and obsolete inventory; and

- the impact of any provisions for doubtful accounts.

In addition, our business may be subject to seasonality; however, our recent growth rates and timing of product introductions may have masked seasonal changes in demand. Although we have not perceived seasonality to date, we may experience seasonality in the future.

We could be adversely affected by unfavorable results from shareholder class action litigation.

Beginning on September 7, 2012, two shareholder class action complaints were filed against us. The complaints seek, among other things, compensatory damages, rescission, and attorneys' fees and costs. Although we believe that the allegations in the complaints are without merit and we intend to vigorously contest the litigation, there can be no assurance that we will be successful in our defense. If one or more of these claims are resolved against us, our consolidated financial statements could be materially adversely affected.

If we fail to protect our intellectual property rights adequately, our ability to compete effectively or to defend ourselves from litigation could be impaired, which could reduce our revenues and increase our costs.

We rely primarily on patent, copyright, trademark and trade secret laws, as well as confidentiality and non-disclosure agreements and other methods, to protect our proprietary technologies and know-how. 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 judicial or administrative proceedings. Any failure of our patents to adequately protect our technology might make it easier for our competitors to offer similar products or technologies. In addition, patents may not be issued from any of our current or future applications.

Monitoring unauthorized use of our intellectual property is difficult and costly. Unauthorized use of our intellectual property, such as counterfeits of our products and unauthorized registration of our trademarks by third parties, has occurred in the past and may occur in the future without our knowledge. The steps we have taken may not prevent unauthorized use of our intellectual property. Further, we may not be able to detect unauthorized use of, or take appropriate steps to enforce our intellectual property rights. Our competitors may also independently develop similar technology. Our failure to effectively protect our intellectual property could reduce the value and potential application of our technology and could impair our ability to compete. Any failure by us to meaningfully protect our intellectual property could result in competitors offering products that incorporate our most technologically advanced features, which could seriously reduce demand for our products. We have initiated and may continue to initiate infringement claims or litigation. Litigation, whether we are a plaintiff or a defendant, can be expensive and time-consuming and may divert the efforts of our technical staff and managerial personnel, which could result in lower revenues and higher expenses, whether or not such litigation results in a determination favorable to us.

Enforcement of our intellectual property rights abroad, particularly in China and South America, is limited and it is often difficult to protect and enforce such rights.

The intellectual property protection regimes outside the United States are generally not as comprehensive as in the United States and may not protect our intellectual property in some countries where our products are sold or may be sold in the future. In addition, effective enforcement of intellectual property rights in certain countries may not be available.

In particular, the legal regimes relating to intellectual property rights in China and South America are limited and it is often difficult to effectively protect and enforce such rights in those countries. For example, the regulatory scheme for enforcing China's intellectual property laws may not be as developed as regulatory schemes in other countries. Any advancement of an intellectual property enforcement claim through China's regulatory scheme may require an extensive amount of time, allowing intellectual property infringers to continue largely unimpeded, to our detriment in the Chinese and other export markets. In addition, rules of evidence may be unclear, inconsistent or difficult to comply with, making it difficult to prove infringement of our intellectual property rights. As a result, enforcement cases may be difficult or ineffective.

These factors may make it increasingly complicated for us to enforce our intellectual property rights against infringers, allowing them to harm our business in the Chinese or other export markets by affecting the pricing for our products, reducing our sales and diluting our brand or product quality reputation.

If our contract manufacturers do not respect our intellectual property and trade secrets and if they or others produce competitive products reducing our sales or causing customer confusion, our business, operating results and financial condition could be materially adversely affected.

Because our contract manufacturers operate in China, where prosecution of intellectual property infringement and trade secret theft is more difficult than in the United States, certain of our contract manufacturers, their affiliates, their other customers or their suppliers may attempt to misappropriate our intellectual property and trade secrets to manufacture our products for themselves or others without our knowledge. Although we attempt to enter into agreements with our contract manufacturers to preclude them from misusing our intellectual property and trade secrets, we may be unsuccessful in monitoring and enforcing our intellectual property rights. We have in the past found and expect in the future to find counterfeit goods in the market being sold as Ubiquiti products. Although we take steps to stop counterfeits, we may not be successful and network operators and service providers who purchase these counterfeit goods may have a bad experience, our brand may be harmed, and our business, operating results and financial condition could be materially and adversely affected.

Our business and prospects depend on the strength of our brand. Failure to maintain and enhance our brand would harm our ability to expand our base of distributors and the number of network operators and service providers who purchase our products.

Maintaining and enhancing the Ubiquiti brand is critical to expanding our base of distributors, network operators, service providers, and VARs who purchase our products. 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 these customers and end-users in underserved and underpenetrated markets, which we may not do successfully. 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. Furthermore, if we fail to replicate the Ubiquiti Community in other markets that we seek to enter, the strength of our brand in and beyond those markets could be adversely affected. Our brand may be impaired by a number of other factors, including product malfunctions and exploitation of our trademarks by others without permission. Despite our efforts to protect our trademarks, we have been unsuccessful to date in obtaining a trademark registration from the United States Patent and Trademark Office for the name of our company, Ubiquiti Networks, and as a result, we only have common law trademark rights in the United States in our name. Additionally, we have been subject to counterfeiting efforts which may damage our brand value. Any inability to effectively police our trademark rights against unauthorized uses by third parties could adversely impact the value of our trademarks and our brand recognition. If we fail to maintain and enhance the Ubiquiti brand, or if we need to incur unanticipated expenses to establish the brand in new markets, our operating results would be negatively affected from reduced sales and increased expenses related to strengthening our brand and our customers may be confused about which products are ours.

The networking, enterprise WLAN, video surveillance, microwave backhaul and machine-to-machine communications markets in which we compete are highly competitive and competitive pressures from existing and new products and solutions may have a material adverse effect on our business, revenues, growth rates and market share.

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

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

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

We expect competition to intensify in the future as other established and new companies introduce new products in the same markets we serve or intend to enter and as these markets continue to consolidate. In particular, companies with successful, widely known brands may price their products aggressively to compete with ours. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, operating results or financial condition. If we do not keep pace with product and technology advances, end users may switch to other suppliers and our ability to sell our products may be impaired, which could harm our competitive position, revenues and prospects for growth.

A number of our current or potential competitors have longer operating histories, greater brand recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other 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. In the integrated radio market, our competitors include Alvarion, Motorola and Trango, and in the 900MHz product market, Cisco and Proxim. In the embedded radio market, our competitors include Mikrotīkls and Senao. In the backhaul market, our competitors include Ceragon, DragonWave and Mikrotīkls. In the CPE market, our competitors include Mikrotīkls, Ruckus and TP-LINK. In the antenna market, we primarily compete with Andrew Corporation, PCTEL and Radio Waves. In the enterprise WLAN market, we primarily compete with Ruckus, Aruba Networks and Cisco. In the video surveillance market, we primarily compete with Vivotek, Axis Communications and Mobotix. In the microwave backhaul market, we primarily compete with DragonWave, SAF Tehnika and Trango. In the machine-to-machine communications market, we primarily compete with EnergyHub, Motorola and AlertMe.com. 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.

In addition, some of our competitors have made acquisitions or entered into partnerships or other strategic relationships with one another to offer a more comprehensive solution than they had offered individually. We expect this consolidation to continue as companies attempt to strengthen or maintain their market positions in an evolving industry and as companies enter into partnerships or are acquired. Many of the companies driving this consolidation trend have significantly greater financial, technical and other resources than we do and are better positioned to acquire and offer complementary products and technologies. The competitors resulting from these possible consolidations may create more compelling product offerings and be able to offer greater pricing flexibility, making it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or product functionality. Continued industry consolidation may adversely impact perceptions of the viability of smaller and even medium-sized technology companies and, consequently, willingness to purchase from such companies. These pricing pressures and competition from more comprehensive solutions could impair our ability to sell our products profitably, if at all, which could negatively affect our revenues and results of operations.

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

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

Historically, large, integrated telecommunications equipment suppliers controlled access to the wireless broadband infrastructure equipment and network management software that could be used to extend the geographic reach of wireless internet networks. However, in recent years, network operators and service providers have been able to purchase wireless broadband infrastructure equipment and purchase and implement network management applications from distributors, resellers and OEMs. Increased competition from providers of wireless broadband equipment may result in fewer vendors providing complementary equipment, which could harm our business and revenues. 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 major 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 with these proprietary standards.

We may not be able to enhance our products to keep pace with technological and market developments, or develop new products in a timely manner or at 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 future success in keeping pace with technological developments, satisfying increasing network operator and service provider requirements and achieving product acceptance depends upon our ability to enhance our current products and to continue to develop and introduce new product offerings and enhanced performance features and functionality on a timely basis at competitive prices. Our inability, for technological or other reasons, to enhance, develop, introduce or deliver compelling products in a timely manner, or at all, in response to changing market conditions, technologies or network operator and service provider expectations could have a material adverse effect on our operating results if end users fail to purchase our products. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and engineering staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of our products with evolving industry standards and protocols and competitive network management environments. 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 network operators and service providers may switch to competing products, any of which would result in a delay or loss of revenues and could harm our business. In addition, we cannot assure you that the technologies and related products that we develop will be brought to market by us as quickly as anticipated or that they will achieve broad acceptance among network operators and service providers.

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

From time to time, we may become subject to 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 warranty claim, we may also incur costs if we compensate the affected network operator or service provider. We also may incur costs and expenses relating to a recall of one or more of our products. The process of identifying recalled products that have been widely distributed may be lengthy and require significant resources and we may incur significant replacement costs, contract damage claims from our network operators or service providers and harm to our reputation. Costs or payments made in connection with warranty and product liability claims and product recalls could cause our operating results to decline and harm our brand.

Our distributors, network operators, service providers, VARs and system integrators may expect us to indemnify them for intellectual property infringement claims, damages caused by defective products and other losses.

Our distributors, network operators and service providers may expect us to indemnify them for losses suffered or incurred in connection with our products, including as a result of intellectual property infringement, damages caused by defects and damages caused by viruses, worms and other malicious software, although our agreements with them may not, in all cases, require us to provide this indemnification. In order to satisfy these parties' demands for indemnification and the maximum potential amount of future payments we could be required to make may be substantial or unlimited and could materially harm our business, operating results and financial condition. We may in the future agree to defend and indemnify our distributors, network operators and service providers, irrespective of whether we believe that we have an obligation to indemnify them or whether we believe that our services and products infringe the asserted intellectual property rights. Alternatively, we may reject certain of these indemnity demands, which may lead to disputes with a distributor, network operator or service provider and may negatively impact our relationships with the party demanding indemnification or result in litigation against us. Our distributors, network operators and service providers may also claim that any rejection of their indemnity demands constitutes a material breach of our agreements with them, allowing them to terminate such agreements. If, as a result of indemnity demands, substantial payments are required, our relationships with our distributors, network operators and service providers are negatively impacted or if any of our material agreements is terminated, our business, operating results and financial condition could be materially adversely affected.

If we lose the services of our founder and chief executive officer, Robert J. Pera, other key members of our management team or key research and development employees, we would be required to replace these individuals and may incur additional expense to recruit and employ these persons.

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 will also depend on our ability to continue to retain our other senior management. We do not maintain key person insurance for any of our personnel, except for a small policy with respect to Mr. Pera.

Our business model relies in part on leanly staffed, independent and efficient research and development teams. Our research and development personnel tend to be key 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 these key contributors, we may be unable to bring our products to market in a timely manner, if at all, due to disruption in our development activities.

Our future success will also depend on our ability to attract, retain and motivate skilled personnel in the United States and internationally. All of our employees work for us on an at will basis. Competition for personnel is intense in the networking equipment industry, and particularly, for persons with specialized experience in areas such as antenna design and RF equipment. As a result, we may be unable to attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could adversely affect our business, operating results and financial condition.

We operate in an industry with extensive intellectual property litigation. Claims of infringement against us or our suppliers may cause us to incur substantial expenses to defend ourselves and could impair our ability to sell our products if an adverse outcome were to occur.

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 claims of intellectual property infringement without major financial expenditures. We operate in an industry with extensive intellectual property litigation and it is not uncommon for suppliers of certain components of our products, such as chipsets, to be involved in infringement lawsuits by or against third parties. Many industry participants that own, or claim to own, intellectual property aggressively assert their rights. Our key component suppliers are often targets of such assertions, and we may become a target as well. In addition, the network operators and service providers, whom we agree in certain circumstances to indemnify for intellectual property infringement claims related to our products, may be targets of such assertions. 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. Future litigation may be necessary to defend ourselves and demand indemnification from our suppliers, if appropriate, by determining the scope, enforceability and validity of third party proprietary rights or to establish our own proprietary rights. Some of our competitors may have substantially greater resources than we do and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, patent holding companies that focus solely on extracting royalties and settlements by enforcing patent rights may target our component suppliers, us or our network operators and service providers. These companies typically have little or no product revenues and therefore our patents may provide little or no deterrence against such companies filing patent infringement lawsuits against us or our network operators and service providers. For example, we have received correspondence from two patent holding companies who assert that we infringe certain patents related to wireless communication technologies. We have reviewed the patents which were specifically referenced in the correspondence and believe that these patents are either invalid or not infringed by us. However, we cannot assure you that a court adjudicating a claim that we infringe these patents would rule in our favor should these patent holding companies file suit against us. We believe that in the event of a claim we may be entitled to seek indemnification from our suppliers. However, we cannot provide any assurances that if we seek such indemnification, we will receive it. Regardless of whether claims that we are infringing patents, trademarks or other intellectual property rights have any merit, these claims can be time consuming and costly to evaluate and defend and could:

- adversely affect our relationships with our current or future network operators and service providers or suppliers;
- cause delays or stoppages in the shipment of our products, or cause us to modify or redesign our products;
- cause us to incur significant expenses in defending claims brought against us, for which we may not be able to obtain indemnification, if applicable, from our suppliers;
- divert management’s attention and resources;
- subject us to significant damages or settlements;
- require us to enter into settlements, royalty or licensing agreements on unfavorable terms; or
- require us to cease certain activities.

Moreover, even if some of our contract manufacturers are obligated to indemnify us, these contract manufacturers may contest their obligations to indemnify us, or their available assets or indemnity obligation may not be sufficient to cover our losses.

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

For information regarding our trademarks, see the risk factor above titled “Our business and prospects depend on the strength of our brand. Failure to maintain and enhance our brand would harm our ability to expand our base of distributors and the number of network operators and service providers who purchase our products.”

We are subject to numerous U.S. export control and economic sanctions laws and a substantial majority of our sales are into countries outside of the United States. Sales outside of the United States represented 69% of our revenues in both the three months ended September 30, 2012 and 2011, respectively. Although we did not intend to do so, we have violated certain of these laws in the past, and we cannot currently assess the nature and extent of any fines or other penalties, if any, that U.S. governmental agencies may impose against us or our employees for any such violations. Any fines, if materially different from our estimates, or other penalties, could have a material adverse effect on our business and financial results.

Sale of certain of our products into Iran, Cuba, Syria, the Sudan and North Korea is restricted or prohibited under U.S. export control and economic sanctions laws. In addition, certain of our products incorporate encryption components and may be exported from and outside the United States only with the required authorization or eligibility for a license exception. Until early 2010, we lacked sufficient familiarity with the export control and sanctions laws and their applicability to our products. Our lack of sufficient familiarity was largely due to our lean corporate infrastructure, the inexperience of our management team in these matters and the fact that our products are manufactured outside the United States and most of our products never enter the United States. In early 2010, as a result of diligence undertaken in connection with the Summit transaction, we learned that our products could not be sold, directly or indirectly, into Iran and other countries subject to a U.S. embargo and we learned that some of our products were listed on the Commerce Control List in the EAR, and require authorization from the BIS, prior to export. We then began to evaluate the export controls and sanctions applicable to our product sales and to take steps to comply with these laws. For instance, we revised our standard form distribution agreements to clearly articulate the restrictions imposed by export control and sanctions laws governing business with embargoed countries, disabled downloads of our software by users in these countries, and obtained the required Commodity Classification Rulings for our encryption products as required by the EAR. In February 2011, our Audit Committee retained outside counsel to conduct a review of our export control compliance and possible sales of our products by third persons to embargoed countries. This review was conducted to fully respond to and cooperate with a request for information from OEE, relating to two foreign companies and the export classification of our products and to ensure that we were in compliance with the export control and sanctions laws. The review was completed in April 2011 and we took the actions described below as a result of our review. In May 2011, we filed a disclosure report regarding our findings as a result of this review with OEE. In August 2011, we received a warning letter from the OEE indicating that the OEE had completed its investigation of us, was closing out the matter without issuing a penalty, had not referred the matters described below for criminal or administrative prosecution of us and closed the investigation of us. In June 2011, we also filed a voluntary self-disclosure with OFAC, which disclosure is still pending.

Transactions Involving Possible Sales of Products into Iran

Although we do not believe that we directly sold, exported or shipped our products into Iran or any other country subject to a U.S. embargo, we believe our products have been sold into Iran by third parties. However, until early 2010, we did not prohibit our distributors from selling our products into Iran or any other country subject to a U.S. embargo.

From 2008 to early 2010, we had a distribution arrangement with a distributor (“Distributor 1”), in the United Arab Emirates (“UAE”) that gave this distributor exclusive jurisdiction over eleven countries in the Middle East, including Iran, as well as authorization to sell worldwide. We had no sales to Distributor 1 in fiscal 2012, and sales to Distributor 1 represented 4% and 6% of our revenues in fiscal 2011 and fiscal 2010, respectively. We cannot determine which of our products Distributor 1 sold directly or indirectly to persons in Iran. At some point prior to February 2010, Distributor 1 requested that we list two resellers on our website as authorized resellers of our products in Iran and we did so. We removed these resellers from our website in late February 2010 upon learning of restrictions under the U.S. embargo.

In early 2010, we began implementing policies prohibiting sales of our products into the countries subject to the U.S. embargo, revised our standard form distribution agreements to clearly articulate this policy and disabled downloads of our software by users in these countries. We also entered into a new distribution agreement with Distributor 1 that excluded Iran as one of its territories and contained explicit covenants that Distributor 1 would comply with U.S. export control and economic sanction laws, including a covenant not to sell our products into Iran.

From March 2010 until February 2011, we continued doing business with Distributor 1 under the amended distribution agreement. However, we now believe that Distributor 1 continued to sell our products into Iran after February 2010 and that we overlooked emails from Distributor 1 that included information about Distributor 1's possible activities related to shipping our products to Iran. In February 2011, we suspended sales of our products to Distributor 1 due to the information learned during our export control review that indicated Distributor 1 may still be selling products into Iran. Also, during the export review we recently conducted, we learned that from December 2009 through February 2011, another distributor, Distributor 2, was selling our products to a company in Iran. At the time of these transactions, we did not have a distribution agreement with Distributor 2 and we had not specifically instructed Distributor 2 that our products could not be sold into Iran. Distributor 2, a distributor in Europe, received orders from an Iranian entity, placed those orders with us and instructed us to ship the products to a third party in the UAE. As such, we believed the products' final destination was the UAE. Our records indicate that we may have made up to 13 shipments to Distributor 2 involving an aggregate value of approximately $340,000 that may have been resold into Iran during this time. Prior to February 2011, we had not previously notified Distributor 2 of our prohibition against sales of our products into Iran. In March 2011, upon learning that it was receiving orders from a company in Iran, we notified Distributor 2 that the end customer was in Iran and of our prohibition on sales to Iran and also entered into a distribution agreement with Distributor 2. The agreement contains clear language requiring compliance with the export control and economic sanctions laws. We continue to sell products to Distributor 2, as we believe this issue has been resolved and these sales did not represent a material portion of Distributor 2's business with us.

Export Classification of Our Products

Following the Summit transaction, we began to research whether our products were subject to U.S. export controls and we hired outside counsel to assist us with this analysis. We learned that a number of our products, although they are foreign produced and do not enter into the United States, may be considered encryption items under the EAR and required an encryption review by BIS. In May 2010, we filed encryption reviews with BIS for our products, and we obtained the required Commodity Classification Rulings for our products between June 2010 and November 2010. We shipped our products prior to receiving these rulings and these shipments appear to have violated the EAR. In addition, we used incorrect export authorizations on our shipping documents even after we received the required Commodity Classification Rulings.

Accordingly, prior to May 2010, we did not fully comply with applicable encryption controls in the EAR, despite having made foreign sales of such items, and continued to use incorrect export authorizations on shipping documents until February 2011, as we did not fully understand the scope of the requirements. In addition, throughout this period, we lacked an effective compliance program with respect to these laws. We have implemented a significant number of policies and procedures and continue to implement further policies and procedures that will help us to comply with these laws.

Inquiry from U.S. Department of Commerce's Office of Export Enforcement

In January 2011, OEE contacted us to request that we provide information related to our relationship with a logistics company in the UAE and with a company in Iran, as well as information on the export classification of our products, neither of which are Distributor 1 or Distributor 2. As a result of this inquiry we, assisted by outside counsel, conducted a review of our export transactions from 2008 through March 2011 to not only gather information responsive to OEE's request but also to review our overall compliance with export control and sanctions laws. It was in the course of this review that we identified the Iranian sales of Distributor 1 after February 2010 and the Iranian sales of Distributor 2. Our review also found that while we had obtained required Commodity Classification Rulings for our products in June 2010 and November 2010, we did not advise our shipping personnel to change the export authorizations used on our shipping documents until February 2011. During the course of our export control review, we also determined that we had failed to maintain adequate records for the five year period required by the EAR and the sanctions regulations due to our lack of infrastructure and because it was prior to our transition to our system of record, NetSuite.

In May 2011, we filed a self-disclosure with OEE and in June 2011, we filed one with OFAC regarding the compliance issues noted above. The disclosures address the above described findings and the remedial actions we have taken to date. However, the findings also indicate that both Distributor 1 and Distributor 2 continued to sell, directly or indirectly, our products into Iran during the period from February 2010 through March 2011 and that we received various email communications from them indicating that they were continuing to do so. Since January 2011, we have cooperated with OEE and, prior to our disclosure filing, we informally shared with the OEE the substance of our findings with respect to Distributor 1 and Distributor 2. From May 2011 to August 2011, we provided additional information regarding our review and our findings to OEE to facilitate its investigation and OEE advised us in August 2011 that it had completed its investigation of us. 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 of us and closed the investigation of us without penalty.

OFAC is still reviewing our voluntary disclosure. In our submission, we have provided OFAC with an explanation of the activities that led to the sales of our products in Iran and the failure to comply with the EAR and OFAC sanctions. Although our OFAC and OEE voluntary disclosures covered similar sets of facts that led the OEE to resolve the case with the issuance of a warning letter, OFAC may conclude that our actions resulted in violations of U.S. export control and economic sanctions laws and warrant the imposition of penalties that could include fines, termination of our ability to export our products, and/or referral for criminal prosecution. Any such fines may be material to our financial results in the period in which they are imposed. The penalties may be imposed against us and/or our management. The maximum civil monetary penalty for the violations is up to $250,000 or twice the value of the transaction, whichever is greater, per violation. Also, disclosure of our conduct and any fines or other action relating to this conduct could harm our reputation and indirectly have a material adverse effect on our business, operating results and financial condition. We cannot predict when OFAC will complete its review or decide upon the imposition of possible penalties.

While we have now taken actions to ensure that export classification information is distributed to the appropriate personnel in a timely manner and have adopted policies and procedures to promote our compliance with these laws and regulations, we have obtained written distribution agreements with substantially all of our distributors that contain covenants requiring compliance with U.S. export control and economic sanctions law; we have notified all of our distributors of their obligations and have obtained updated distribution agreements from distributors that account for over 99% of our revenue in fiscal 2012. Our failure to amend all our distribution agreements and to implement more robust compliance controls immediately after the discovery of Iran-related sales activity in early 2010 may be aggravating factors that could impact the imposition of penalties imposed on us or our management. Based on the facts known to us to date, we recorded an expense of $1.6 million for this export compliance matter in fiscal 2010, which represents management’s estimated exposure for fines in accordance with applicable accounting literature. Should additional facts be discovered in the future and/or should actual fines or other penalties substantially differ from our estimates, our business, financial condition, cash flows and results of operations would be materially negatively impacted.

We may also be subject to export control and economic sanctions laws of jurisdictions outside of the United States and a substantial majority of our sales are into countries outside of the United States. If we fail to comply with those foreign export control and economic sanctions laws, we may be unable to sell our products and our business would be materially and adversely affected and our revenues would decline.

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.

We rely on the Ubiquiti Community to generate awareness of, and demand for, our products. If participation in the Ubiquiti Community decreases materially, or if negative information, justified or otherwise, spreads quickly through the community, we would need to incur substantial additional expenses to generate awareness of, and demand for, our products.

We believe a significant portion of our rapid 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 be actively engaged. Given our lack of a direct sales force and limited marketing expenditures, the marketing model enabled by the Ubiquiti Community is central to the success of our business but is ultimately outside of our control. In light of the rapid spread of information within the Ubiquiti Community and the material influence such community has over product adoption by network operators and service providers, any negative information about us or our products, whether or not justified, could quickly and materially decrease demand for our products and be difficult for us to overcome. If the members of the Ubiquiti Community were to reject our products and solutions or adopt competitors' products on a broad basis, our business, operating results and financial condition would be materially and adversely affected because we would need to incur substantial additional expenses to generate awareness of, and 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. Any inaccurate information regarding our products that is spread by the Ubiquiti Community could lead to a poor user experience or dissatisfaction with our products.

As we offer limited technical support for our products, we rely on the Ubiquiti Community to provide assistance and, in many cases documentation, to network operators and service providers for the installation, operation and maintenance of our products. Because we do not generate or control 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. Inaccurate information could lead to a poor customer experience or dissatisfaction with our products, which could negatively impact our reputation and disrupt our sales. Although we moderate and review forum postings to learn of reported problems and assess the accuracy of advice provided by the Ubiquiti Community, as our operations continue to grow, we may not have adequate time or resources to adequately monitor the quality of Ubiquiti Community information.

We rely on the Ubiquiti Community to provide our engineers with valuable feedback central to our research and development processes and if the members of the Ubiquiti Community were to stop providing feedback, our internal research and development costs could increase.

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. For example, we developed airSync (part of the airMAX platform) in response to collocation interference issues that were described in forum postings by members of the Ubiquiti Community. If the members of the Ubiquiti Community were to become less engaged or otherwise stopped providing valuable, timely feedback, our internal research and development costs and our time to market would increase, which could cause us to incur additional expenses or make our products less attractive to network operators and service providers.

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. We have limited experience in selling our products outside of our distribution model. As we expand into new product areas, 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 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 require us to accept 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.

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

We retain contract manufacturers, which are primarily located in China, to manufacture, control quality of and ship our products. We currently do not have long-term supply contracts with any of these contract manufacturers. Any significant change in our relationship with these manufacturers could have a material adverse effect on our business, operating results and financial condition. We make substantially all of our purchases from our contract manufacturers on a purchase order basis. Our contract manufacturers are not otherwise required to manufacture our products for any specific period or in any specific quantity. We expect that it would take approximately three to six months to transition manufacturing, quality assurance and shipping services to new providers. Relying on contract manufacturers for manufacturing, quality assurance and shipping also presents significant risks to us, including the inability of our contract manufacturers to:

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

The ability and willingness of our contract manufacturers to perform is largely outside our control. For example, during mid-2009, the technology market was rebounding from the sharp economic contraction that was experienced in 2008. Many suppliers and contract manufacturers were unprepared for the speed of the rebound. This led to significant component shortages and capacity constraints at contract manufacturers. During this time, our contract manufacturers claimed difficulty in procuring components and extended our order lead times significantly, which forced us to extend the lead time for our distributors.

From time to time, we may change contract manufacturers, which may disrupt our ability to obtain our products in a timely manner. 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 abilities or resources to fulfill all of their customer obligations in a timely manner. If any of our contract manufacturers suffers an interruption in its business, experiences delays, disruptions or quality control problems in its manufacturing operations or we have to change or add additional contract manufacturers, our ability to ship products to our customers would be delayed and our revenues could become volatile and our cost of revenues may increase.

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

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

We are dependent on Qualcomm Atheros for chipsets for our products and do not have short-term alternatives if Qualcomm Atheros were to terminate its agreement with us, which could cause us to be unable to fulfill short-term demand and delay our ability to fulfill orders.

Substantially all of our products currently include chipsets from Qualcomm Atheros. Our license agreement with Qualcomm Atheros may be terminated for convenience at the end of the annual contract term which is September 1, 2013 upon 90 days prior written notice by either party. The termination of our license agreement with Qualcomm Atheros could have a material adverse effect on our business, operating results and financial condition. To the extent we are unable to secure an adequate supply of chipsets from Qualcomm Atheros, we would be required to redesign our products to incorporate components from alternative sources, a process which would cause significant delays and would adversely impact our revenues. In accordance with the current terms of the agreement, Qualcomm Atheros may choose to terminate the agreement without cause at the end of the annual contract term by giving us at least 90 days prior written notice before September 1, 2013. We do not stockpile sufficient chipsets to cover the time it would take to re-engineer our products to replace the Qualcomm Atheros chipsets. Furthermore, if we sought a suitable second source for Qualcomm Atheros chipsets in our products, there can be no assurances that we would be able to successfully second source our chipsets on suitable terms, if at all. In any event, our use of chipsets from multiple sources may require us to significantly modify our product designs to accommodate these different chipsets.

Our reliance on third party components and technology means that we may not be able to introduce new products that include certain advanced features and functionality without obtaining technology licenses from third parties. For example, we currently rely upon a license from Qualcomm Atheros, whose chipsets are incorporated in a majority all of our products. This process is critical to our ability to manufacture our products. Obtaining these licenses may be costly and may delay the introduction of such features and functionality, and these licenses may not be available on commercially favorable terms, or at all. The inability to offer advanced features or functionality, or a delay in our introduction of new products, may adversely affect demand for our products and consequently, materially adversely affect our business, operating results and financial condition.

We base our production on our forecasts of future sales. If these forecasts are materially inaccurate, we may overbuild product, which we may be unable to sell in a timely manner or at all, or we may underbuild product, which may impair our customer relationships.

Our distributors typically provide us with purchase orders for delivery within 60 days. We provide our contract manufacturers forecasts of up to approximately five months of demand for long lead time components. To the extent our forecasts are materially inaccurate because we do not receive anticipated purchase order volume, we may under or overbuild product. We may over or under forecast the distributors' actual demand for our products or the mix of products and the components associated with the building of our products. We have experienced volatility in orders with limited advanced notice, and we expect such volatility to occur in the future. If we are unable to meet any increases in demand, our business, operating results and financial condition would be materially adversely affected and our reputation with our customers may be damaged. Conversely, if we over forecast demand, we may build excess inventory which could materially adversely affect our business, operating results and financial condition.

We have limited experience and personnel to manage our supply chain and our contract manufacturers, which may cause us to experience lower product margins, impair product quality and result in our inability to fulfill demand for our products and solutions.

We rely on our contract manufacturers to produce, test and ship all of our products. We also rely on our contract manufacturers to obtain the components, subassemblies and products necessary for the manufacture of our products. We have limited experience and personnel to manage our relationships with our contract manufacturers and our supply chain. Inaccurately forecasting our demand for key components, including the Qualcomm Atheros chipsets, could materially adversely affect our ability to build our products in a timely manner and our margins could decline. Any failure by us to effectively and proactively manage these relationships and activities could result in material adverse effects on our business, operating results and financial condition. If we were required or choose to transition some of our supply chain activities from our contract manufacturers to within our organization, we would be required to hire more experienced personnel and develop more supply chain policies and procedures. This transition could be lengthy and could cause significant delays in the production, testing and shipment of our products, any of which may result in material adverse effects, including an increase in our costs and our ability to ship our products and solutions. We cannot assure you that we would ever be able to effectively complete any such transition.

We have significantly increased our transactional sales volumes in recent periods, and if we fail to effectively manage the challenges associated with this transaction volume growth, we may experience difficulty in properly fulfilling customer orders and may incur increased operational costs.

Over the past several years we have and continue to expand our product offerings, the number of customers we sell to and the number of contract manufacturers we utilize to produce our products. Failure to effectively manage the increased logistical complexities associated with this expansion would make it difficult to fulfill customer orders in a timely manner and could lead to customer dissatisfaction. Further, we may need to increase costs to add personnel, upgrade or replace our existing reporting systems as well as improve our business processes and controls. Failure to effectively manage any of these logistical challenges would adversely impact our business performance and operating results.

If we experience material weaknesses in the future, as we have in the past, or otherwise fail to maintain an effective system of internal controls in the future, we may not be able to accurately report our financial condition or results of operations which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

As a result of becoming a public company, we will be required, under Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting beginning with the filing of our Annual Report on Form 10-K for fiscal 2013. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual and interim financial statements will not be prevented or detected on a timely basis.

We are in the early stages of further enhancing our process of compiling the computer system and process documentation necessary to perform the evaluation needed to comply with Section 404. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. We have in the past identified material weaknesses in our internal control over financial reporting, and although we have remediated the material weaknesses identified we cannot assure you that there will not be material weaknesses in our internal controls in the future. If we are unable to conclude that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline. In connection with our fiscal 2009 audit, our independent registered public accounting firm identified a material weakness in our internal control over financial reporting related to our ability to account for income taxes in accordance with GAAP. Subsequently, during fiscal 2010, we identified two other material weaknesses in our internal control over financial reporting. The first related to our ability to account for inventory and prepaid advances made to our contract manufacturers in accordance with GAAP. The second related to our ability to account for taxes and other amounts due on payments to our employees in foreign jurisdictions.

We have taken steps to address the material weaknesses as disclosed in the preceding paragraph, including hiring a chief financial officer, a corporate controller and other accounting personnel, forming an audit committee and implementing additional financial accounting controls and procedures. As a result of these actions, we believe that these material weaknesses have been remediated. However, we have not completed the necessary documentation and testing procedures under Section 404 of the Sarbanes-Oxley Act and cannot assure you that we will be able to implement and maintain an effective internal control over financial reporting in the future. Any failure to maintain such controls could severely inhibit our ability to accurately report our financial condition or results of operations.

Unfavorable tax law changes, an unfavorable government review of our tax returns, changes in our geographic earnings mix, or imposition of withholding taxes on repatriated earnings could adversely affect our effective tax rate and our operating results.

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 commence operations in jurisdictions assessing relatively higher tax rates, our effective tax rate could be adversely affected. Historically, we have earned a significant amount of our operating income from outside the United States in low tax rate jurisdictions. The continued availability of these rates is dependent on how we conduct our business operation across all tax jurisdictions. We are subject to periodic audits or other reviews by tax authorities in the jurisdictions in which we conduct our activities and there is a risk that tax authorities could challenge our assertion that we have conducted our business operations appropriately in order to benefit in these lower tax rate jurisdictions. In addition, there are possible tax proposals that are being considered by the U.S. Congress or the legislative bodies in foreign jurisdictions that could affect our tax rate, the carrying value of deferred tax assets or our other tax liabilities. We cannot predict the form or timing of potential legislative changes, but any newly enacted tax law could have a material adverse impact on our tax provision, net income and cash flows. In the event of an unfavorable outcome, this may result in additional tax liabilities or other adjustments to our historical results. In addition, we may determine that it is advisable from time to time to repatriate earnings from non-U.S. subsidiaries under circumstances that could give rise to imposition of potentially significant withholding taxes by the jurisdictions in which such amounts were earned and substantial tax liabilities in the United States. In addition, we may not receive the benefit of any offsetting tax credits, which also could adversely impact our effective tax rate. As of September 30, 2012, we held $118.1 million of our $132.5 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 were to repatriate those amounts.

Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our consolidated financial statements and may materially affect our income tax provision, net income or cash flows in the period or periods for which such determination is made.

The final determination of our income tax liability may be materially different from our income tax provision.

The final determination of our income tax liability may be materially different from our income tax provision. We are subject to income taxes in both the United States and international jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions where the ultimate tax determination is uncertain. Additionally our calculations of income taxes are based on our interpretations of applicable tax laws in the jurisdictions in which we file. Although we believe our tax estimates are appropriate, there is no assurance that the final determination of our income tax liability will not be materially different than what is reflected in our income tax provisions and accruals.

We are also subject to the periodic examination of our income tax returns by the Internal Revenue Service in the United States and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. The outcomes from these examinations may have an adverse effect on our operating results and financial condition.

Should additional taxes be assessed as a result of new legislation, an audit or litigation; if our effective tax rate should change as a result of changes in federal, international or state and local tax laws; if we are found to not be in compliance with tax regulations; or if we were to change the locations where we operate, there could be a material effect on our income tax provision and results of operations in the period or periods in which that determination is made, and potentially to future periods as well.

Furthermore, our provision for income tax could increase as we expand our international operations, adopt new products, implement changes to our operating structure or undertake intercompany transactions in light of acquisitions, changing tax laws, expiring rulings, and our current and anticipated business and operational requirements.

Our operating expenses will increase as we make further expenditures to enhance and expand our operations in order to support additional growth in our business and public company reporting and compliance obligations.

Historically, we limited our investment in infrastructure but in the future, we expect our infrastructure investments to increase substantially to support our anticipated growth and as a result of our becoming a public company. We are making 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. In addition, we may determine the 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 expect our increased investments to adversely affect operating income. As a result of these factors, we expect our operating expenses to increase.

We have experienced rapid growth in recent periods. If we fail to manage our growth effectively and develop and implement appropriate control systems, our business and financial performance may suffer.

We have substantially expanded our overall business, number of distributors and contract manufacturers, headcount and operations in recent periods. We have made investments in our information systems and significantly expanded our operations outside the United States, including an expansion of our research and development activities in Lithuania and Taiwan. Our expansion has placed, and our expected future growth will continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. Our business model reflects our decision to operate with minimal infrastructure and low support and administrative headcount, so risks related to managing our growth are particularly salient and we may not have sufficient internal resources to adapt or respond to unexpected challenges. As a result of our focus on managing our rapid growth, we may have not allocated sufficient resources to complying with applicable regulatory and other requirements, such as spectrum operating regulations, export and embargoed countries regulations and the Foreign Corrupt Practices Act, and our development of infrastructure designed to identify and monitor our compliance with these regulatory and other compliance obligations is at an early stage. For example, in February 2011 we hired our first employee charged with complying with spectrum use requirements and we hired a chief counsel in May 2011. Although we have put certain policies and procedures in place following the hiring of our chief financial officer in May 2010, certain of these policies have recently been adopted and our procedures have recently changed and we have limited staff responsible for their implementation and enforcement. For example, we have put in place procedures to verify foreign buyers against U.S. disqualified persons lists and to identify the need for export licenses based on proposed bills of material for new products. Furthermore, our employees who have the most contact with our distributors or who are involved with order entry have recently attended training regarding export controls sponsored by the BIS. If we are unable to manage our growth successfully, or if our control systems do not operate effectively, our business and operating results will suffer.

We do not expect our historical growth rates to continue into the future.

From fiscal 2006 to fiscal 2012, we experienced a CAGR of our revenues of over 137%. We do not expect to sustain this growth rate in the future. Our growth rate to date has reflected our acquisition of market share in a new market that was rapidly expanding, our introduction of products complementary to our initial offerings and our product pricing strategy designed to accelerate overall market penetration. Given our leadership role in, and the increasing maturity of, the global wireless broadband market, we expect that our revenue growth will slow in the future as it tracks more closely, and is constrained by, the growth rates of the overall market. Although we intend to employ a strategy consistent with our approach to wireless broadband networking as we seek to enter adjacent markets, such as enterprise WLAN, video surveillance, wireless backhaul and machine-to-machine communications, we cannot assure you that we will be successful in penetrating these markets in a manner that achieves rapid revenue growth, or at all. If we are unable to maintain adequate revenue growth, we may not have sufficient resources to execute our business objectives and our share price may decline.

A large percentage of our research and development operations are conducted in Illinois, Lithuania and Taiwan and our ability to introduce new products and support our existing products cost effectively depends on our ability to manage these disparate development sites successfully.

Our success depends on our ability to enhance current products and develop new products rapidly and cost effectively. We currently have a number of our research and development personnel in Illinois, Lithuania and Taiwan. We must successfully allocate product development activities across the various development centers and manage them in such a manner as to meet our time to market windows while maintaining product consistency and quality. We could incur unexpected costs or delays in product development at these remote facilities that could impair our ability to meet market windows or cause us to forego certain new product opportunities.

We rely on third parties for financial and operational services essential to our ability to manage our business. A failure or disruption in these services would materially and adversely affect our ability to manage our business effectively.

We currently use NetSuite 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. Therefore, 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 ability to implement appropriate internal controls over financial reporting and may impact our business, operating results and financial condition.

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

As of June 30, 2012 we had $29.6 million of debt related to a term loan with East West Bank. Additionally, in August 2012 we increased the term loan facility to $50.0 million and entered into a revolving line of credit for up to another $50.0 million from East West Bank and U.S. Bank under a new loan agreement which replaced our prior loan agreement with East West Bank.

Our increased debt level could have important consequences, including:

- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of cash flows from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flows to fund our operations, capital expenditures and future business opportunities;
- restricting us from making 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 our competitors who are less highly leveraged.

In addition, we may be able to incur substantial additional indebtedness in the future. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

We are subject to risks related to our recently announced common stock repurchase program.

In August 2012, we announced that our Board of Directors authorized us to repurchase up to $100.0 million of our common stock. The share repurchase program commenced Monday, August 13, 2012. The share repurchase program will be funded from existing cash on hand and from the proceeds from a loan agreement with East West Bank and U.S. Bank. By repurchasing our common stock we will reduce liquidity of our common stock in the open market and could experience increased volatility in our stock price. Additionally, in order to repurchase our common stock we have further increased our indebtedness to financial institutions, therefore substantially increasing our leverage and interest costs.

Failure to comply with the United States Foreign Corrupt Practices Act ("FCPA"), and similar laws associated with our activities outside the United States could subject us to penalties and other adverse consequences.

As a substantial majority of our revenues is and will be from jurisdictions outside of the United States, we face significant risks if we fail to comply with the FCPA 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, we have a limited number of employees engaged in sales so we have not conducted formal FCPA compliance training. We have not engaged in training of our distributors and resellers and are in the process of amending our distributor agreements to provide clear requirements for our distributors' and resellers' compliance with U.S. laws, including the FCPA, therefore 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. We have not historically entered into written agreements with our distributors and resellers and to the extent we did, those agreements did not clearly state our expectations for our distributors and resellers compliance with U.S. law. As a result of our focus on managing our rapid growth, our development of infrastructure designed to identify FCPA matters and monitor compliance is at an early stage. Any violation of FCPA and related policies could result in severe criminal or civil sanctions and suspension or debarment from U.S. government contracting, which could have a material and adverse effect on our reputation, business, operating results and financial condition.

Our products rely on the availability of unlicensed RF spectrum and if such spectrum were to become unavailable through overuse or licensing, the performance of our products could suffer and our revenues from their sales could decrease.

Our products operate in unlicensed RF spectrum, which is used by a wide range of consumer 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, the resultant higher levels of clutter and interference in the bands of operation our products use could decrease the effectiveness of our products, which could adversely affect our ability to sell our products and our business could be further harmed if currently unlicensed RF spectrum becomes licensed 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.

The complexity of our products could result in unforeseen delays or expenses caused by undetected defects or bugs, which could reduce the market acceptance of our new products, damage our reputation with current or prospective customers and adversely affect our operating costs.

Our products may contain defects and bugs when they are first 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 successfully correct these problems. Consequently, our reputation may be damaged and network operators or service providers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing network operators or service providers and attract new network operators or service providers. In addition, these defects or bugs could interrupt or delay sales to our distributors. If any of these problems is not found until after we have commenced commercial production and distribution of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our network operators, service providers or others. As a result, our operating costs could be adversely affected.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information.

We have devoted substantial resources to the development of our proprietary technology and trade secrets. In order to protect our proprietary technology and trade secrets, we rely in part on confidentiality agreements with our employees, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of our trade secrets and may not provide an adequate remedy in the event of unauthorized disclosure of our trade secrets. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time consuming litigation could be necessary to determine and enforce the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Although we primarily rely on confidentiality agreements to protect our trade secrets, we have failed to obtain such agreements from certain of our former employees due to administrative oversights, including those who participated in the development of certain of our products. Our employment policies require these former employees to continue to protect our trade secrets and to assign to us any intellectual property related to their activities on our behalf. However, we may have difficulty enforcing these rights, which could reduce our competitive differentiation and result in lost sales and customer confusion.

We use open source software in our products that may subject our firmware to general release or require us to re-engineer our products and the firmware contained therein, which may cause harm to our business.

We use open source software in our products, including in connection with our proprietary software, and may use more open source software in the future. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. If we combine our proprietary firmware or other software with open source software in a certain manner, we could, under certain of the open source licenses, be required to release our proprietary source code publicly or license such source code on unfavorable terms or at no cost. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Open source license terms relating to the disclosure of source code in modifications or derivative works to the open source software are often ambiguous and few if any courts in jurisdictions applicable to us have interpreted such terms. As a result, many of the risks associated with usage of open source software cannot be eliminated, and could, if not properly addressed, negatively affect our business. We currently disclose or plan to disclose the source code for certain of our proprietary software in an effort to comply with the terms of the licenses applicable to the open source software that we use, and we believe that such disclosure represents the entirety of our source code disclosure obligations under these licenses. However, if we were found to have inappropriately used open source software, we may be required to release our proprietary source code, re-engineer our firmware or other software, discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could adversely increase our expenses and delay our ability to release our products for sale.

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

As of September 30, 2012 we had international operations in Hong Kong, Lithuania and Taiwan. We also sell to distributors outside the United States and for both the three months ended September 30, 2012 and 2011, our revenues from sales outside the United States were 69%. Our operations outside the United States subject us to risks that we have not generally faced in the United States. These include:

- the burdens of complying with a wide variety of U.S. laws applicable to export controls, foreign operations, foreign laws and different legal standards;
- fluctuations in currency exchange rates;
- unexpected changes in foreign regulatory requirements;
- counterfeiting of our products or infringement on our intellectual property by third parties;
- difficulties in managing the staffing of remote operations;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems, restrictions on the repatriation of earnings and changes in tax rates;
- dependence on distributors in various countries with different pricing policies, inventory management and forecasting practices;
- reduced or varied protection for intellectual property rights in some countries;
- demand for reliable wireless broadband networks in those countries;
- requirements that we comply with local telecommunication regulations in those countries;
- increased financial accounting and reporting burdens and complexity;
- political, social and economic instability in some jurisdictions; and
- terrorist attacks and security concerns in general.

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

Our contract manufacturers, shipping points and certain administrative and research and development operations are located in areas likely to be subject to natural disasters or other events that could stop us from having our products made or shipped or could result in a substantial delay in our production or development activities.

Our manufacturing capacity may be reduced or eliminated at one or more facilities because our manufacturing, assembly, testing and shipping contractors are all located in southern China, the majority of our products are shipped from Hong Kong and we have research and development offices in Taiwan and California. Our principal executive offices are also located in California. The risk of earthquakes, typhoons and other natural disasters in these geographic areas is significant due to the proximity of major earthquake fault lines. Southern China, Hong Kong and Taiwan are also subject to typhoons and other Pacific storms. Earthquakes, fire, flooding or other natural disasters in California, southern China, Hong Kong or Taiwan, or political unrest, war, labor strikes, work stoppages or public health crises, in countries where our or our contractors' facilities are located could result in the disruption of our development, manufacturing, assembly, testing or shipping capacity. 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, assembly or testing from the affected contractor to another third party vendor or our research and development activities to another location. We cannot assure you that alternative capacity could be obtained on favorable terms, if at all.

New safety regulations or changes in existing safety regulations related to our products may result in unanticipated costs or liabilities, which could have a material adverse effect on our business, operating results, financial condition and future sales, and could place additional burdens on the operations of our business.

Radio 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 radio/electromagnetic emissions standards. Member countries of the EU 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 consumer privacy may make it difficult for us to sell our products.

Our products may transmit and store personal information. This information is increasingly subject to legislation and regulations in numerous jurisdictions around the world. This government action is 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 laws and 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. Such variation could subject us to costs, delayed product launches, liabilities or negative publicity that could impair our ability to expand our operations into some countries and therefore limit our future growth.

As privacy and data protection have become more sensitive issues, we may also become exposed to potential liabilities as a result of differing views on the privacy of personal information. These and other privacy concerns could adversely impact our business, results of operations and financial condition. In addition, our attempts to protect the privacy of customer data may fail if our encryption is inadequate or fails to operate as expected.

We cannot predict our future capital needs and we may not be able to obtain additional financing to fund our operations.

We may need to raise additional funds in the future. Any required additional financing may not be available on terms acceptable to us, or at all. If we raise additional funds by issuing equity securities or convertible debt, investors may experience significant dilution of their ownership interest, and the newly issued securities may have rights senior to those of the holders of our common stock. If we raise additional funds by obtaining loans from third parties, we will incur interest expense and may have to comply with covenants and secure that debt obligation with our assets. If additional financing is not available when required or on acceptable terms, we may have to scale back our operations or limit our production activities. As a result, 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.

Our existing credit facilities preclude us from entering into additional credit agreements, other than in limited circumstances, and, as a result, we may be required to issue equity securities rather than obtain additional debt financing.

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

We have not made any acquisitions to date. In the future, 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. Mergers and acquisitions are inherently risky and any mergers and acquisitions we complete may not be successful. Any mergers and acquisitions we may pursue would involve numerous risks, including the following:

- 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 company, 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.

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

Common Stock Repurchase

Common stock repurchase activity during the three months ended September 30, 2012 was as follows (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publically Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased (1)
August 13, 2012 – August 31, 2012	2,179,900	$ 8.88	2,179,900	$ 80,599
September 1, 2012 – September 30, 2012	992,014	$ 11.93	992,014	$ 68,742

(1) On August 9, 2012, the Company announced that its Board of Directors authorized the Company to repurchase up to $100 million of its common stock. The share repurchase program commenced Monday, August 13, 2012.

Item 6. Exhibits

Exhibit Number	
10.1	Loan and Security Agreement
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, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UBIQUITI NETWORKS, INC.

Dated: November 9, 2012	By: /s/ Robert J. Pera Robert J. Pera *Chief Executive Officer and Director* *(Principal Executive Officer)*
Dated: November 9, 2012	By: /s/ John Ritchie John Ritchie *Chief Financial Officer* *(Principal Financial Officer)*

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Exhibit 10.1

UBIQUITI NETWORKS, INC.

EAST WEST BANK, AS ADMINISTRATIVE AGENT AND JOINT LEAD ARRANGER

U.S. BANK, AS SYNDICATION AGENT AND JOINT LEAD ARRANGER

EAST WEST BANK AND U.S. BANK, AS LENDERS

LOAN AND SECURITY AGREEMENT

This **LOAN AND SECURITY AGREEMENT** is entered into as of August 7, 2012 by and between **EAST WEST BANK** ("Administrative Agent"), **U.S. BANK** ("Syndication Agent"), the financial institutions named on the signature page hereof (each, a "Lender" and collectively, the "Lenders") and **UBIQUITI NETWORKS, INC.** ("Borrower") (this "Agreement").

RECITALS

Borrower wishes to continue to obtain credit from time to time from Lenders, and Lenders desire to extend credit to Borrower. This Agreement states the terms on which Lenders will advance credit to Borrower, and Borrower will repay the amounts owing to Administrative Agent and Lenders.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Accounts" means all presently existing and hereafter arising accounts, contract rights, payment intangibles and all other forms of obligations owing to Borrower arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"Advance" or "Advances" means a cash advance or cash advances made under the Revolving Facility.

"Affiliate" means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person's senior executive officers and directors.

" ***Anti-Terrorism Laws*** " means any laws relating to terrorism or money laundering, including Executive Order No. 13224 (effective September 24, 2001), the USA PATRIOT Act, the laws comprising or implementing the Bank Secrecy Act, and the laws administered by OFAC.

" ***Applicable Margin*** **"** means with respect to any Credit Extension, the margin set forth below, as determined by the Debt Service Coverage Ratio for the last fiscal quarter:

Level	Debt Service Coverage Ratio	Base Rate plus:	LIBOR Base Rate plus:
I	Less than 1.75 to 1.0	1.75%	2.75%
II	Equal to or greater than 1.75 to 1.0 but less than 2.0 to 1.0	1.50%	2.50%
III	Equal to or greater than 2.0 to 1.0	1.25%	2.25%

Prior to Administrative Agent's receipt of the first Compliance Certificate delivered by Borrower in accordance with Section 6.3(b), the margins shall be determined pursuant to Level III. Thereafter, the margins shall be subject to increase or decrease upon receipt by Administrative Agent pursuant to Section 6.3 of the financial statements and corresponding Compliance Certificate for the last fiscal quarter, which change shall be effective on the first day of the calendar month following receipt. If, by the first day of a month, any financial statements and Compliance Certificate due in the preceding month have not been received, then, at the option of Administrative Agent or Required Lenders, the margins shall be determined as if Level I were applicable, from such day until the first day of the calendar month following actual receipt.

"Base Rate" means the greater of (i) the variable rate of interest, per annum, most recently announced by Administrative Agent, as its "prime rate", whether or not such announced rate is the lowest rate available from Administrative Agent, Syndication Agent, or any Lender; (ii) the Federal Funds Effective Rate plus 0.50%; or (iii) the LIBOR Rate plus 1.00%.

"Base Rate Advances" means any Credit Extension on which interest is payable based on the Base Rate in accordance with the terms hereof.

" ***Blocked Person*** " means any Person: (a) listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224, (b) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224, (c) a Person with which any Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law, (d) a Person that commits, threatens or conspires to commit or supports "terrorism" as defined in Executive Order No. 13224, or (e) a Person that is named a "specially designated national" or "blocked person" on the most current list published by OFAC or other similar list.

"Borrower's Books" means all of Borrower's books and records including: ledgers; records concerning Borrower's assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which Lenders in the State of California are authorized or required to close.

" ***CFC*** " means a Person that is a controlled foreign corporation under Section 957 of the Internal Revenue Code.

"Change in Control" shall mean a transaction in which any "person" or "group" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of a sufficient number of shares of all classes of stock then outstanding of Borrower ordinarily entitled to vote in the election of directors, empowering such "person" or "group" to elect a majority of the Board of Directors of Borrower, who did not have such power before such transaction.

"Closing Date" means the date of this Agreement.

"Code" means the California Uniform Commercial Code.

"Collateral" means the property described on attached **Exhibit A** .

"Compliance Certificate" means a certificate in substantially the form of attached **Exhibit C** .

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed, co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable; (ii) any reimbursement obligations with respect to undrawn letters of credit issued for the account of that Person; and (iii) all obligations arising under any interest rate, currency or commodity swap agreement, interest rate cap agreement, interest rate collar agreement, or other agreement or arrangement designed to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term "Contingent Obligation" shall not include endorsements for collection or deposit in the ordinary course of business.

The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

"Copyrights" means any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held.

"Credit Commitments" means the commitment of a Lender to make Credit Extensions under this Agreement.

"Credit Extension" means each Advance, Swingline Advance, Term Advance, or any other extension of credit by Lenders for the benefit of Borrower hereunder.

"Daily Balance" means the amount of the Obligations outstanding and owed at the end of a given day.

" ***EBITDA*** " means with respect to any fiscal period an amount equal to the sum of (a) Net Income of Borrower for such fiscal period, plus (b) in each case to the extent deducted in the calculation of the Borrower's Net Income and without duplication, (i) depreciation and amortization for such period, plus (ii) income tax expense for such period, plus (iii) Total Interest Expense paid or accrued during such period, plus (iv) non-cash expense associated with granting stock options or restricted stock units, plus (v) extraordinary cash charges which are approved by the Administrative Agent in writing as an "add-back" to EBITDA, and minus, to the extent added in computing Net Income, and without duplication, all extraordinary and non-recurring revenue and gains (including income tax benefits) for such period, all as determined in accordance with GAAP

"Equipment" means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

"Excess Cash Flow" means for any fiscal year (or other period) of the Borrower, the excess, if any, of its EBITDA for such fiscal year over the sum, without duplication, of (a) interest expense (including any non-cash interest expense amounts), plus (b) provisions for current taxes based on income of the Borrower and payable in cash with respect to such period, plus (c) the aggregate amount actually paid by the Borrower in cash during such fiscal year (or other period) on account of capital expenditures of the Borrower (excluding the principal amount of the loans incurred in connection with such capital expenditures), plus (d) the aggregate amount of all optional prepayments of the Term Advances during such fiscal year (or other period), plus (e) the aggregate amount of all regularly scheduled principal payments by Borrower on the Term Advances made during such fiscal year (or other period), plus (f) other one-time and non-recurring cash items, plus (g) extraordinary cash charges which are approved by the Administrative Agent in writing as an "add-back" to EBITDA; provided that any of the foregoing items specified in clauses (f) and (g) may only be included in the calculation of "Excess Cash Flow" to the extent such items are permissibly "added-back" to Net Income for purposes of calculating EBITDA.

"Event of Default" has the meaning assigned in Article 8.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the interest rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such interest rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it.

"Foreign Subsidiary" means any Subsidiary that is not incorporated or organized under the laws of any state of the United States of America.

"GAAP" means generally accepted accounting principles as in effect from time to time.

" ***Global Cash*** " means Borrower's consolidated unrestricted cash plus marketable securities issued, or directly, unconditionally and fully guaranteed or insured, by the United States or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than one year from the date of acquisition by such Person.

" ***Governmental Authority*** *"* means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

"Indebtedness" means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations and (d) all Contingent Obligations.

"Insolvency Proceeding" means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other Bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"Intellectual Property" means all of Borrower's right, title, and interest in and to the following:

(a) Copyrights, Trademarks and Patents;

(b) Any and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;

(c) Any and all design rights which may be available to Borrower now or hereafter existing, created, acquired or held;

(d) Any and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

(e) All licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(f) All amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and

(g) All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

"Interest Period" means for each LIBOR Rate Advance, a period 30, 60 and 90 days, as Borrower may elect, or such other period as Administrative Agent, Syndication Agent and Borrower may agree upon, provided that the last day of an Interest Period for a LIBOR Rate Advance shall be determined in accordance with the practices of the LIBOR interbank market as from time to time in effect.

"Inventory" means all present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or at any time hereafter owned by or in the custody or possession, actual or constructive, of Borrower, including such inventory as is temporarily out of its custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Borrower's Books relating to any of the foregoing.

"Investment" means any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"IPO" means the initial sale by Borrower of its capital stock pursuant to a registration statement filed on Form S-1 in accordance with the Securities Act of 1933, as amended.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Joint Lead Arrangers" means, collectively, East West Bank and U.S. Bank.

"Lender Expenses" means all: reasonable costs or expenses (including reasonable attorneys' fees and expenses) incurred by Administrative Agent, Syndication Agent, or a Lender in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; reasonable audit fees; and reasonable attorneys' fees and expenses of Administrative Agent, Syndication Agent, and any Lenders incurred in amending, enforcing or defending the Loan Documents (including fees and expenses of appeal), incurred before, during and after an Insolvency Proceeding, whether or not suit is brought.

"LIBOR Base Rate" means, for any Interest Period, the rate of interest per annum determined by Administrative Agent to be the per annum rate of interest at which deposits in United States Dollars are offered to Administrative Agent in the London interbank market in which Administrative Agent customarily participates at 11:00 a.m. (local time in such interbank market) three (3) Business Days before the first day of such Interest Period for a period approximately equal to such Interest Period and in an amount approximately equal to the principal amount of such Advance.

"LIBOR Rate" shall mean, for any Interest Period for a LIBOR Rate Advance, a rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) equal to (i) the LIBOR Base Rate for such Interest Period divided by (ii) 1 minus the Reserve Requirement for such Interest Period.

"LIBOR Rate Advances" means any Credit Extension or a portion thereof on which interest is payable based on the LIBOR Rate in accordance with the terms hereof.

"Lien" means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"Loan Documents" means, collectively, this Agreement, any note or notes executed by Borrower, and any other agreement entered into between or among Borrower, Administrative Agent, Syndication Agent and Lenders in connection with this Agreement, all as amended or extended from time to time.

"Material Adverse Effect" means a material adverse effect on (i) the business, operations or financial condition of Borrower, (ii) the ability of Borrower to repay the Obligations or otherwise perform its obligations under the Loan Documents or (iii) the validity or enforcement of Administrative Agent's security interest in the Collateral.

"Negotiable Collateral" means all of Borrower's present and future letters of credit of which it is a beneficiary, notes, drafts, instruments, securities, documents of title, and chattel paper, and Borrower's Books relating to any of the foregoing.

"Net Cash Proceeds" means (i) the net cash proceeds received by Borrower from the sale and issuance of Borrower's Subordinated Debt or equity securities (excluding equity securities or options issued pursuant to employee stock option plans approved by Borrower's board of directors), and (ii) the net cash proceeds received by Borrower from any disposition by Borrower of its property (excluding dispositions that are expressly permitted under Section 7.1 hereof) that are not used to purchase replacement assets.

“ ***Net Income (or Deficit)*** ” means the net income (or deficit) of Borrower (on a stand-alone basis not including its Subsidiaries), after deduction of all expenses, taxes, and other proper charges, determined in accordance with GAAP, after eliminating therefrom all extraordinary nonrecurring items of income.

“Obligations” means all debt, principal, interest, Lender Expenses and other amounts owed to Lenders, Syndication Agent, or Administrative Agent by Borrower pursuant to this Agreement or any other agreements with Syndication Agent, or Administrative Agent or Lenders, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Administrative Agent may have obtained by assignment.

*“ **OFAC** ”* is the U.S. Department of Treasury Office of Foreign Assets Control.

*“ **OFAC Lists** ”* are, collectively, the Specially Designated Nationals and Blocked Persons List maintained by OFAC pursuant to Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept. 25, 2001) and/or any other list of terrorists or other restricted Persons maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Executive Orders.

“Patents” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“Periodic Payments” means all installments or similar recurring payments that Borrower may now or hereafter become obligated to pay to Administrative Agent for the ratable benefit of Lenders under this Agreement.

“Permitted Acquisitions” means (i) the target company is in the same or similar line of business as Borrower, (ii) the acquisition shall be completed on a non-hostile basis, (iii) the aggregate amount of all Permitted Acquisitions does not exceed $15,000,000 per fiscal year, (iv) no later than 10 Business Days prior to the consummation of such acquisition, Borrower has provided the Administrative Agent with proforma financial statements giving effect to the acquisition which demonstrate continued pro forma compliance with the financial covenants contained in Section 6.9 hereof after giving effect to such acquisition, (v) the Borrower or a wholly-owned domestic Subsidiary is the surviving entity, and (vi) the acquisition would not otherwise result in an Event of Default.

“Permitted Indebtedness” means:

(a) Indebtedness of Borrower in favor of Lenders arising under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and disclosed in the Schedule;

(c) Indebtedness of Borrower and its Subsidiaries not to exceed $2,500,000 in the aggregate in any fiscal year secured by a lien described in clause (c) of the defined term “Permitted Liens,” provided such Indebtedness does not exceed the lesser of the cost or fair market value of the equipment financed with such Indebtedness;

(d) Subordinated Debt;

(e) Indebtedness to trade creditors incurred in the ordinary course of business;

(f) Indebtedness of any Subsidiary to Borrower that constitutes a Permitted Investment by Borrower under clause (e) of the definition of Permitted Investment;

(g) Extensions, refinancings and renewals of any items of Permitted Indebtedness, provided that the principal amount is not increased or the terms modified to impose materially more burdensome terms upon Borrower or its Subsidiary, as the case may be; and

(h) other Indebtedness not to exceed $1,500,000 in aggregate principal amount at any one time outstanding.

"Permitted Investment" means:

(a) Investments (including Subsidiaries) existing on the Closing Date disclosed in the Schedule;

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States or its agencies or any State maturing within one (1) year from its acquisition; (ii) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc.; (iii) Administrative Agent's or Syndication Agent's certificates of deposit issued maturing no more than one (1) year after issue; (iv) mutual funds having at least 95% of their assets invested in the foregoing Investments; and (v) other Investments permitted by Borrower's investment policy that has been approved by its board of directors;

(c) Investments of Subsidiaries in or to Borrower; Investments of Borrower or Subsidiaries in or to Borrower's Subsidiaries, solely in the amounts required to fund such Subsidiary's operations in the ordinary course of business and consistent with past practices in an aggregate amount not to exceed $3,500,000 at any time;

(d) Investments consisting of (A) travel advances, employee relocation loans and other employee loans and advances in the ordinary course of business and (B) non-cash loans to employees, officers or directors relating to the purchase of equity securities of Borrower pursuant to employee stock purchase plans or arrangements approved by Borrower's board of directors;

(e) Repurchases of stock from former employees, directors, or consultants of Borrower under the terms of applicable repurchase agreements in an aggregate amount not to exceed $5,000,000 in any fiscal year, as long as an Event of Default does not exist at the time of a repurchase or would exist immediately after giving effect to such repurchase;

(f) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;

(g) Investments consisting of deposit accounts in which Administrative Agent has a perfected security interest;

(h) Investments accepted in connection with Transfers permitted by Section 7.1;

(i) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

(j) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (j) shall not apply to Investments of Borrower in any Subsidiary;

(k) Investments pursuant to or arising under currency agreements or interest rate agreements arising in the ordinary course of business;

(l) Permitted Acquisitions; and

(m) other Investments aggregating not in excess of $500,000 at any time.

"Permitted Liens" means the following:

(a) Any Liens existing on the Closing Date and disclosed in the Schedule or arising under this Agreement or the other Loan Documents;

(b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested or negotiated in good faith by appropriate proceedings and for which Borrower maintains adequate reserves;

(c) Liens not to exceed $2,500,000 in the aggregate (i) upon or in any Equipment acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or indebtedness incurred solely for the purpose of financing the acquisition or lease of such Equipment, or (ii) existing on such Equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such Equipment;

(d) Leases or subleases and non-exclusive licenses or sublicenses granted in the ordinary course of Borrower's business;

(e) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business;

(f) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation;

(g) Liens in favor of customs or revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods in the ordinary course of business;

(h) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default;

(i) Liens in favor of other financial institutions arising in connection with Borrower's deposit and/or securities accounts held at such institutions, provided that Administrative Agent has a perfected security interest in the amounts held in such deposit and/or securities accounts to the extent required under Section 6.8;

(j) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (g) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase; and

(k) other Liens securing Indebtedness or other obligations in an aggregate principal amount at any time outstanding not to exceed $100,000.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Pro Rata Share" is the percentage interest of a Lender in a Credit Extension, as set forth below its signature hereto.

"Required Lenders" means as of any date of determination, Lenders owed not less than 66.67% of the then aggregate unpaid principal amount of the Credit Extensions, or, if no principal amount of the Credit Extensions is outstanding, then Lenders having not less than 66.67% of the Credit Commitments. The Pro Rata Share of Credit Commitments and of outstanding Credit Extensions of any Defaulting Lender shall be disregarded in determining Required Lenders at any time.

"Reserve Requirement" means, for any Interest Period, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D against "Eurocurrency liabilities" (as such term is used in Regulation D) by member banks of the Federal Reserve System. Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by a Lender by reason of any regulatory change against (i) any category of liabilities which includes deposits by reference to which the LIBOR Rate is to be determined as provided in the definition of "LIBOR Base Rate" or (ii) any category of extensions of credit or other assets which include Advances.

"Responsible Officer" means each of the Chief Executive Officer, the Chief Financial Officer and the Controller of Borrower.

"Revolving Facility" means the facility under which Borrower may request Lenders to issue Advances, as specified in Section 2.1.1 hereof.

"Revolving Line" initially means Credit Extensions of up to Fifty Million Dollars ($50,000,000) in aggregate outstanding principal amount at any time.

"Revolving Maturity Date" means the third anniversary of the Closing Date.

"Risk-Based Capital Guidelines" means (i) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory authorities outside the United States, including transition rules, and, in each case, any amendments to such regulations.

"Schedule" means the schedule of exceptions attached hereto, if any.

"Swingline Advance" means any Advance funded with Administrative Agent's funds, until such Advance is settled among Lenders or repaid by Borrower.

"Subordinated Debt" means any debt incurred by Borrower that is expressly subordinated to the debt owing by Borrower to Lenders on terms reasonably acceptable to Required Lenders (and identified in writing as being such by Borrower and Required Lenders).

"Subsidiary" means any corporation or partnership in which (i) any general partnership interest or (ii) more than 50% of the stock of which by the terms thereof ordinary voting power to elect the Board of Directors, managers or trustees of the entity shall, at the time as of which any determination is being made, is owned by Borrower, either directly or through an Affiliate.

"Tangible Net Worth" means the net worth appearing on Borrower's balance sheet at any date as of which the amount thereof shall be determined, minus intangible assets, plus Subordinated Debt, on a consolidated basis determined in accordance with GAAP.

"Term Advance" means the cash advance of up to Fifty Million Dollars ($50,000,000) made under Section 2.1.2.

"Term Maturity Date" means the fifth anniversary of the Closing Date.

" ***Total Interest Expense*** " means with respect to Borrower (on a stand-alone basis not including its Subsidiaries) for any period, the aggregate amount of interest required to be paid or accrued by Borrower during such period on all Indebtedness of Borrower outstanding during all or any part of such period, whether such interest was or is required to be reflected as an item of expense or capitalized, including payments consisting of interest in respect of any capitalized lease or any synthetic lease, and including commitment fees, agency fees, facility fees, balance deficiency fees and similar fees or expenses in connection with the borrowing of money.

"Total Liabilities" means at any date as of which the amount thereof shall be determined, all obligations that are, in accordance with GAAP, classified as liabilities on the consolidated balance sheet of Borrower, including in any event all Indebtedness, but excluding Subordinated Debt.

"Trademarks" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

1.2 Accounting Terms . All accounting terms not specifically defined herein shall be construed in accordance with GAAP and all calculations made hereunder shall be made in accordance with GAAP. When used herein, the terms "financial statements" shall include the notes and schedules thereto.

2. LOAN AND TERMS OF PAYMENT.

2.1 Credit Extensions.

Borrower promises to pay to Administrative Agent for account of the Lenders, in lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Lenders to Borrower as and when due under this Agreement. Borrower shall also pay interest on the unpaid principal amount of such Credit Extensions at the rates set forth in this Agreement.

2.1.1 Revolving Advances .

(a) Advance Amounts . Subject to and upon the terms and conditions of this Agreement, Borrower may request Advances in an aggregate outstanding principal amount not to exceed the Revolving Line less the aggregate outstanding principal amount of any Swingline Advances and the aggregate face amount of all Letters of Credit issued pursuant Section 2.1.1(g) below, and each Lender shall make Advances up to its Pro Rata Share of the requested Advance, provided no Lender shall at any time be required to make Advances in excess of the maximum Credit Commitment set forth below its signature to this Agreement.

(b) Swingline Advances. Administrative Agent may, but shall not be obligated to, advance Swingline Advances to Borrower, up to an aggregate outstanding amount not to exceed the lesser of the Revolving Line minus, in each case, the aggregate outstanding principal amount of Advances and the aggregate face amount of all Letters of Credit issued pursuant to Section 2.1.1(g) below, or $5,000,000, unless the funding is specifically required to be made by all Lenders hereunder. Each Swingline Advance shall constitute an Advance for all purposes, except that payments thereon shall be made to Agent for its own account, except to the extent such Swingline Advance is funded by all Lenders hereunder. To facilitate administration of the Advances, Lenders and Administrative Agent agree (which agreement is solely among them, and not for the benefit of or enforceable by Borrower) that settlement among them with respect to Swingline Advances and other Advances may take place on a date determined from time to time by Administrative Agent, which shall occur at least once each week. On each settlement date, settlement shall be made with each Lender in accordance with the settlement report delivered by Administrative Agent to Lenders. Between settlement dates, Administrative Agent may in its discretion apply payments on Advances to Swingline Advances, regardless of any designation by Borrower or any provision herein to the contrary. Each Lender's obligation to make settlements with Administrative Agent is absolute and unconditional, without offset, counterclaim or other defense. If, due to an Insolvency Proceeding with respect to Borrower or otherwise, any Swingline Advance may not be settled among Lenders hereunder, then each Lender shall be deemed to have purchased from Agent its Pro Rata Share of participation in each unpaid Swingline Advance and shall transfer the amount of such participation to Administrative Agent, in immediately available funds, within one Business Day after Administrative Agent's request therefor.

(c) Borrowing Procedure . Whenever Borrower desires an Advance, Borrower will notify Administrative Agent by facsimile transmission or telephone no later than 11:00 a.m. Pacific Time, on the Business Day that is three Business Days prior to the Business Day on which an Advance is to be made (or no later than 11:00 a.m. Pacific Time on the Business Day that any Swingline Advance is to be made). Each such notification shall be promptly confirmed by a Payment/Advance Form in substantially the form of **Exhibit B-1** and shall specify whether the Advance is to be made as a Base Rate Advance or a LIBOR Rate Advance (and in the case of a LIBOR Rate Advance, the duration of the applicable Interest Period (which shall be deemed to be 30 days if not specified). Administrative Agent shall give each Lender prompt written notice of the receipt of any such notification. Administrative Agent is authorized to make Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Administrative Agent shall be entitled to rely on any telephonic notice given by a person who Administrative Agent reasonably believes to be a Responsible Officer or a designee thereof, and Borrower shall indemnify and hold Administrative Agent harmless for any damages or loss suffered by Administrative Agent as a result of such reliance to the extent set forth in Section 13.9. Borrower shall establish a deposit account with Administrative Agent, and Administrative Agent will credit the amount of Advances made under this Section 2.1.1 to such deposit account, and any Lender that is not Administrative Agent shall make such Advance by wire transfer to the Administrative Agent for funding into such account. Each written request for an Advance, and each confirmation of a telephone request for such an Advance, shall be in substantially the form of Exhibit B-1 hereto executed by Borrower.

(d) Interest Payments . The outstanding principal balance of each Base Rate Advance shall bear interest until principal is due, at a floating rate per annum equal to the Base Rate plus the Applicable Margin; the outstanding principal balance of each LIBOR Rate Advance shall bear interest until principal is due, at a floating rate per annum equal to the LIBOR Rate plus the Applicable Margin. Interest shall be computed daily on the basis of a year of 360 days based on the actual days elapsed. Borrower shall pay accrued and unpaid interest in arrears on each Advance that constitutes a Base Rate Advance on the first day of each calendar month; Borrower shall pay accrued and unpaid interest in arrears on each Advance that constitutes a LIBOR Rate Advance on the sooner to occur of the last day of the calendar quarter or the last day of the applicable Interest Period. All Advances shall be due and payable on the Revolving Maturity Date.

(e) Prepayment of the Advances . Subject to Section 2.7, Borrower may at any time prepay any Advance without premium or penalty. If the aggregate outstanding principal amount of the Advances at any time exceeds the Revolving Line, Borrower will immediately pay to Administrative Agent, for the ratable benefit of Lenders, the amount of such excess.

(f) Lenders Disbursement. Unless Administrative Agent shall have received notice from a Lender prior to the date of any Advance that such Lender will not make available to Administrative Agent such Lender's Pro Rata Share of such Advance, Administrative Agent may assume that such Lender has made such portion available to Administrative Agent on the date of such Advance in accordance with this Section and Administrative Agent may, in reliance upon such assumption, make available to Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to Administrative Agent, such Lender and Borrower severally agree to repay to Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to Borrower until the date such amount is repaid to Administrative Agent, at (i) in the case of Borrower, the interest rate applicable at the time to such Advance and (ii) in the case of such Lender, the Federal Funds Effective Rate. If such Lender shall repay to Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Pro Rata Share of such Advance for purposes of this Agreement. The failure of any Lender to make available its Pro Rata Share of any Advance shall not relieve any other Lender of its obligation, if any, hereunder, to make available its Pro Rata Share of such Advance on the date of such Advance, and the provisions of Section 13.4 shall govern the Defaulting Lender's rights and obligations.

(g) Letters of Credit .

(i) Subject to the terms and conditions of this Agreement, at any time prior to the Revolving Maturity Date, Administrative Agent agrees to issue letters of credit for the account of Borrower (each, a "Letter of Credit" and collectively, the "Letters of Credit") in an aggregate outstanding face amount not to exceed the Revolving Line minus, in each case, the aggregate principal outstanding amount of the Advances and the Swingline Advances at any time, provided that the aggregate face amount of all outstanding Letters of Credit shall not exceed $5,000,000. Letters of Credit may be requested by Borrower only to support obligations of Borrower incurred in the ordinary course of business. All Letters of Credit shall be, in form and substance, acceptable to Administrative Agent in its sole discretion and shall be subject to the terms and conditions of Administrative Agent's form of standard application and letter of credit agreement (the "Application"), which Borrower hereby agrees to execute, including Administrative Agent's standard fee based on the face amount of each Letter of Credit as set forth in Section 2.6(e). On any drawn but unreimbursed Letter of Credit, the unreimbursed amount shall be deemed an Advance under Section 2.1.1. On or before the Revolving Maturity Date, Borrower shall secure in cash all obligations under any outstanding Letters of Credit on terms acceptable to Administrative Agent. The obligation of Borrower to reimburse Administrative Agent for drawings made under Letters of Credit shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, the Application, and such Letters of Credit, under all circumstances whatsoever. Borrower shall indemnify, defend, protect, and hold Administrative Agent harmless from any loss, cost, expense or liability, including, without limitation, reasonable attorneys' fees, arising out of or in connection with any Letters of Credit, except for expenses caused by Administrative Agent's gross negligence or willful misconduct.

(ii) Upon issuance of a Letter of Credit, each Lender shall be deemed to have irrevocably and unconditionally purchased from Administrative Agent, without recourse or warranty, its Pro Rata Share of the obligations relating to the Letter of Credit. If Administrative Agent makes any payment under a Letter of Credit, Administrative Agent shall promptly notify Lenders and each Lender shall promptly (within one Business Day) and unconditionally pay to Administrative Agent, the Lender's Pro Rata Share of such payment. Upon request by a Lender, Administrative Agent shall furnish copies of any Letters of Credit in its possession at such time.

(iii) The obligation of each Lender to make payments to Administrative Agent in connection with Administrative Agent's payment under a Letter of Credit shall be absolute, unconditional and irrevocable, not subject to any counterclaim, setoff, qualification or exception whatsoever, and shall be made in accordance with this Agreement under all circumstances, irrespective of any lack of validity or unenforceability of any Loan Documents; any draft, certificate or other document presented under a Letter of Credit having been determined to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or the existence of any setoff or defense that any Person may have with respect to any Obligations. Administrative Agent does not assume any responsibility for any failure or delay in performance or any breach by Borrower or other Person of any obligations under any Loan Documents.

2.1.2 Term Advance.

(a) Advance Amount. Subject to the terms and conditions of this Agreement, each Lender will make its Pro Rata Share of the Term Advance to Borrower on the Closing Date. The proceeds of the Term Advance shall be first used to repay in full all amounts outstanding under that certain Loan and Security Agreement by and between Borrower and East West Bank dated as of September 15, 2011, with the remaining amount being transferred to Borrower by wire transfer to such account as Borrower specifies in writing to Administrative Agent.

(b) Payment . Beginning on the first day of the first calendar quarter following the Closing Date, and continuing on the first day of each calendar quarter thereafter, for so long as any part of the Term Advance remains outstanding, Borrower shall make quarterly payments of principal equal to $1,250,000 until the second anniversary of the Closing Date, then quarterly payments of principal equal to $1,875,000 until the third anniversary of the Closing Date, then quarterly payments of principal equal to $2,500,000 until the Term Maturity Date. The failure of any Lender to make available its Pro Rata Share of the Term Advance shall not relieve any other Lender of its obligation, if any, hereunder, to make available its Pro Rata Share of such Term Advance on the date of such Term Advance, but no Lender shall be responsible for the failure of any other Lender to make available its Pro Rata Share of the Term Advance on the date of such Term Advance. On the Term Maturity Date, Borrower shall repay the entire outstanding principal balance of the Term Advance, plus all accrued and unpaid interest thereon.

(c) Interest. The outstanding principal balance of the Term Advance shall bear interest until principal is due (computed daily on the basis of a 360 day year and actual days elapsed) at a rate per annum equal to either the Base Rate plus the Applicable Margin or the LIBOR Rate plus the Applicable Margin, as elected by Borrower, subject to Section 2.7. Borrower shall pay accrued and unpaid interest in arrears on the Term Advance on the first day of each calendar month, if such Term Advance constitutes a Base Rate Advance; if such Term Advance constitutes a LIBOR Rate Advance, Borrower shall pay accrued and unpaid interest in arrears on the sooner to occur of the last day of the calendar quarter or the last day of the applicable Interest Period.

(d) Optional Prepayment of the Term Advance . Borrower may at any time prepay all or any part of the Term Advance without penalty or premium (other than amounts due and payable under Section 2.7), but may not reborrow any part of the Term Advance, once repaid. Each partial prepayment shall be in an amount not less than One Million Dollars ($1,000,000) or such greater amount which is an integral multiple of $500,000. Each prepayment shall be made upon the irrevocable written or telephone notice of Borrower received by Administrative Agent not less than three (3) Business Days prior to the date of the prepayment. The notice of prepayment shall specify the date of the prepayment and the amount of the prepayment. Each such prepayment shall be accompanied by the payment of accrued and unpaid interest on the amount prepaid and any amount required by Section 2.7.

(e) Mandatory Prepayment of the Term Advance . Immediately upon Borrower's receipt of Net Cash Proceeds, Borrower shall prepay the outstanding principal amount of the Term Advance in an amount equal to 100% of such Net Cash Proceeds. Within 120 days of the end of each fiscal year, Borrower shall prepay the outstanding principal amount of the Term Advance in an amount equal to 25% of Excess Cash Flow, provided that the Leverage Ratio is greater than 1.50 to 1.00 on the last day of such fiscal year.

2.2 Interest Rates, Payments, and Calculations .

(a) Interest Rates . Except as set forth in Section 2.2(b), the Advances shall bear interest, on the outstanding daily balance thereof, at the rates specified in Section 2.1.1, and the Term Advance shall bear interest, on the outstanding daily balance thereof, at the rates specified in Section 2.1.2.

(b) Default Rate . All Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a rate equal to two percent (2.0%) per annum above the interest rate applicable immediately prior to the occurrence of an Event of Default. Any such increase in the interest rate shall cease and no longer be effective if no Event of Default has occurred and is continuing.

(c) Payments . Administrative Agent shall, at its option, charge interest, all Lender Expenses, and all Periodic Payments against any of Borrower's deposit accounts or against the Revolving Line, in which case those amounts shall thereafter accrue interest at the rate then applicable hereunder. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder. All payments shall be made free and clear of, and without deduction or withholding for, any present or future taxes or other charges imposed by any jurisdiction.

(d) Computation . In the event the Base Rate is changed from time to time hereafter, the applicable rate of interest hereunder shall be increased or decreased effective as of the day the Base Rate is changed, by an amount equal to such change in the Base Rate.

(e) Withholding . Payments received by Administrative Agent or Lenders from Borrower hereunder will be made free and clear of any withholding taxes, excluding net income taxes and franchise taxes imposed in lieu of net income taxes. Specifically, however, if at any time any Governmental Authority, applicable law, regulation or international agreement requires Borrower to make any such withholding or deduction from any such payment or other sum payable hereunder to Lenders, Borrower hereby covenants and agrees that the amount due from Borrower with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that, after the making of such required withholding or deduction, each Lender receives a net sum equal to the sum which it would have received had no withholding or deduction been required and Borrower shall pay the full amount withheld or deducted to the relevant Governmental Authority. Borrower will not be required to increase any such amounts payable to any Lender with respect to any taxes that are attributable to such Lender's failure to deliver Internal Revenue Form W-8BEN or Form W-8ECL, to the extent applicable. Borrower will, upon request, furnish Lenders with proof reasonably satisfactory to Lenders indicating that Borrower has made such withholding payment provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate and timely proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this Section shall survive the termination of this Agreement.

(f) Promissory Notes. Any Lender by written notice to the Borrower (with a copy to the Administrative Agent) may request that Credit Extensions made by it be evidenced by a promissory note in substantially the form attached as **Exhibit D** hereto. In such event, Borrower shall promptly (and, in all events, within five Business Days of receipt of such request) execute and deliver to such Lender a promissory note payable to such Lender in form and substance reasonably satisfactory to Borrower, such Lender and Administrative Agent).

(g) Swap Fixed Rate. At Borrower's request, Administrative Agent and Borrower shall enter into such agreements as are mutually acceptable to effect a fixed rate swap arrangement in respect of the Obligations under this Agreement.

2.3 Crediting Payments . So long as no Event of Default has occurred and is continuing, Administrative Agent shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. If an Event of Default has occurred and is continuing, the receipt by Administrative Agent of any wire transfer of funds, check, or other item of payment shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment on account unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Administrative Agent after 12:00 noon Pacific Time shall be deemed to have been received by Administrative Agent as of the opening of business on the immediately following Business Day. Whenever any payment to Administrative Agent or Lenders under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.4 Payments to Lenders . Borrower shall make payments owing under Section 2.1 and 2.2 to the Administrative Agent, for the ratable account of the Lenders, as applicable. Promptly after its receipt of each payment from or on behalf of Borrower in respect of any Obligations of the Borrower hereunder, Administrative Agent shall distribute such payment to Lenders *pro rata* based upon their respective shares, if any, of the Obligations with respect to which such payment was received. Administrative Agent shall make such distribution on the same Business Day if received from Borrower by 12:00 noon, Pacific Time, and on the next Business Day if received after 12:00 noon.

2.5 Sharing of Payments . If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of any Credit Extensions owing to it in excess of its Pro Rata Share of payments on account of the Credit Extensions obtained by all the Lenders, then such Lender shall immediately purchase from the other Lenders such participations in the Credit Extensions owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's Pro Rata Share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section or any other provision of this Agreement may, to the fullest extent permitted by law, exercise all of its rights of payment (including the right to set-off) with respect to such participation as fully as if such Lender were the direct creditor of Borrower in the amount of such participation.

2.6 Fees . Borrower shall pay to Administrative Agent the following:

(a) Unused Facility Fee . Within 5 days of the last day of each calendar quarter, (i) a fee equal to 0.20% per annum of the difference between the Revolving Line and the average daily balance of outstanding Advances during such quarter for pro rata distribution to the Lenders if Borrower's Debt Service Coverage Ratio for such quarter is at least 1.75 to 1:00; or (ii) a fee equal to 0.25% per annum of the difference between the Revolving Line and the average daily balance of outstanding Advances during such quarter for pro rata distribution to the Lenders if Borrower's Debt Service Coverage Ratio for such quarter is less than 1.75 to 1:00;

(b) Letter of Credit Fees . As a condition to the issuance of any Letter of Credit hereunder, a fronting fee equal to 0.125% of the face amount of such Letter of Credit; and at the end of each quarter during which any Letters of Credit are outstanding a fee equal to 2.25% of the aggregate face amount of such Letters of Credit when the Debt Service Ratio is greater than or equal to 2.00 to 1.00, (ii) 2.50% of the aggregate face amount of such Letters of Credit when the Debt Service Ratio is less than 2.00 to 1.00 but greater than or equal to 1.75 to 1.00, or (iii) 2.75% of the aggregate face amount of such Letters of Credit at all other times;

(c) Other Fees . Fees payable in the amounts and at the times separately agreed upon in writing between the Borrower and the Administrative Agent; and

(d) Lender Expenses . On the Closing Date, all Lender Expenses incurred through the Closing Date, including reasonable attorneys' fees and expenses; and, after the Closing Date, all Lender Expenses, including reasonable attorneys' fees and expenses, as and when they become due.

2.7 Additional Provisions Regarding LIBOR Advances.

(a) Borrower may from time to time submit in writing a request that any existing LIBOR Rate Advances continue for an additional Interest Period with the same or different duration. Such request shall specify the Interest Period to be applicable to such LIBOR Rate Advances. Each written request for a continuation of a LIBOR Rate Advance shall be substantially in the form of a Libor Rate Continuation Certificate as set forth on **Exhibit B-2** , which shall be duly executed by a Responsible Officer. Administrative Agent shall give each Lender prompt written notice of the receipt of any such request. Subject to the terms and conditions contained herein, three (3) Business Days after Administrative Agent's receipt of such a request from Borrower, such LIBOR Rate Advances shall continue, as the case may be provided that:

(i) no Event of Default or event which with notice or passage of time or both would constitute an Event of Default exists;

(ii) no party hereto shall have sent any notice of termination of the Agreement;

(iii) Borrower shall have complied with such customary procedures as Administrative Agent has established from time to time for Borrower's requests for LIBOR Rate Advances;

(iv) the amount of a LIBOR Rate Advance shall be $1,000,000 or such greater amount which is an integral multiple of $500,000; and

(v) Administrative Agent shall have determined that the Interest Period or LIBOR Rate is available to Lenders as of the date of the request for such LIBOR Rate Advance.

Any request by Borrower to continue any existing LIBOR Rate Advances shall be irrevocable. Notwithstanding anything to the contrary contained herein, no Lender shall be required to purchase United States Dollar deposits in the London interbank market or other applicable LIBOR Rate market to fund any LIBOR Rate Advances, but the provisions hereof shall be deemed to apply as if Lenders had purchased such deposits to fund the LIBOR Rate Advances.

(b) Subject to satisfaction of the conditions set forth in subsections (i) through (v) of Section 2.7(a), any LIBOR Rate Advances shall automatically continue for the same Interest Period upon the last day of the applicable Interest Period, unless Administrative Agent has received and approved a complete and proper request to continue such LIBOR Rate Advance for a different Interest Period at least three (3) Business Days prior to such last day in accordance with the terms hereof or to convert such LIBOR Rate Advances to Base Rate Advances, provided that principal payments shall in all cases be paid on the 15th day of each month. Any LIBOR Rate

Advances shall, at Administrative Agent's or any Lender's option, convert to Base Rate Advances in the event that an Event of Default shall occur and be continuing; provided that Administrative Agent will use its reasonable efforts to mitigate LIBOR break-funding costs by effecting such conversion on the last day of an Interest Period. Borrower shall pay to Administrative Agent and any affected Lender, within five Business Days' of receipt by Borrower of written demand by Administrative Agent or such Lender(s), any amounts required to compensate Administrative Agent or such Lender for any loss (excluding loss of anticipated profits but including customary LIBOR break-funding costs actually incurred by Administrative Agent or such Lender), cost or expense incurred by such Person, as a result of the conversion of LIBOR Rate Advances to Base Rate Advances on any day other than the last day of an Interest Period pursuant to any of the foregoing.

(c) If for any reason (including voluntary or mandatory prepayment or acceleration), Administrative Agent receives all or part of the principal amount of a LIBOR Rate Advance prior to the last day of the Interest Period for such LIBOR Rate Advance, Borrower shall, within five Business Days' of receipt by Borrower of written demand by Administrative Agent, pay Administrative Agent for the ratable benefit of Lenders the amount (if any) by which (i) the additional interest which would have been payable on the amount so received had it not been received until the last day of such Interest Period or term exceeds (ii) the interest that would have been recoverable by Administrative Agent by placing the amount so received on deposit in the certificate of deposit markets or the offshore currency interbank markets or United States Treasury investment products, as the case may be, for a period starting on the date on which it was so received and ending on the last day of such Interest Period or term at the Federal Funds Effective Rate.

(d) If (i) Administrative Agent shall have determined that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the LIBOR Rate for such Interest Period, or (ii) Administrative Agent shall have received written notice from the Required Lenders that the LIBOR Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their affected Loans during such Interest Period specifying in reasonable detail the basis for such a determination, the Administrative Agent shall give telecopy or telephonic notice (promptly confirmed in writing) thereof to the Borrower and the relevant Lenders as soon as practicable thereafter. If such notice is given (x) any LIBOR Advances requested to be made on the first day of such Interest Period shall be made as Base Rate Advances, and (y) any outstanding LIBOR Advances shall be converted, on the last day of the then-current Interest Period, to Base Rate Advances. Until such notice has been withdrawn by the Administrative Agent, no further LIBOR Advances shall be made or continued as such, nor shall the Borrower have the right to convert Credit Extensions to LIBOR Advances.

2.8 Yield Protection . In case any law, regulation, treaty or official directive or the interpretation or application thereof after the date hereof by any court or any governmental authority charged with the administration thereof or the compliance with any guideline or request of any central bank or other governmental authority:

(a) subjects Administrative Agent or a Lender to any tax with respect to payments of principal or interest or any other amounts payable hereunder by Borrower or otherwise with respect to the transactions contemplated hereby (except for franchise taxes and taxes on the overall net income of Administrative Agent or such Lender);

(b) imposes, modifies or deems applicable any deposit insurance, reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of, or loans by, Administrative Agent or a Lender; or

(c) imposes upon Administrative Agent or a Lender any other condition with respect to its performance under this Agreement,

and the result of any of the foregoing is to increase the cost to Administrative Agent or any Lender, reduce the income receivable by Administrative Agent or any Lender or impose any expense upon Administrative Agent or any Lender, in each case with respect to the Obligations, Administrative Agent shall notify Borrower thereof. Borrower agrees to pay to Administrative Agent or the affected Lender(s) the amount of such increase in cost, reduction in income or additional expense as and when such cost, reduction or expense is incurred or determined, upon presentation by Administrative Agent or the affected Lender(s) of a statement of the amount and setting forth

Administrative Agent's or such Lender's calculation thereof, all in reasonable detail, within five Business Days of Borrower's receipt of such statement. For purposes of this Section, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, H.R. 4173), and any rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on the Banking Regulations and Supervisory Practices (or any successor or similar authority) or the United States financial regulatory authorities, and all requests, rules, regulations, guidelines, interpretations or directives promulgated thereunder or issued in connection therewith shall be deemed to be a "change in law", regardless of the date enacted, adopted, issued or promulgated, whether before or after the Closing Date.

2.9 Changes in Capital Adequacy Regulations . If a Lender or the Administrative Agent, in its capacity as issuer of a Letter of Credit, determines the amount of capital or liquidity required or expected to be maintained by such Lender or Administrative Agent, or the office, branch, subsidiary or affiliate of such Lender or the Administrative Agent, or any corporation or holding company controlling such Lender or the Administrative Agent, is increased as a result of (i) a change in law or (ii) any change after the date of this Agreement in the Risk-Based Capital Guidelines (such changes in the foregoing clauses (i) and (ii) referred to as a " ***Change in Law*** "), then, within fifteen (15) days of demand by such Lender or the Administrative Agent, the Borrower shall pay such Lender or the Administrative Agent the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender or the Administrative Agent determines is attributable to this Agreement, its Credit Extensions made hereunder or its commitment to make Credit Extensions and issue or participate in Letters of Credit, as the case may be, hereunder (after taking into account such Lender's or the Administrative Agent's (and their respective holding company's) policies as to capital adequacy or liquidity), in each case that is attributable to such change in law or change in the Risk-Based Capital Guidelines, as applicable; provided, that Borrower shall not be required to compensate such Lender or the Administrative Agent pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than 180 days prior to the date that such Lender or the Administrative Agent, as the case may be, notifies Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Administrative Agent's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180 day period referred to above shall be extended to include the period of retroactive effect thereof).

2.10 Term . This Agreement shall become effective on the Closing Date and, subject to Section 13.14, shall continue in full force and effect for so long as any Obligations (other than inchoate indemnity Obligations) remain outstanding or Administrative Agent or any Lender has any obligation to make Credit Extensions under this Agreement. Notwithstanding the foregoing, Administrative Agent and each Lender may terminate its obligation to make Credit Extensions under this Agreement immediately upon the occurrence and during the continuance of an Event of Default. Notwithstanding termination, the Lien granted under this Agreement shall remain in effect for so long as any Obligations (other than inchoate indemnity Obligations) are outstanding.

3. CONDITIONS OF CREDIT EXTENSIONS.

3.1 Conditions Precedent to Initial Credit Extension . The obligation of a Lender to make the initial Credit Extension is subject to the condition precedent that Administrative Agent shall have received, in form and substance reasonably satisfactory to Administrative Agent and Lenders, the following:

(a) this Agreement;

(b) a certificate of the Secretary of Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Agreement;

(c) a financing statement (Form UCC-1);

(d) an opinion of Borrower's counsel;

(e) certificates of insurance naming Administrative Agent as lender loss payee and additional insured;

(f) promissory notes for each Lender requesting such notes;

(g) good standing certificates of Borrower and each domestic Subsidiary, if any;

(h) a Compliance Certificate;

(i) financial statements of Borrower through June 30, 2012 and Borrower's proforma financial statements; and

(j) such other documents, and completion of such other matters, as Administrative Agent may reasonably deem necessary or appropriate.

3.2 Conditions Precedent to all Credit Extensions . The obligation of each Lender to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

(a) Except for the Term Advance, timely receipt by Administrative Agent of the Payment/Advance Form as provided in Section 2.1; and

(b) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Payment/Advance Form and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would exist after giving effect to such Credit Extension (provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date). The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this Section 3.2(b).

4. C REATION OF S ECURITY I NTEREST .

4.1 Grant of Security Interest . Borrower grants Administrative Agent, for the ratable benefit of Lenders, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Administrative Agent, for the ratable benefit of Lenders, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof. Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral, subject only to Permitted Liens. If Borrower shall acquire a commercial tort claim (as defined in the Code) with a value exceeding $250,000, Borrower shall promptly notify Administrative Agent in a writing signed by Borrower of the general details thereof (and further details as may be required by Administrative Agent) and grant to Administrative Agent, for the ratable benefit of Lenders, in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Administrative Agent. If this Agreement is terminated, Administrative Agent's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as Lenders' obligation to make Credit Extensions has terminated, Administrative Agent and Lenders shall, at Borrower's sole cost and expense, release their Liens in the Collateral.

4.2 Delivery of Additional Documentation Required . Borrower shall from time to time execute and deliver to Administrative Agent, at the request of Administrative Agent, all Negotiable Collateral exceeding $250,000 in aggregate value, all financing statements and other documents that Administrative Agent may reasonably request, in form reasonably satisfactory to Administrative Agent, to perfect and continue perfected the security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

4.3 Right to Inspect . Each of Administrative Agent and Syndication Administrative Agent (through any of their respective officers, employees, or agents) shall have the right from time to time, but no more than once a year (unless an Event of Default has occurred and is continuing), to audit Borrower's Accounts, inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral, during normal business hours and (unless an Event of Default has occurred and is continuing) with reasonable prior notice to Borrower.

4.4 Pledge of Shares . Borrower pledges and grants to Administrative Agent, for the ratable benefit of Lenders, a security interest in (a) all shares of stock in any Subsidiary incorporated in any state of the United States, and (b) all of the shares of stock of all Foreign Subsidiaries (including Ubiquiti Networks International Limited, a Hong Kong company ("Ubiquiti Hong Kong")), in each case, owned by Borrower (the shares described in the foregoing clauses (a) and (b), collectively, the "Shares"), together with all proceeds and substitutions thereof, all cash, stock and other moneys and property paid thereon, all rights to subscribe for securities declared or granted in connection therewith, and all other cash and noncash proceeds of the foregoing, as security for the performance of the Obligations; provided however that the "Shares" shall not include a pledge of more than sixty five percent (65%) of the Shares of a Subsidiary that is a CFC if such pledge creates a present and existing adverse tax consequence to Borrower under the U.S. Internal Revenue Code. For avoidance of doubt, the Shares shall exclude 35% of the shares of stock in Ubiquiti Networks International Limited, a Hong Kong company, owned by Borrower. Borrower represents that the Shares are not evidenced by any certificates or, if they are represented by one or more certificates, Borrower shall deliver such certificate(s) to Administrative Agent, accompanied by an instrument of assignment duly executed in blank by Borrower, and Borrower shall cause the books of each such Subsidiary and any transfer agent to reflect such pledge. If an Event of Default has occurred and is continuing, Administrative Agent may effect the transfer of the Shares to the name of Administrative Agent and cause new certificates representing such securities to be issued in the name of Administrative Agent or its transferee. Borrower will execute and deliver such documents, and take or cause to be taken such actions, as Administrative Agent may reasonably request to perfect or continue the perfection of the security interest in the Shares. Unless an Event of Default shall have occurred and be continuing, Borrower shall be entitled to exercise any rights with respect to the Shares and to give consents, waivers and ratifications in respect thereof, provided that no vote shall be cast or consent, waiver or ratification given or action taken which would be inconsistent with any of the terms of this Agreement or which would constitute or create any violation of any of such terms. All such rights to vote and give consents, waivers and ratifications shall terminate upon the occurrence and continuance of an Event of Default. Borrower represents to Administrative Agent and Lenders that the Shares are not held in a brokerage or similar securities account.

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants as follows:

5.1 Due Organization and Qualification . Borrower is a corporation duly existing under the laws of the State of Delaware and qualified and licensed to do business in any state in which the conduct of its business or its ownership of property requires that it be so qualified, except to the extent that the failure to be so qualified could not reasonably be expected to have a material adverse effect on Borrower's business.

5.2 Due Authorization; No Conflict . The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and do not violate any provision of Borrower's Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which Borrower is bound. Borrower is not in default under any material agreement to which it is a party or by which it is bound.

5.3 No Prior Encumbrances . Borrower has good and marketable title to the Collateral, free and clear of Liens, except for Permitted Liens.

5.4 Bona Fide Accounts . The Accounts are bona fide existing obligations of the Account debtors. The property giving rise to such Accounts has been delivered to the account debtor or to the account debtor's agent for immediate shipment to and unconditional acceptance by the account debtor.

5.5 Shares . Borrower has full power and authority to create a first lien on the Shares and to pledge the Shares pursuant to this Agreement and is not subject to any contractual obligation that restricts such pledge. There are no subscriptions, warrants, rights of first refusal or other restrictions on, or options exercisable with respect to, the Shares, except as has been disclosed to Administrative Agent in writing. The Shares have been and will be duly authorized and validly issued, and are fully paid and non-assessable. The Shares are not the subject of any present or, to Borrower's knowledge, threatened suit, action, arbitration, administrative or other proceeding which could reasonably be expected to have a Material Adverse Effect, and Borrower knows of no reasonable grounds for the institution of any such proceedings.

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

5.7 Intellectual Property . Borrower is the sole owner of the material Intellectual Property, except (a) for non-exclusive licenses granted by Borrower to its customers or other third parties in the ordinary course of business and (b) to the extent that failure to be such owner could not reasonably be expected to have a material adverse effect on Borrower's business. Each of the Patents is valid and enforceable, and no part of the Intellectual Property has been judged invalid or unenforceable, in whole or in part, and except as disclosed in the Schedule, or as reported to the Administrative Agent pursuant to Section 6.3, no claim has been made that any part of the Intellectual Property violates the rights of any third party, in each case except to the extent that could not reasonably be expected to have a material adverse effect on Borrower's business.

5.8 Name; Location of Chief Executive Office . Except as disclosed in the Schedule, during the five years preceding the date of this Agreement, Borrower has not done business under any name other than that specified on the signature page hereof. The chief executive office of Borrower is located at the address indicated in Section 10 hereof or at such other address as Borrower may notify Administrative Agent in writing in accordance with said Section 10.

5.9 Litigation . Except as disclosed in public filings made with the US Securities and Exchange Commission, there are no actions or proceedings pending by or against Borrower or any Subsidiary before any court or administrative agency in which an adverse decision is reasonably likely to have a Material Adverse Effect.

5.10 No Material Adverse Change in Financial Statements . All consolidated financial statements other than projections related to Borrower and any Subsidiary that are delivered by Borrower to Administrative Agent fairly present in all material respects Borrower's consolidated financial condition as of the date thereof and Borrower's consolidated results of operations for the period then ended (subject, in the case of unaudited financial statements, to normal year-end and quarter-end adjustments and the absence of footnotes). There has not been a material adverse change in the consolidated financial condition of Borrower since the date of the most recent of such financial statements submitted to Administrative Agent.

5.11 Solvency, Payment of Debts . Borrower is solvent and able to pay its debts (including trade debts) as they mature.

5.12 Regulatory Compliance . Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Neither Borrower nor any of its Subsidiaries is a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" as each term is defined and used in the Public Utility Holding Company Act of 2005. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to have a material adverse effect on its business, except as disclosed in public filings made with the US Securities and Exchange Commission and in disclosures filed with the US Department of Commerce and US Treasury Department. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted, except to the extent that failure to do so could not reasonably be expected to have a material adverse effect on their businesses. Except as disclosed in public filings made with the US Securities and Exchange Commission and in disclosures filed with the US Department of Commerce and US Treasury Department, none of Borrower or its Affiliates or any of their respective agents acting or benefiting in any capacity in connection with the transactions contemplated by this Agreement is (i) in violation of any Anti-Terrorism Law, (ii) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law, or

(iii) is a Blocked Person. Neither Borrower nor, to the knowledge of Borrower, any of their Affiliates or agents acting or benefiting in any capacity in connection with the transactions contemplated by this Agreement, (x) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (y) deals in, or otherwise engages in any transaction relating to, any property or interest in property blocked pursuant to Executive Order No. 13224, any similar executive order or other Anti-Terrorism Law. Borrower and each Subsidiary have met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. To Borrower's knowledge, no event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that is reasonably likely to have a Material Adverse Effect. Borrower has complied in all material respects with all the provisions of the Federal Fair Labor Standards Act. Borrower has not violated any statutes, laws, ordinances or rules applicable to it, violation of which is reasonably likely to have a Material Adverse Effect, except as disclosed in public filings made with the US Securities and Exchange Commission and in disclosures filed with the US Department of Commerce and US Treasury Department.

5.13 Environmental Condition . Except as disclosed in the Schedule or as reported to the Administrative Agent pursuant to Section 6.3, none of Borrower's or any Subsidiary's properties or assets has ever been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous owners or operators, in the disposal of, or to produce, store, handle, treat, release, or transport, any hazardous waste or hazardous substance other than in accordance with applicable law in all material respects; to the best of Borrower's knowledge, none of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a hazardous waste or hazardous substance disposal site, or a candidate for closure pursuant to any environmental protection statute; no lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned by Borrower or any Subsidiary; and neither Borrower nor any Subsidiary has received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal, state or other governmental agency concerning any material action or material omission by Borrower or any Subsidiary resulting in the releasing, or otherwise disposing of hazardous waste or hazardous substances into the environment.

5.14 Taxes . Borrower and each Subsidiary has filed or caused to be filed all federal income tax returns required to be filed, and has paid, or has made adequate provision for the payment of, all federal income taxes reflected therein. Borrower and each Subsidiary has filed or caused to be filed all material state and local tax returns required to be filed, and has paid, or has made adequate provision for the payment of, all material state and local taxes reflected therein.

5.15 Investments . Borrower does not own any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

5.16 Government Consents . Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

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

6. AFFIRMATIVE COVENANTS.

Borrower shall do all of the following:

6.1 Good Standing . Borrower shall maintain its and each of its Subsidiaries' corporate existence in its jurisdiction of incorporation and maintain qualification in each jurisdiction in which the failure to so qualify is reasonably likely to have a Material Adverse Effect. Borrower shall maintain, and shall cause each of its Subsidiaries to maintain in force all licenses, approvals and agreements, the loss of which is reasonably likely to have a Material Adverse Effect.

6.2 Government Compliance . Borrower shall meet, and shall cause each Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, noncompliance with which is reasonably likely to have a material adverse effect on Borrower's or such Subsidiary's business.

6.3 Financial Statements, Reports, Certificates . Borrower shall deliver to Administrative Agent (for delivery to the Lenders) the following: (a) as soon as available, but in any event within 45 days after the end of each fiscal quarter, Borrower's consolidated and consolidating financial statements, prepared in accordance with GAAP, consistently applied (provided that such documents will be deemed to be delivered on the date that the SEC makes such documents publicly available and Borrower advises Administrative Agent of the same); (b) as soon as available, but in any event within 45 days after the end of each fiscal quarter, a Compliance Certificate signed by a Responsible Officer; (c) as soon as available, but in any event within 120 days after the end of Borrower's fiscal year, audited consolidated and consolidating financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an unqualified opinion on such financial statements of PricewaterhouseCoopers LLP, or another independent certified public accounting firm of nationally recognized standing (provided that such documents will be deemed to be delivered on the date that the SEC makes such documents publicly available and Borrower advises Administrative Agent of the same); (d) within 45 days of the last day of each fiscal year, board-approved projections for the upcoming year on a consolidated and consolidating basis, broken down by quarter; (e) within five (5) days of filing, copies of (or a link to such documents on Borrower's or another website on the Internet) all reports on Form 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission ("SEC"), provided that such documents will be deemed to be delivered on the date that the SEC makes such documents publicly available and Borrower advises Administrative Agent of the same; (f) promptly upon receipt by Borrower of written notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that is reasonably likely to result in damages or costs to Borrower or any Subsidiary of Five Hundred Thousand Dollars ($500,000) or more, and (g) such other financial information as Administrative Agent or a Lender may reasonably request from time to time.

6.4 Inventory; Returns . Borrower shall cause all returns and terminations of customer agreements to be on materially the same basis and in accordance with the usual customary practices of Borrower, as they exist at the time of the Closing Date. Borrower shall promptly notify Administrative Agent of all terminations and of all disputes and claims, where the termination, dispute or claim involves more than Five Hundred Thousand Dollars ($500,000).

6.5 Taxes . Borrower shall make, and shall cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Administrative Agent, on demand, appropriate certificates attesting to the payment or deposit thereof; and Borrower will make, and will cause each Subsidiary to make, timely payment or deposit of all material tax payments and withholding taxes required of it by applicable laws, including, but not limited to, those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Administrative Agent with proof satisfactory to Administrative Agent indicating that Borrower or a Subsidiary has made such payments or deposits; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is contested in good faith by appropriate proceedings and is reserved against (to the extent required by GAAP) by Borrower.

6.6 Insurance .

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted. Borrower shall also maintain insurance relating to Borrower's ownership and use of the Collateral in amounts and of a type that are customary to businesses similar to Borrower's. Borrower's Inventory shall be insured in an amount no less than the book value of such Inventory.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as are reasonably satisfactory to Administrative Agent. All such policies of property insurance shall contain a lender's loss payable endorsement, in a form reasonably satisfactory to Administrative Agent, showing Administrative Agent as an additional loss payee thereof and all liability insurance policies shall show the Administrative Agent as an additional insured, and shall specify that the insurer must give at least twenty (20) days notice to Administrative Agent before canceling its policy for any reason. Upon Administrative Agent's request, Borrower shall deliver to Administrative Agent certified copies of such policies of insurance and evidence of the payments of all premiums therefor. All proceeds payable under any such policy shall, at the option of Administrative Agent at any time any Obligations are outstanding, be payable to Administrative Agent to be applied on account of the Obligations. Notwithstanding the foregoing, (a) so long as no Event of Default has occurred and is continuing, Borrower shall have the option of applying the proceeds of any casualty policy up to Five Hundred Thousand Dollars ($500,000) with respect to any loss, toward the replacement or repair of destroyed or damaged property; provided that any such replaced or repaired property shall be deemed Collateral in which Bank has been granted a first priority security interest, and (b) if an Event of Default has occurred and is continuing, all proceeds payable under such casualty policy shall, at the option of Administrative Agent, be payable to Administrative Agent on account of the Obligations.

6.7 Protection of Intellectual Property Rights . (a) Protect, defend and maintain the validity and enforceability of its Intellectual Property that is material to Borrower's business; and (b) promptly advise Administrative Agent in writing of material infringement by a third party of its Intellectual Property of which Borrower receives written notice. If Borrower decides to register any material copyrights or mask works in the United States Copyright Office, Borrower shall: (x) provide Administrative Agent with at least fifteen (15) days prior written notice of Borrower's intent to register such material copyrights or mask works; and (y) take such actions as Administrative Agent may reasonably request to perfect and maintain a first priority perfected security interest in favor of Administrative Agent in the Accounts arising out of the copyrights or mask works intended to be registered with the United States Copyright Office.

6.8 Deposit Accounts . Borrower shall maintain its primary depository, operating, and investment accounts with East West Bank so long as East West Bank is the Administrative Agent, including a majority of its cash in such accounts. Borrower shall cause Ubiquiti Hong Kong to maintain its primary depository, operating, and investment accounts with East West Bank so long as East West Bank is the Administrative Agent, with at least 75% of its operating and investment balances maintained in accounts with East West Bank so long as East West Bank is the Administrative Agent.

6.9 Financial Covenants.

(a) Debt Service Coverage . Beginning with quarter ended June 30, 2012, Borrower shall maintain, on a stand-alone basis, not including its Subsidiaries, a ratio of (i) Net Income plus interest payments plus all non-cash expenses to (ii) regularly scheduled principal and interest payments on the Credit Extensions and the Subordinated Debt for the following four quarters (the " ***Debt Service Coverage Ratio*** ") of at least 1.50 to 1.00 as of the last day of each fiscal quarter, measured on a trailing four-quarter basis.

(b) Leverage . On a consolidated basis, Borrower and its Subsidiaries shall maintain, as of the last day of each fiscal quarter, a ratio of Total Liabilities to Tangible Net Worth (the " ***Leverage Ratio*** ") not to exceed (i) 1.50 to 1.00 as of the quarter ended June 30, 2012; (ii) 2.50 to 1.00 as of the quarter ending September 30, 2012; (iii) 2.0 to 1.00 as of the quarter ending December 31, 2012; (iv) 1.75 to 1.00 as of the quarter ending March 31, 2013, and (v) 1.50 to 1.00 as of the quarter ending June 30, 2013 and as of each quarter thereafter.

(c) Liquidity . Borrower shall maintain a ratio of Global Cash to outstanding Advances of at least 1.50 to 1.00, measured on a quarterly basis.

6.10 Creation/Acquisition of Subsidiaries.

(a) Domestic Subsidiaries. In the event Borrower, or any of its Subsidiaries creates or acquires any domestic Subsidiary, Borrower shall provide prior written notice to Administrative Agent of the creation or acquisition of such new domestic Subsidiary and take all such action as may be reasonably required by Administrative Agent to cause each such domestic Subsidiary that is not a CFC to guarantee the Obligations of Borrower under the Loan Documents and grant a continuing pledge and security interest in and to the assets of such Subsidiary (substantially as described on Exhibit A hereto and in any case excluding the property described in clauses (i) through (iv) therein); and Borrower shall grant and pledge to Administrative Agent, for the ratable benefit of the Lenders, a perfected security interest in the stock, units or other evidence of ownership of each such domestic Subsidiary that is not a CFC.

(b) Foreign Subsidiaries . In the event Borrower, or any of its Subsidiaries creates or acquires any Foreign Subsidiary, Borrower shall provide prior written notice to Administrative Agent of the creation or acquisition of such new Foreign Subsidiary and take all such action as may be reasonably required by Administrative Agent to grant and pledge all of the voting shares of such Foreign Subsidiary to Administrative Agent, for the ratable benefit of the Lenders, and such shares shall constitute "Shares" under this Agreement; provided however that Borrower shall not be required to pledge more than sixty five percent (65%) of the Shares of such Foreign Subsidiary if such pledge creates a present and existing adverse tax consequence to Borrower under the U.S. Internal Revenue Code.

6.11 Further Assurances . At any time and from time to time Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Administrative Agent to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS.

Borrower will not do any of the following:

7.1 Dispositions . Convey, sell, lease, transfer or otherwise dispose of (collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than: (i) Transfers of Inventory in the ordinary course of business; (ii) Transfers of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries; (iii) Transfers of surplus, worn-out or obsolete Equipment; and (iv) Transfers constituting Permitted Investments and Permitted Liens.

7.2 Change in Business . Suffer a Change of Control, engage in any business, or permit any of its Subsidiaries to engage in any business, other than the businesses currently engaged in by Borrower and such Subsidiaries and any business substantially similar or related thereto (or incidental thereto).

7.3 Mergers or Acquisitions . Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, except for Permitted Investments and Permitted Acquisitions. A Subsidiary may merge or consolidate into another Subsidiary or the Borrower.

7.4 Indebtedness . Incur, assume or suffer to exist any Indebtedness, or permit any of its Subsidiaries to do so, except for Permitted Indebtedness.

7.5 Capital Expenditures .

(a) Borrower will not make any expenditure for fixed or capital assets (including, without limitation, expenditures for maintenance and repairs that should be capitalized in accordance with GAAP and including capitalized lease obligations) during any fiscal year, or permit any of its Subsidiaries to do so, if as a result thereof, the aggregate amount of such expenditures for such fiscal year would exceed (x) prior to the IPO, $2,500,000, and (y) following the IPO, $5,000,000.

(b) Notwithstanding the foregoing, in the event that the amount of capital expenditures permitted to be made by Borrower pursuant to clause (a) above in any fiscal year (before giving effect to any increase in such permitted expenditure amount pursuant to this clause (b)) is greater than the amount of such capital expenditures made by Borrower during such fiscal year, such excess may be carried forward and utilized to make capital expenditures in succeeding fiscal years, provided that in no event shall the aggregate amount of capital expenditures made by the Borrower during any fiscal year pursuant to Section 7.5(a) exceed 125% of the amount set forth for each fiscal year as set forth in Section 7.5(a).

(c) Notwithstanding the foregoing, Borrower may make capital expenditures (which capital expenditures will not be included in any determination under the foregoing clause (a)) with insurance proceeds received by Borrower so long as such capital expenditures are used to replace or repair any properties or assets in respect of which such insurance proceeds were paid.

7.6 Encumbrances . Create, incur, assume or suffer to exist any Lien with respect to any of its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens, or enter into any agreement with any Person other than Administrative Agent that prohibits or otherwise restricts Borrower from encumbering any of its property, other than (i) restrictions in equipment leases or equipment financing documents on Liens on the specific equipment being leased or financed, (ii) customary restrictions with respect to transactions expressly permitted under Section 7.1 or 7.3 or (iii) prohibitions or restrictions which are deemed ineffective under applicable law.

7.7 Distributions . Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, provided that (i) Borrower may convert any of its convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) Borrower may pay dividends solely in common stock; (iii) Borrower may pay cash in lieu of fractional shares; (iv) Borrower may repurchase the stock of former employees, officers or directors pursuant to stock repurchase agreements so long as an Event of Default does not exist at the time of such repurchase and would not exist after giving effect to such repurchase, provided such repurchases do not exceed Twenty Million Dollars ($20,000,000) in the aggregate; and (v) Borrower may make open market stock repurchases so long as an Event of Default is not continuing at the time of such repurchase and would not result immediately after giving effect to such repurchase.

7.8 Investments . Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments.

7.9 Transactions with Affiliates . Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person; provided, however, that the foregoing will not apply to (a) any transaction between Borrower and any of its Subsidiaries, or among two or more Subsidiaries, which is permitted by this Agreement, (b) reasonable and customary fees paid to members of the boards of directors of Borrower or its Subsidiaries, or (c) compensation arrangements and benefit plans for officers, directors and other employees of Borrower and its Subsidiaries entered into or maintained in the ordinary course of business

7.10 Subordinated Debt . Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt.

7.11 Inventory and Equipment . Store the Inventory or the Equipment with a bailee, warehouseman, or similar party unless Administrative Agent and Lenders have received a pledge of the warehouse receipt covering such Inventory exceeding $250,000 in aggregate value. Except for Inventory sold in the ordinary course of business and except for such other locations as Borrower may determine is reasonably necessary for the conduct of its business, Borrower shall keep the Inventory and Equipment only at the location set forth in Section 10 hereof and such other locations of which Borrower gives Administrative Agent prior notice.

7.12 Compliance . Become an "investment company" or be controlled by an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Credit Extension for such purpose, or fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction (not otherwise exempt under ERISA), as each such term is, as defined in ERISA, to occur, fail to comply in any material respect with the Federal Fair Labor Standards Act or violate any law or regulation, which violation is reasonably likely to have a Material Adverse Effect, or a material adverse effect on the Collateral or the priority of Administrative Agent's Lien on the Collateral, or permit any of its Subsidiaries to do any of the foregoing.

7.13 Anti-Terrorism Laws. Administrative Agent notifies Borrower that pursuant to the requirements of Anti-Terrorism Laws, and Administrative Agent's policies and practices, Administrative Agent is required to obtain, verify and record certain information and documentation that identifies Borrower and their principals, which information includes the name and address of Borrower and their principals and such other information that will allow Administrative Agent to identify such party in accordance with Anti-Terrorism Laws. Borrower will not, nor will Borrower permit any Subsidiary or Affiliate to, directly or indirectly, knowingly enter into any documents, instruments, agreements or contracts with any Person listed on the OFAC Lists. Borrower shall immediately notify Administrative Agent if Borrower has knowledge that Borrower or any Subsidiary or Affiliate is listed on the OFAC Lists or (a) is convicted on, (b) pleads *nolo contendere* to, (c) is indicted on, or (d) is arraigned and held over on charges involving money laundering or predicate crimes to money laundering. Borrower will not, nor will Borrower permit any Subsidiary or Affiliate to, directly or indirectly, (i) conduct any business or engage in any transaction or dealing with any Blocked Person, including, without limitation, the making or receiving of any contribution of funds, goods or services to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224, any similar executive order or other Anti-Terrorism Law, or (iii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in Executive Order No. 13224 or other Anti-Terrorism Law.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1 Payment Default. If Borrower fails to (a) make any payment of principal of any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable;

8.2 Covenant Default. If Borrower fails to perform any obligation under Section 6.1 (with respect to maintenance of Borrower's existence), 6.3, 6.8, 6.9, 6.10 or 6.11, or violates any of the covenants contained in Article 7 of this Agreement; or if Borrower fails or neglects to perform, keep, or observe any other material term, provision, condition, covenant, or agreement contained in this Agreement or in any other present or future agreement between Borrower and a Lender, and as to any default under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure such default within fifteen (15) days after Borrower receives notice thereof or any Responsible Officer of Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within such period or cannot after diligent attempts by Borrower be cured within such period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed thirty (30) days) or other longer period of time as agreed upon by Administrative Agent in writing to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default (provided that no Credit Extensions will be required to be made during such cure period);

8.3 Material Adverse Effect. If any circumstance arises that has or would reasonably be expected to have a Material Adverse Effect;

8.4 Attachment. If any material portion of Borrower's or Ubiquiti Hong Kong's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within thirty (30) days or in any event not less than five (5) Business Days prior to the date of any proposed sale thereunder, or if Borrower or Ubiquiti Hong Kong is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any substantial part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any substantial portion of Borrower's or Ubiquiti Hong Kong's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's material assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within thirty (30) days after Borrower or Ubiquiti Hong Kong receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower or Ubiquiti Hong Kong, as applicable (provided that no Credit Extensions will be required to be made during such cure period);

8.5 Insolvency . If Borrower or Ubiquiti Hong Kong generally fails to pay its debts as they become due, or if an Insolvency Proceeding is commenced by Borrower or Ubiquiti Hong Kong, or if an Insolvency Proceeding is commenced against Borrower or Ubiquiti Hong Kong and is not dismissed or stayed within sixty (60) days (provided that no Credit Extensions will be made prior to the dismissal of such Insolvency Proceeding);

8.6 Other Agreements . If there is a default in any material agreement to which Borrower or Ubiquiti Hong Kong is a party with a third party or parties resulting in the right by such third party or parties whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of One Million Dollars ($1,000,000);

8.7 Subordinated Debt . If Borrower makes any payment on account of Subordinated Debt, except to the extent such payment is allowed under any subordination agreement entered into with Administrative Agent;

8.8 Judgments . If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least One Million Dollars ($1,000,000) shall be rendered against Borrower or Ubiquiti Hong Kong and shall remain unsatisfied and unstayed for a period of thirty (30) days or in any event later than five (5) Business Days prior to the date of any proposed sale to be held by or on behalf of the judgment creditor to satisfy any such judgment or judgments (provided that no Credit Extensions will be made prior to the satisfaction or stay of such judgment); or

8.9 Misrepresentations . If any warranty or representation by Borrower set forth herein or in any certificate delivered to Administrative Agent by any Responsible Officer pursuant to this Agreement or to induce Administrative Agent to enter into this Agreement or any other Loan Document is incorrect in any material respect when made.

8.10 Guaranty . If any guaranty by a Subsidiary of all or a portion of the Obligations (a "Guaranty") ceases for any reason to be in full force and effect, other than due to the act or omission of Bank, or any such Subsidiary fails to perform any material obligation under any Guaranty or a security agreement securing any Guaranty (collectively, the "Guaranty Documents"), or any event of default occurs under any Guaranty Document or any such Subsidiary guarantor revokes or purports to revoke a Guaranty, or any representation or warranty by such Subsidiary guarantor set forth in any Guaranty Document or in any certificate delivered to Administrative Agent in connection with any Guaranty Document is incorrect in any material respect when made, or if any of the circumstances described in Sections 8.3 through 8.8 occurs with respect to any such Subsidiary guarantor.

9. ADMINISTRATIVE AGENT'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies . Upon the occurrence and during the continuation of an Event of Default when any Obligations are outstanding, Administrative Agent may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5 all Obligations shall become immediately due and payable without any action by Administrative Agent);

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement or under any other agreement between Borrower and Administrative Agent;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, upon terms and in whatever order that Administrative Agent reasonably considers advisable;

(d) Make such payments and do such acts as Administrative Agent considers necessary or reasonable to protect its security interest in the Collateral;

(e) Set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Administrative Agent, or (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Administrative Agent;

(f) Ship, store, finish, repair, prepare for disposition, and dispose of the Collateral in accordance with the Code, and apply any proceeds to the Obligations in whatever manner or order Administrative Agent deems appropriate, including without limitation the application of such proceeds to all costs and expenses incurred in connection with such disposition;

(g) Administrative Agent may credit bid and purchase at any public sale; and

(h) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

9.2 Power of Attorney . Effective only upon the occurrence and during the continuance of an Event of Default, Borrower irrevocably appoints Administrative Agent (and any of Administrative Agent's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Administrative Agent's security interest in the Accounts; (b) endorse Borrower's name on any checks or other forms of payment or security that may come into Administrative Agent's possession; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) dispose of any Collateral; (e) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; (f) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Administrative Agent determines to be reasonable; (g) to file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of Borrower where permitted by law; and (h) to dispose of the Collateral to the extent permitted under the Code; provided Administrative Agent may exercise such power of attorney to sign the name of Borrower on any of the documents described in Section 4 regardless of whether an Event of Default has occurred. The appointment of Administrative Agent as Borrower's attorney in fact, and each and every one of Administrative Agent's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully repaid and performed and Administrative Agent's obligation to provide advances hereunder is terminated.

9.3 Accounts Collection . After the occurrence and during the continuance of an Event of Default, Administrative Agent may notify any Person owing funds to Borrower of Administrative Agent's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower for Administrative Agent, receive in trust all payments as Administrative Agent's trustee, and immediately deliver such payments to Administrative Agent in their original form as received from the account debtor, with proper endorsements for deposit.

9.4 Right of Set-off . Subject to Section 2.6, in addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence and during the continuation of an Event of Default, each Lender is authorized at any time or from time to time, without presentment, demand, protest or other notice of any kind to Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and apply any and all deposits (general or special) and any other Indebtedness at any time held or owing by such Lender (including, without limitation, by branches and agencies of such Lender wherever located) to or for the credit or the account of Borrower against and on account of the Obligations and liabilities of Borrower to such Lender under this Agreement or under any of the other Loan Documents, and all other claims of any nature or description arising out of or connected with this Agreement or any other Loan Document, irrespective of whether or not such Lender shall have made any demand hereunder and although said Obligations, liabilities or claims, or any of them, shall be contingent or unmatured.

9.5 Administrative Agent and Lender Expenses . If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Administrative Agent may do any or all of the following after reasonable notice to Borrower: (a) make payment of the same or any part thereof; (b) set up such reserves under the Revolving Facility as Administrative Agent deems necessary to protect Administrative Agent from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.6 of this Agreement, and take any action with respect to such policies as Administrative Agent deems prudent. Any amounts so paid or deposited by Administrative Agent shall constitute Lender Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Administrative Agent shall not constitute an agreement by Administrative Agent to make similar payments in the future or a waiver by Administrative Agent of any Event of Default under this Agreement. After the occurrence and during the continuation of an Event of Default, Borrower shall reimburse each Lender, upon demand, for all costs and expenses, including reasonable attorney's fees, incurred in connection with any of the Loan Documents.

9.6 [Reserved] .

9.7 Administrative Agent's Liability for Collateral . So long as Administrative Agent complies with reasonable banking practices, Administrative Agent shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral shall be borne by Borrower.

9.8 Shares. Borrower recognizes that Administrative Agent may be unable to effect a public sale of any or all the Shares, by reason of certain prohibitions contained in federal securities laws and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Borrower acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. Administrative Agent shall be under no obligation to delay a sale of any of the Shares for the period of time necessary to permit the issuer thereof to register such securities for public sale under federal securities laws or under applicable state securities laws, even if such issuer would agree to do so. Upon the occurrence of an Event of Default which continues, Administrative Agent shall have the right to exercise all such rights as a secured party under the California Uniform Commercial Code as it, in its sole judgment, shall deem necessary or appropriate, including without limitation the right to liquidate the Shares and apply the proceeds thereof to reduce the Obligations. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Administrative Agent (and any of Administrative Agent's designated officers, or employees) as Borrower's true and lawful attorney to enforce Borrower's rights against any Subsidiary, including the right to compel any Subsidiary to make payments or distributions owing to Borrower.

9.9 Remedies Cumulative . Administrative Agent's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Administrative Agent shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Administrative Agent of one right or remedy shall be deemed an election, and no waiver by Administrative Agent of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Administrative Agent shall constitute a waiver, election, or acquiescence by it. No waiver by Administrative Agent shall be effective unless made in a written document signed on behalf of Administrative Agent and then shall be effective only in the specific instance and for the specific purpose for which it was given.

9.10 Demand; Protest . Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Administrative Agent on which Borrower may in any way be liable.

10. NOTICES .

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by telefacsimile to Borrower, Administrative Agent, or Syndication Agent as the case may be, at its addresses set forth below:

If to Borrower:	UBIQUITI NETWORKS, INC. 2580 Orchard Parkway San Jose, CA 95131 Attn: John Ritchie, Chief Financial Officer Fax: 408-351-4973
If to Administrative Agent:	EAST WEST BANK 2350 Mission College Blvd., Suite 988 Santa Clara, CA 95054 Attn: Calvin Cheng Fax: (408) 588-9688
If to Syndication Agent:	U.S. BANK 10 Almaden Boulevard, Suite 500 San Jose, CA 95113 Attn: Matt Murray Fax: (408) 918-4130

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. JURY TRIAL WAIVER ; JUDICIAL REFERENCE .

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER, LENDERS AND AGENT EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

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

12. THE ADMINISTRATIVE AGENT.

12.1 Authorization and Action . Each Lender appoints and authorizes Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including enforcement or collection of the Notes), Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided, however, that Administrative Agent shall not be required to take any action that exposes Administrative Agent to personal liability or that is contrary to this Agreement or applicable law. Except as otherwise provided for in this Agreement, no Lender shall take any action to collect amounts due hereunder, enforce any obligations of Borrower or exercise any remedies against Borrower arising out of this Agreement without the prior written consent of Administrative Agent. Administrative Agent agrees to give to each Lender prompt notice of (a) each notice or report given to it by Borrower pursuant to the terms of this Agreement (including but not limited to those set forth in Section 6.3 hereof), and (b) any Event of Default hereunder. The provisions of this Article 12 are solely for the benefit of Lenders and Administrative Agent and Borrower has no rights as a third party beneficiary of any of the provisions hereof.

12.2 Administrative Agent's Reliance, Etc. Neither Administrative Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, Administrative Agent: (i) may treat the payee of any Note as the holder thereof until Administrative Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to Administrative Agent; (ii) may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of Borrower or to inspect the property (including the books and records) of Borrower; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing believed by it to be genuine and signed or sent by the proper party or parties.

12.3 East West Bank and Affiliates . With respect to its obligations hereunder, the Advances made by it, and the Note issued to it, East West Bank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not Administrative Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include East West Bank in its individual capacity. East West Bank and its respective Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, Borrower, any of its subsidiaries and any Person who may do business with or own securities of Borrower or any such subsidiary, all as if East West Bank were not Administrative Agent, and without any duty to account therefor to Lenders.

12.4 Lender Credit Decision . Each Lender acknowledges that it has, independently and without reliance upon Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

12.5 Indemnification . Lenders shall indemnify Administrative Agent (to the extent not reimbursed by Borrower), ratably according to the respective principal amounts of the Obligations then held by each of them (or if no Obligations are at the time outstanding, ratably according to the respective amounts of their Credit Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Administrative Agent in any way relating to or arising out of this Agreement or any action taken or omitted by Administrative Agent under this Agreement in its capacity as Administrative Agent, provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Administrative Agent's gross negligence or willful misconduct. Without limiting the foregoing, each Lender shall reimburse Administrative Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that Administrative Agent is not reimbursed for such expenses by Borrower. Notwithstanding the foregoing, to the extent that both Lenders and Borrower have indemnification obligations with respect to any matter, the indemnification obligations of Borrower shall be primary and the indemnification obligations of Lenders shall be secondary with respect to such matter, and if Administrative Agent shall recover any amount from Borrower with respect to Borrower's indemnification obligation for which the Administrative Agent has received any payment from Lenders, Administrative Agent shall return to such contributing Lenders on a pro rata basis any amount in excess of the amount necessary to fully indemnify Administrative Agent

12.6 Successor Administrative Agent . Administrative Agent may resign at any time by giving written notice thereof to Lenders and Borrower and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Administrative Agent with the prior consent of Borrower, which consent shall not be unreasonably withheld or delayed, provided that such consent of the Borrower shall not be required at any time an Event of Default exists. If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within thirty (30) days after the retiring Administrative Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a commercial Lender organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $1,000,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations as Administrative Agent under this Agreement. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Article 12 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement.

13. MISCELLANEOUS.

13.1 Amendments . No amendment or waiver of any provision of the Loan Documents nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; *provided, however* , that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders affected thereby, do any of the following: (a) reduce the principal of, or interest on, the Obligations or any fees or other amounts payable hereunder, (b) postpone any date fixed for, or amount of, any payment of principal of, or interest on, the Obligations or any fees or other amounts payable hereunder, (c) increase the Credit Commitment of any Lender or subject such Lender to any additional obligations, (d) change the percentage of the Credit Commitments or of the aggregate unpaid principal amount of the Obligations, or the number of Lenders, which shall be required for the Lenders or any of them to take any action hereunder, (e) amend the definition of “Required Lenders” set forth in Section 1.1, or (f) release any material portion of any Collateral (other than in connection with a Transfer permitted under Section 7.1), or (g) amend this Section 13.1; and provided, further, that no amendment, waiver or consent shall, unless in writing and signed by Administrative Agent in addition to the Lenders required above to take such action, affect the rights or duties of Administrative Agent under this Agreement or any other Loan Document. With the consent of the Required Lenders, additional Lenders may execute this Agreement, and, as a consequence of such additions, the aggregate Credit Commitments hereunder may be increased.

13.2 Notices, Etc. Except as otherwise set forth in this Agreement, all notices and other communications provided for hereunder shall be in writing (including facsimile communication) and mailed or sent by facsimile or delivered, if to the Borrower, at its address set forth on the signature page hereof; and if to any Lender, or an Administrative Agent, at its address set forth on the signature page hereof; or, as to each party, at such other address as shall be designated by such party in a written notice to the other parties. All such notices and communications shall be effective three (3) Business Days after deposit in the U.S. mail, postage prepaid, when sent by facsimile, or when delivered, respectively.

13.3 Additional Lenders; Assignments; Participations.

(a) None of the Loan Documents nor any rights thereunder may be assigned by Borrower without the prior written consent of all the Lenders, which consent may be granted or withheld in the Lenders’ sole discretion. Upon prior written notice to Borrower, any Lender may assign, from time to time, all or any portion of its Pro Rata Share of the Credit Commitments in an amount not less than the lesser of (1) $5,000,000 or (2) one hundred percent (100%) of such Lender’s interest in the Credit Commitments and Obligations to (i) an Affiliate of that Lender, without the prior written approval of Administrative Agent or Borrower, or (ii) any other financial institution acceptable to Administrative Agent and Borrower, which consent shall not be unreasonably withheld or delayed, *provided* that an assignee may not assign its interest without the prior written consent of the Administrative Agent and Borrower, which consent shall not be required if an Event of Default has occurred and is continuing; and provided further that the parties to each such assignment shall execute and deliver to Administrative Agent and Borrower an assignment and assumption agreement in substantially the form of Exhibit E attached hereto (each, an “Assignment and Assumption Agreement”). Upon (A) such execution and delivery and (B) except in the case of an assignment pursuant to clause (i) of the preceding sentence, payment of a fee in the amount of $3,500 to Administrative Agent to cover administrative costs, from and after the effective date of such assignment (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it, relinquish its rights and be released from its obligations under this Agreement (other than pursuant to Section 13.3(f)), and, in the case of an assignment covering all or the remaining portion of an assigning Lender’s rights and obligations under this Agreement, such Lender shall cease to be a party hereto, subject to its continuing obligations under Section 13.3(f). Any attempted assignment or transfer by any party not made in compliance with this Section 13.3(a) or Section 13.3(b) below shall be null and void, unless such attempted assignment or transfer is treated as a participation in accordance with the terms of this Agreement.

(b) If, in connection with any proposed amendment, waiver or consent to any of the provisions of this Agreement or any other Loan Document as contemplated by Section 13.1, the consent of the

Required Lenders is required but cannot be obtained for the lack of consent by a Lender, then the Administrative Agent or Borrower shall have the right, but not the obligation, to cause any such non-accepting or non-consenting Lender (each, a “Replaced Lender”) to assign (a “Forced Assignment”) all of the Credit Commitments and other rights and obligations of the Replaced Lender under the Loan Documents to another Person (which may be a Lender or shall be any other Person reasonably acceptable to the Borrower (such Lender or other Person, a “Replacement Lender”)) identified by the Administrative Agent in writing to the Replaced Lender, provided that such Replacement Lender is willing to consent to the proposed amendment, waiver or consent.

If a Forced Assignment occurs, the Replaced Lender and the Replacement Lender shall enter into an Assignment and Assumption Agreement, pursuant to which the Replacement Lender shall acquire all of the outstanding Credit Commitments of the Replaced Lender and, in connection therewith, shall pay to the Replaced Lender in respect thereof an amount equal to the sum of (a) an amount equal to the principal of, and all accrued interest on, all outstanding Credit Commitments of the Replaced Lender, and (b) an amount equal to all accrued, but theretofore unpaid, fees, expenses and other reimbursable costs owing to the Replaced Lender under the Loan Documents. Upon (i) the execution of an Assignment and Assumption Agreement in connection with a Forced Assignment by the Replaced Lender and the Replacement Lender; (ii) delivery of a copy of such Assignment and Assumption Agreement to the Administrative Agent, together with payment instructions, addresses and related information with respect to the Replacement Lender; (iii) the payment to the Replaced Lender by the Replacement Lender of the amounts referred to in the preceding sentence; (iv) the payment to the Replaced Lender by the Borrower all obligations of the Borrower due and owing to the Replaced Lender at such time (other than those specifically described in the preceding sentence); and (v) the payment to the Administrative Agent by the Replacement Lender of a $3,500 processing fee; the Replacement Lender shall become a Lender hereunder and the Replaced Lender shall cease to constitute a Lender hereunder, except with respect to indemnification provisions under this Agreement (including, without limitation, Section 13.10), which shall survive as to such Replaced Lender with respect to any liabilities incurred by such Replaced Lender relating to periods prior to the date such Replaced Lender ceased to be a Lender hereunder. A Replacement Lender shall not be entitled to receive any greater payment under Section 2.2(e) and Section 2.8 with respect to any participation than the Replaced Lender would have been entitled to receive.

(c) Each Lender may sell, negotiate or grant participations to other parties in all or part of the obligations of the Borrower outstanding under the Loan Documents, upon notice to the Administrative Agent and the Borrower; provided that any such sale, negotiation or participation shall be in compliance with the applicable federal and state securities laws and the other requirements of this Section. No participant shall constitute a “Lender” under any Loan Document, and Borrower shall continue to deal solely and directly with Administrative Agent and the Lenders. A Participant shall not be entitled to receive any greater payment under Section 2.2(e) and Section 2.8 with respect to any participation than its participating Lender would have been entitled to receive.

(d) Each Lender may disclose to any proposed assignee or participant any information relating to Borrower or any of its Subsidiaries; provided, that prior to such disclosure such proposed assignee or participant shall have agreed in writing to keep any such information confidential substantially on the terms of Section 13.3(f).

(e) The grant of a participation interest shall be on such terms as the granting Lender determines are appropriate, provided only that (i) the holder of such a participation interest shall not have any of the rights of a Lender under this Agreement, (ii) the consent of the holder of such a participation interest shall not be required for amendments or waivers of provisions of the Loan Documents, provided that the granting Lender may agree in its participation agreement with its participant that such granting Lender will not (without the consent of the holder of such participation interest) vote to (A) extend the term of the Credit Commitments, (B) decrease the rate of interest or the amount of any fee or any other amount payable to the Lenders under the Loan Documents, (C) reduce the principal amount payable under the Loan Documents, or (D) extend the date fixed for the payment of principal or interest or any other amount payable under the Loan Documents, which would require the consent of all of the Lenders pursuant to the terms of Section 13.1 hereof, and (iii) the holder may not transfer or participate any of its interest without the consent of the Administrative Agent.

(f) Each Lender understands that some of the information and documents furnished to it pursuant to this Agreement may be confidential and each Lender agrees that it will keep all non-public information, documents and agreements so furnished to it confidential and will make no disclosure to other Persons of such information or agreements until it shall have become public, except (i) to the extent required in connection with matters involving operations under or enforcement or amendment of the Loan Documents; (ii) to such Lender's examiners and auditors or in accordance with such Lender's obligations under law or regulations or pursuant to subpoenas or other process to make information available to governmental agencies and examiners or to others; (iii) to any corporate parent of any Lender so long as such parent agrees to accept such information or agreement subject to the restrictions provided in this Section 13.3(f); (iv) to any participant Lender or trust company of any Lender so long as such participant shares the corporate parent with such Lender and agrees to keep such information, documents or agreement confidential in accordance with the restrictions provided in this Section 13.3(f); (v) to Administrative Agent or to any other Lender and their respective counsel and other professional advisors and to its own counsel and professional advisors so long as such Persons are instructed to keep such information confidential in accordance with the provisions of this Section 13.3(f); (vi) to proposed assignees and participants in accordance with Section 13.3(d); (vii) as Administrative Agent or Lender determines appropriate after the occurrence of an Event of Default; and (viii) with the prior written consent of the Borrower.

13.4 Defaulting Lenders.

(a) Definition . For the purposes of this Agreement a "Defaulting Lender" shall be defined as follows: any Lender that (i) has failed to (A) fund all or any portion of its Credit Commitments within two (2) Business Days of the date such Credit Commitments were required to be funded hereunder, or (B) pay to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit or Swingline Advances) within two (2) Business Days of the date when due, (ii) has notified the Borrower or the Administrative Agent in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect, (iii) has failed, within three (3) Business Days after written request by the Administrative Agent or the Borrower, to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (iii) upon receipt of such written confirmation by the Administrative Agent and the Borrower), or (iv) has, or has a direct or indirect parent company that has, (Y) become the subject of a proceeding under any bankruptcy insolvency or debtor relief law, or (Z) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets (other than in connection with a supervisory action where applicable law requires that such supervisory appointment not be publicly disclosed), including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a governmental authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such governmental authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses (i) through (iv) above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to Section 13.4(c)) upon delivery of written notice of such determination to the Borrower and each Lender.

(b) Defaulting Lender Adjustments . Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as such Lender is no longer a Defaulting Lender, to the extent permitted by applicable law:

(i) Waivers and Amendments . Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in the definition of Required Lenders.

(ii) Defaulting Lender Waterfall . Any payment of principal, interest, fees or other amounts received by the Administrative Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to an Event of Default or otherwise) or received by the Administrative Agent from a Defaulting Lender pursuant to Section 9.4, shall be applied at such time or times as may be determined by the Administrative Agent as follows: first, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent hereunder in connection with its role as Administrative Agent; second, to the payment on a pro rata basis of any amounts owing by such Defaulting Lender to the Administrative Agent in connection with fronting exposure for Swingline Advances or Letters of Credit; third, to cash collateralize the Administrative Agent's exposure in connection with the Defaulting Lender's Pro Rata Share of any issued Letters of Credit with respect to such Defaulting Lender in accordance with Section 13.4(e); fourth, as the Borrower may request (so long as no Default or Event of Default exists), to the funding of any Credit Extension in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; fifth, if so determined by the Administrative Agent and the Borrower, to be held in a deposit account and released pro rata in order to (x) satisfy such Defaulting Lender's potential future funding obligations with respect to Credit Extensions under this Agreement and (y) cash collateralize the Administrative Agent's Letter of Credit fronting exposure with respect to such Defaulting Lenders' Pro Rata Share of Letters of Credit to be issued in the future under this Agreement, in accordance with Section 13.4(e); sixth, to the payment of any amounts owing to the Lenders or the Administrative Agent as a result of any judgment of a court of competent jurisdiction obtained by any Lender or the Administrative Agent against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; seventh, so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; eighth, if so determined by the Administrative Agent, distributed to the Lenders other than the Defaulting Lender until the ratio of the Pro Rata Share of outstanding Credit Extensions of such Lenders to the aggregate outstanding Credit Extensions equals such ratio immediately prior to the Defaulting Lender's failure to fund any portion of any Credit Extensions or participations in Letters of Credit or Swingline Advances; and ninth, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if (x) such payment is a payment of the principal amount of any Credit Extensions or Letter of Credit issuances in respect of which such Defaulting Lender has not fully funded its appropriate share, and (y) such Credit Extensions were made or the related Letters of Credit were issued at a time when the conditions set forth in Section 3.2 were satisfied or waived, such payment shall be applied solely to pay the Credit Extensions of all non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Credit Extensions of such Defaulting Lender until such time as all Credit Extensions and funded and unfunded participations in Letters of Credit and Swingline Advances are held by the Lenders pro rata in accordance with the Credit Commitments without giving effect to Section 13.4(b)(iv). Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post cash Collateral pursuant to this Section 13.4(b)(ii) shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) Certain Fees . (A) No Defaulting Lender shall be entitled to receive any unused facility fee for any period during which that Lender is a Defaulting Lender (and the Borrower shall not be required to pay any such fee that otherwise would have been required to have been paid to that Defaulting Lender). (B) Each Defaulting Lender shall be entitled to receive any Letter of Credit fronting fees for any period during which that Lender is a Defaulting Lender only to extent allocable to its Pro Rata Share of the stated amount of Letters of Credit for which it has provided cash Collateral pursuant to Section 13.4(e). (C) With respect to any unused facility or letter of credit fronting fee not required to be paid to any Defaulting Lender pursuant to clause (A) or (B) above, the Borrower shall (y) pay to each non-Defaulting Lender that portion of any such fee otherwise payable to such Defaulting Lender with respect to such Defaulting Lender's participation in Letters of Credit and other Credit Extensions that has been reallocated to such non-Defaulting Lender pursuant to clause (iv) below, and (z) not be required to pay the remaining amount of any such fee.

(iv) Reallocation of Participations to Reduce Fronting Exposure . All or any part of such Defaulting Lender's participation in Letters of Credit and Swingline Advances shall be reallocated among the non-Defaulting Lenders in accordance with their respective Pro Rata Shares (calculated without regard to such Defaulting Lender's Credit Commitment) but only (x) if, at the date the applicable Lender becomes a Defaulting Lender, no Default or Event of Default exists, and (y) to the extent that such reallocation does not cause the aggregate outstanding aggregate Credit Extensions of any non-Defaulting Lender to exceed such non-Defaulting Lender's Credit Commitment. No reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a non-Defaulting Lender as a result of such non-Defaulting Lender's increased exposure following such reallocation.

(v) Cash Collateral, Repayment of Swingline Advances . If the reallocation described in clause (iv) above cannot, or can only partially, be effected, the Borrower shall, without prejudice to any right or remedy available to it hereunder or under law, (x) first, prepay Swingline Advances in an amount equal to the applicable Lender's fronting exposure and (y) second, cash collateralize the applicable Lender's Letter of Credit fronting exposure in accordance with the procedures set forth in Section 13.4(e).

(c) Defaulting Lender Cure . If the Borrower and the Administrative Agent agree in writing that a Lender is no longer a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any cash Collateral), that Lender will, to the extent applicable, purchase at par that portion of outstanding Credit Extensions of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Credit Extensions and funded and unfunded participations in Letters of Credit and Swingline Advances to be held pro rata by the Lenders in accordance with their Credit Commitments (without giving effect to Section 13.4(b)(iv)), whereupon such Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrower while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

(d) New Swingline Advances and Letters of Credit . So long as any Lender is a Defaulting Lender, (i) the Administrative Agent shall not be required to fund any Swingline Advances unless it is satisfied that it will have no fronting exposure after giving effect to such Swingline Advance and (ii) the Administrative Agent shall not be required to issue, extend, renew or increase any Letters of Credit unless it is satisfied that it will have no fronting exposure after giving effect thereto.

(e) Cash Collateral . At any time that there shall exist a Defaulting Lender, within one (1) Business Day following the written request of the Administrative Agent, the Borrower shall cash collateralize the full amount of the Defaulting Lender's Pro Rata Share of issued Letters of Credit (determined after giving effect to Section 13.4(b)(iv) and any cash Collateral provided by such Defaulting Lender).

(i) Grant of Security Interest . The Borrower, and to the extent provided by any Defaulting Lender, such Defaulting Lender, hereby grants to the Administrative Agent, in connection with issued Letters of Credit, and agrees to maintain, a first priority security interest in all such cash Collateral as security for the Defaulting Lender's obligation to fund participations in respect of Letters of Credit, to be applied pursuant to clause (ii) below. If at any time the Administrative Agent determines that cash Collateral is subject to any right or claim of any Person other than the Administrative Agent as herein provided, or that the total amount of such cash Collateral is less than the full amount of Defaulting Lender's Pro Rata Share of the aggregate face amount of all issued Letters of Credit, the Borrower will, promptly upon demand by the Administrative Agent, pay or provide to the Administrative Agent additional cash Collateral in an amount sufficient to eliminate such deficiency (after giving effect to any cash Collateral provided by the Defaulting Lender).

(ii) Application . Notwithstanding anything to the contrary contained in this Agreement, cash Collateral provided under this Section 13.4 in respect of Letters of Credit shall be applied to the satisfaction of the Defaulting Lender's obligation to fund participations in respect Letter of Credit Obligations (including, as to cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) for which the cash Collateral was so provided, prior to any other application of such property as may otherwise be provided for herein.

(iii) Termination of Requirement . Cash Collateral (or the appropriate portion thereof) provided to reduce the aggregate outstanding Letter of Credit Obligations shall no longer be required to be held as cash Collateral pursuant to this Section 13.4(e) following (i) the elimination of the applicable fronting exposure (including by the termination of Defaulting Lender status of the applicable Lender), or (ii) the determination by the Administrative Agent that there exists excess cash Collateral; provided that, subject to this Section 13.4 the Person providing cash Collateral and the Administrative Agent may agree that cash Collateral shall be held to support future anticipated fronting exposure or other obligations and provided further that to the extent that such cash Collateral was provided by the Borrower, such cash Collateral shall remain subject to the security interest granted pursuant to the Loan Documents.

13.5 Effectiveness; Binding Effect; Governing Law . This Agreement shall become effective when it shall have been executed by the Borrower, Administrative Agent and each Lender and thereafter shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent, each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of Administrative Agent and all the Lenders. THIS AGREEMENT AND THE LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA WITHOUT GIVING EFFECT TO ITS CHOICE OF LAW DOCTRINE.

13.6 Consent to Jurisdiction; Venue; Administrative Agent for Service of Process . All judicial proceedings brought against the Borrower with respect to this Agreement and the Loan Documents may be brought in any state or federal court of competent jurisdiction in the County of Santa Clara in the State of California, and by execution and delivery of this Agreement, Borrower accepts for itself and in connection with its properties, generally and unconditionally, the nonexclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Borrower irrevocably waives any right it may have to assert the doctrine of *forum non conveniens* or to object to venue to the extent any proceeding is brought in accordance with this Section. Borrower designates and appoints each Responsible Officer, from time to time, and such other Persons as may hereafter be selected by Borrower irrevocably agreeing in writing to so serve as its agent to receive on its behalf service of all process in any such proceedings in any such court, such service being hereby acknowledged by Borrower to be effective and binding service in every respect. A copy of any such process so served shall be mailed by registered mail to Borrower at its address provided in the applicable signature page hereto, except that unless otherwise provided by applicable law, any failure to mail such copy shall not affect the validity of service of process. If any agent appointed by Borrower refuses to accept service, Borrower hereby agrees that service upon it by mail shall constitute sufficient notice. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of Administrative Agent or any Lender to bring proceedings against Borrower in courts of any jurisdiction.

13.7 Entire Agreement . This Agreement with Exhibits and Schedules and the other Loan Documents embody the entire agreement and understanding between the parties hereto and supersedes all prior agreements and understandings relating to the subject matter hereof, provided that any financing statements previously filed for the benefit of Administrative Agent and/or any Lender shall continue to perfect Administrative Agent's security interest in the Collateral.

13.8 Separability of Provisions . In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

13.9 Obligations Several . The obligation of each Lender hereunder is several, and no Lender shall be responsible for the obligation or commitment of any other Lender hereunder. Nothing contained in this Agreement and no action taken by the Lenders pursuant hereto shall be deemed to constitute the Lenders to be a partnership, an association, a joint venture or any other kind of entity.

13.10 Indemnification . Borrower shall indemnify, defend, protect and hold harmless Administrative Agent, each Lender and their respective officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Lender Expenses in any way suffered, incurred, or paid as a result of or in any way arising out of transactions between Administrative Agent or such Lender and Borrower under the Loan Documents (including without limitation reasonable attorneys' fees and expenses), except for losses caused by Administrative Agent's or such Lender's or their respective officers', employees' and agents' gross negligence or willful misconduct.

13.11 Time of Essence . Time is of the essence for the performance of all obligations set forth in this Agreement.

13.12 Counterparts . This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or by e-mail delivery of a ".pdf" format data file shall be effective as delivery of a manually executed counterpart of this Agreement. Delivery of manually executed counterparts of this Agreement shall immediately follow delivery by telecopy or by e-mail delivery.

13.13 Survival . All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations (other than inchoate indemnity Obligations) remain outstanding. The obligations of Borrower to indemnify Administrative Agent, Syndication Agent and Lenders with respect to the expenses, damages, losses, costs and liabilities described in Section 13.9 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against any of them have run.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

BORROWER:

UBIQUITI NETWORKS, INC.

By: /s/ John Richie
Title: CFO

ADMINISTRATIVE AGENT:

EAST WEST BANK

By: /s/ Calvin Cheng
Title: First Vice President

SYNDICATION AGENT:

U.S. BANK

By: /s/ Michael D. Stanley
Title: Vice President

LENDERS:

EAST WEST BANK

By: /s/ Calvin Cheng
Title: First Vice President
Maximum Credit Commitment: $50,000,000
Pro Rata Share: 50%

U.S. BANK

By: /s/ Michael D. Stanley
Title: Vice President
Maximum Credit Commitment: $50,000,000
Pro Rata Share: 50 %

EXHIBIT A

COLLATERAL DESCRIPTION ATTACHMENT
TO LOAN AND SECURITY AGREEMENT

The Collateral shall consist of all right, title and interest of Borrower in and to the property of Borrower, whether presently existing or hereafter created or acquired, and wherever located, including, but not limited to:

All personal property of Borrower (herein referred to as "Borrower" or "Debtor") whether presently existing or hereafter created or acquired, and wherever located, including, but not limited to:

(a) all accounts (including health-care-insurance receivables), chattel paper (including tangible and electronic chattel paper), commercial tort claims, deposit accounts, documents (including negotiable documents), equipment (including all accessions and additions thereto), general intangibles (including payment intangibles and software), goods (including fixtures), instruments (including promissory notes), inventory (including all goods held for sale or lease or to be furnished under a contract of service, and including returns and repossessions), investment property (including securities and securities entitlements), letter of credit rights, money, and all of Debtor's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records;

(b) any and all cash proceeds and/or noncash proceeds of any of the foregoing, including, without limitation, insurance proceeds, and all supporting obligations and the security therefor or for any right to payment. All terms above have the meanings given to them in the California Uniform Commercial Code, as amended or supplemented from time to time.

Notwithstanding the foregoing, the grant of a security interest as provided herein shall not extend to, and the term "Collateral" shall not include:

(i) any Copyrights, Patents, Trademarks, any intent-to-use trademark applications, any other intellectual property rights now owned or hereafter acquired, or any claims for damages by way of any past, present and future infringement of any of the foregoing, or any other Intellectual Property; provided, however, that the Collateral shall include all accounts and general intangibles that consist of rights to payment and proceeds from the sale, licensing or disposition of all or any part, or rights in, the foregoing (the "Rights to Payment") Notwithstanding the foregoing, if a judicial authority (including a U.S. Bankruptcy Court) holds that a security interest in the underlying Intellectual Property is necessary to have a security interest in the Rights to Payment, then the Collateral shall automatically, and effective as of the Closing Date, include the Intellectual Property to the extent necessary to permit perfection of Agent's security interest in the Rights to Payment.;

(ii) (x) any of the outstanding capital stock of a Foreign Subsidiary, to the extent that it is a controlled foreign corporation (as defined in the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder) in excess of 65% of the voting power of all classes of capital stock of such controlled foreign corporation, and (y) any of the outstanding capital stock of any other Subsidiary of the Borrower that has been incorporated or formed under any laws other than the laws of the United States, any state thereof or the District of Columbia;

(iii) any property subject to a Lien described in clauses (a) or (c) of the definition of Permitted Lien if the granting of a Lien in such property is prohibited by or would constitute a default under any agreement or document governing such property (but only to the extent such prohibition is effective under applicable law), provided that upon the termination or lapsing of any such prohibition, such property shall automatically be part of the Collateral; and

(iv) any general intangibles or other assets of the Debtor (whether owned or held as licensee or lessee, or otherwise), to the extent that (i) such general intangibles or assets are not assignable or capable of being encumbered as a matter of law or under the terms of the license, lease or other agreement applicable thereto (but solely to the extent that any such restriction is deemed effective under applicable law), without the consent of the licensor or lessor thereof or other applicable party thereto and (ii) such consent has not been obtained; *provided, however* , that the foregoing grant of security interest shall extend to, and the term “Collateral” shall include, (A) any general intangible or asset which is an account receivable or a proceed of, or otherwise related to the enforcement or collection of, any account receivable, or goods that are the subject of any account receivable; (B) any and all proceeds of any general intangibles or assets that are otherwise excluded to the extent that the assignment or encumbrance of such proceeds is not so restricted; and (C) upon obtaining the consent of any such licensor, lessor or other applicable party’s consent with respect to any such otherwise excluded general intangibles or assets, such general intangibles and assets as well as any and all proceeds thereof that might have theretofore have been excluded from such grant of a security interest and the term “Collateral.”

EXHIBIT B-1

EAST WEST BANK

Commercial Loan Transaction Request

Date: __________

To: **EAST WEST BANK, as Administrative Agent**
N. Cal Commercial Banking Group
Fax No.: (408) 588-9684/9688

From: Ubiquiti Networks, Inc.

Loan Account No. __________ **Note No. ____**

☐ On ______, please **advance** $ ______from the Revolving Line/Term Advance and credit deposit account ______.

The above advance shall be: ☐ a LIBOR Rate Advance or ☐ a Base Rate Advance.

☐ On ______, please **debit** $ ______from deposit account no. ______and pay down our Revolving Line/Term Advance, Note no. __ , and credit: Interest only ( ), or Principal only ( ), or Principal & Interest ( ).

Authorized by: ____
(borrower signature) phone no.

Below For Bank Use Only

Account Number	Account Name	Debit	Credit

EXHIBIT B-2

LIBOR RATE CONTINUATION CERTIFICATE

The undersigned hereby certifies as follows:

I, __________, am the duly elected and acting __________of UBIQUITI NETWORKS, INC. ("Borrower").

This LIBOR Rate Continuation Certificate is delivered on behalf of Borrower to EAST WEST BANK, as Administrative Agent, pursuant to the Loan and Security Agreement among the Borrower, Administrative Agent, Syndication Agent and the Lenders dated as of August ___, 2012 (the "Agreement"). The terms used herein that are defined in the Agreement have the same meaning herein as ascribed to them in the Agreement.

Borrower requests on _______, 201 ___a LIBOR Rate Advance (the "Advance") as follows:

(a) A continuation of an existing LIBOR Rate Advance as a LIBOR Rate Advance.

(b) The date on which the Advance is to be made is __________, 201 ___.

(c) The amount of the Advance is to be __________($ _______), for an Interest Period of __________month(s).

All representations and warranties of Borrower stated in the Agreement are true, correct and complete in all material respects as of the date of this request for a loan; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

IN WITNESS WHEREOF, this LIBOR Rate Continuation Certificate is executed by the undersigned as of this _____day of _______, 201 ___.

UBIQUITI NETWORKS, INC.

By: ______________________________
Title: ______________________________

For Internal Use Only

LIBOR Pricing Date	LIBOR Rate	LIBOR Rate Variance	Maturity Date
		%	

EXHIBIT C

COMPLIANCE CERTIFICATE

TO: EAST WEST BANK, AS ADMINISTRATIVE AGENT
FROM: UBIQUITI NETWORKS, INC.

The undersigned authorized officer of UBIQUITI NETWORKS, INC. hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement among Borrower, Administrative Agent, Syndication Agent and Lenders (the "Agreement"), (i) Borrower is in compliance for the period ending with all covenants except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true and correct in all material respects as of the date hereof (provided, that those representations and warranties expressly referring to another date are true and correct in all material respects as of such date). Attached herewith are the required documents supporting the above certification. Borrower further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes. All days and periods specified relate to fiscal period end

Please indicate compliance status by circling Yes/No under "Complies" column.

Reporting Covenants	Required	Complies
Quarterly Financial Statements	Quarterly within 45 days	Yes No
Annual Audited Financials (consolidated and consolidating)	FYE within 120 days	Yes No
Annual Projections (consolidated and consolidating)	Within 45 days from fiscal year end	

Financial Covenants	Required	Actual	Complies
Minimum trailing 4 quarters Debt Service Coverage Ratio (quarterly) (Borrower only)	1.50:1.00	_____:1.00	Yes No
Maximum Total Liabilities-TNW Ratio (quarterly) (Borrower and Subsidiaries, on a consolidated basis):			
Quarter ended June 30, 2012	1.50: 100	_____:1.00	Yes No
Quarter ending September 30, 2012	2.50: 100	_____:1.00	Yes No
Quarter ending December 31, 2012	2.00: 100	_____:1.00	Yes No
Quarter ending March 31, 2013	1.75: 100	_____:1.00	Yes No
Quarter ending June 30, 2013 and quarterly thereafter	1.50: 100	_____:1.00	Yes No
Minimum Liquidity Ratio (quarterly)	1.50:1.00	_____:1.00	Yes No

Comments Regarding Exceptions:
See Attached.
Sincerely,

ADMINISTRATIVE AGENT USE ONLY

SIGNATURE

TITLE

DATE

Received By: ______________
Date: ____________
Reviewed By: ____________
Compliance Status: Yes / No

EXHIBIT D

FORM OF PROMISSORY NOTE

EXHIBIT E

FORM OF ASSIGNMENT AND ASSUMPTION AGREEMENT

SCHEDULE OF EXCEPTIONS

Permitted Indebtedness (Section 1.1)

Indebtedness incurred under a revolving credit account with Dell Financial Services L.L.C. that is secured by the lien described under Permitted Liens below.

Permitted Investments (Section 1.1)

The outstanding capital stock of Borrower's wholly-owned Subsidiaries:
- Ubiquiti Networks International Limited (Hong Kong)
- UAB "Devint" (Republic of Lithuania)
- Ubiquiti Networks (India) Private Limited (Republic of India)

Permitted Liens (Section 1.1)

Debtor: Ubiquiti Networks, Inc.
Secured Party: Dell Financial Services L.L.C.
File No.: 09-7188062435 (California)
Filing Date: 2/18/2009
Type: Equipment and software lien

Intellectual Property (Section 5.7)

None

Prior Names (Section 5.8)

None

Environmental Condition (Section 5.13)

None.

Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.

Exhibit 31.1

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) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

(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 9, 2012

/s/ Robert J. Pera

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

Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.

Exhibit 31.2

I, John Ritchie, 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) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

(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 9, 2012

/s/ John Ritchie

John Ritchie
Chief Financial Officer
(Principal Financial Officer)

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.

Exhibit 32.1

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, 2012 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 9, 2012

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

I, John Ritchie, 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, 2012 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 9, 2012

By:	/s/ John Ritchie
Name:	John Ritchie
Title:	Chief Financial Officer *(Principal Financial Officer)*