

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission File No. 001-35300

UBIQUITI NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

32-0097377

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

685 Third Avenue, 27th Floor, New York, NY 10017
(Address of principal executive offices, Zip Code)

(646) 780-7958

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [] No [x]
As of November 7, 2018 , 70,835,239 shares of Common Stock, par value \$0.001, were issued and outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

UBIQUITI NETWORKS, INC.

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

	<u>September 30, 2018</u>	<u>June 30, 2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 480,812	\$ 666,681
Investments — short-term	96,266	—
Accounts receivable, net of allowance for doubtful accounts of \$394 and \$453 at September 30, 2018 and June 30, 2018, respectively	165,294	174,521
Inventories	139,926	102,220
Vendor deposits	33,045	39,029
Prepaid expenses and other current assets	16,403	18,901
Total current assets	<u>931,746</u>	<u>1,001,352</u>
Property and equipment, net	13,471	14,328
Deferred tax assets — long-term	3,106	3,106
Investments — long-term	48,445	—
Other long-term assets	6,729	3,791
Total assets	<u>\$ 1,003,497</u>	<u>\$ 1,022,577</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 43,071	\$ 14,098
Income taxes payable	23,982	5,780
Debt — short-term	24,425	24,425
Other current liabilities	60,682	68,613
Total current liabilities	<u>152,160</u>	<u>112,916</u>
Income taxes payable — long-term	119,122	127,719
Debt — long-term	454,253	460,352
Other long-term liabilities	7,323	5,842
Total liabilities	<u>732,858</u>	<u>706,829</u>
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; 500,000,000 shares authorized:		
72,857,887 and 74,072,521 outstanding as of September 30, 2018 and June 30, 2018, respectively	73	74
Additional paid-in capital	—	393
Accumulated other comprehensive income (loss)	(146)	—
Retained earnings	270,712	315,281
Total stockholders' equity	<u>270,639</u>	<u>315,748</u>
Total liabilities and stockholders' equity	<u>\$ 1,003,497</u>	<u>\$ 1,022,577</u>

See notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2018	2017
	\$	\$
Revenues	\$ 282,905	\$ 245,868
Cost of revenues	151,299	134,212
Gross profit	<u>131,606</u>	<u>111,656</u>
Operating expenses:		
Research and development	18,222	16,928
Sales, general and administrative	<u>13,766</u>	<u>7,665</u>
Total operating expenses	<u>31,988</u>	<u>24,593</u>
Income from operations	99,618	87,063
Interest expense and other, net	<u>(2,527)</u>	<u>(1,361)</u>
Income before income taxes	97,091	85,702
Provisions for income taxes	<u>11,388</u>	<u>10,777</u>
Net income	<u>\$ 85,703</u>	<u>\$ 74,925</u>
Net income per share of common stock:		
Basic	\$ 1.16	\$ 0.93
Diluted	<u>\$ 1.16</u>	<u>\$ 0.92</u>
Weighted average shares used in computing net income per share of common stock:		
Basic	<u>73,774</u>	<u>80,135</u>
Diluted	<u>73,963</u>	<u>81,748</u>
Other comprehensive income (loss):		
Unrealized (loss) on available-for-sale securities	\$ (146)	\$ —
Other comprehensive income (loss)	<u>(146)</u>	<u>—</u>
Comprehensive income	<u>\$ 85,557</u>	<u>\$ 74,925</u>

See notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	\$ 85,703	\$ 74,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,794	1,591
Amortization of debt issuance costs	281	64
Premium amortization and (discount accretion), net	(127)	—
Provision for inventory obsolescence	252	324
Provision/(recovery) for loss on vendor deposits	(855)	376
Stock-based compensation	775	912
Other, net	(21)	103
Changes in operating assets and liabilities:		
Accounts receivable	9,287	12,017
Inventories	(37,948)	19,421
Vendor deposits	6,838	(15,836)
Prepaid income taxes	—	4
Prepaid expenses and other assets	2,393	1,288
Accounts payable	29,086	(22,408)
Income taxes payable	9,605	7,061
Deferred revenues	3,306	1,376
Accrued and other liabilities	(16,428)	15,702
Net cash provided by operating activities	<u>93,941</u>	<u>96,920</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment and other long-term assets	(4,035)	(2,932)
Purchase of investments	(147,934)	—
Proceeds from sale of investments	3,850	—
Net cash (used in) investing activities	<u>(148,119)</u>	<u>(2,932)</u>
Cash Flows from Financing Activities:		
Proceeds from borrowing under the Amended Credit Facility- Revolver	—	45,000
Repayment against Amended Credit Facility- Term	—	(3,750)
Repayment against Second Amended & Restated Facility- Term	(6,250)	—
Repurchases of common stock	(106,764)	(107,997)
Payment of common stock cash dividends	(18,506)	—
Proceeds from exercise of stock options	194	722
Tax withholdings related to net share settlements of restricted stock units	(365)	(351)
Net cash (used in) financing activities	<u>(131,691)</u>	<u>(66,376)</u>
Net (decrease) increase in cash and cash equivalents	(185,869)	27,612
Cash and cash equivalents at beginning of period	666,681	604,198
Cash and cash equivalents at end of period	<u>\$ 480,812</u>	<u>\$ 631,810</u>
Supplemental Disclosure of Cash Flow Information:		
Income taxes paid, net of refunds	\$ 1,929	\$ 3,524
Interest paid	\$ 8,204	\$ 1,792
Non-Cash Investing and Financing Activities:		
Unpaid stock repurchases	\$ 6,000	\$ 8,765
Unpaid property and equipment and other long-term assets	\$ 30	\$ 178
Unpaid investment purchases	\$ 646	\$ —

See notes to consolidated financial statements.

UBIQUITI NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1—BUSINESS AND BASIS OF PRESENTATION

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

The Company operates on a fiscal year ending June 30. In this Quarterly Report, the fiscal year ending June 30, 2019 is referred to as “fiscal 2019” and the fiscal year ended June 30, 2018 is referred to as “fiscal 2018”.

Basis of Presentation — The Company’s consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) related to interim financial statements based on applicable Securities and Exchange Commission (“SEC”) rules and regulations. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. These consolidated financial statements reflect all adjustments, which are, in the opinion of the Company, of a normal and recurring nature and those necessary to state fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The June 30, 2018 balance sheet was derived from the audited financial statements as of that date. All significant intercompany transactions and balances have been eliminated.

These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended June 30, 2018, included in its Annual Report on Form 10-K, as filed with the SEC on August 24, 2018 (the “Annual Report”). The results of operations for the three months ended September 30, 2018 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, 2018, included in the Annual Report. Except as noted below, there have been no changes to the Company’s significant accounting policies as discussed in the Annual Report.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which has been codified as Accounting Standards Codification 606 (“ASC 606”). ASC 606 requires the Company’s revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. ASC 606 outlines a five-step model to make the revenue recognition determination and requires enhanced financial statement disclosures. We adopted the updated guidance in the first quarter of fiscal 2019 using the modified retrospective method, which did not have a material impact on the consolidated financial statements. Additional information and disclosures required by this new standard are contained in note 3 of Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” (“ASU 2016-02”), which establishes a new lease accounting model for lessees. The updated guidance requires an entity to recognize assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. In addition, interest on lease liabilities is to be recognized separately from the amortization of right-of-use assets in the statement of operations. Further, payments of the principal portion of lease liabilities are to be classified as financing activities while payments of interest on lease liabilities and variable lease payments are to be classified as operating activities in the statement of cash flows. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which provides an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. The amendments have the same effective date and transition requirements as the new lease standard. We expect the adoption of the issued lease guidance will result in an increase in the assets and liabilities on our consolidated balance sheets, and we are currently evaluating the extent of this increase.

NOTE 3—REVENUES

On July 1, 2018, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) to all contracts not completed as of the date of adoption using the modified retrospective method. As a result of our adoption of this standard, there was no adjustment recorded to the opening balance of retained earnings as there was no cumulative effect of adoption of the new revenue standard. As we elected the modified retrospective method of adoption, comparative information from prior periods has not been restated and continues to be reported under the ASC 605, “Revenue Recognition”. Accordingly, the adoption of the new revenue standard did not have a material impact to our results of operations or financial position, equity of cash flows as of the adoption date or for the three months ended September 30, 2018.

The Company has made the following accounting policy elections and elected to use certain practical expedients, as permitted by the FASB, in applying Topic 606: (1) the Company accounts for amounts collected from customers for sales and other taxes, net of related amounts remitted to tax authorities; (2) the Company does not adjust the promised amount of consideration for the effects of a significant financing component because, at contract inception, the Company expects the period between the time when the Company transfers a promised good or service to the customer and the time when the customer pays for that good or service will be one year or less; (3) the Company expenses costs to obtain a contract as they are incurred if the expected period of benefit, and therefore the amortization period, is one year or less; (4) the Company accounts for shipping and handling activities that occur after control transfers to the customer as a fulfillment cost rather than an additional promised service and these fulfillment costs fall within cost of revenue; and (5) the Company does not disclose the transaction price allocated to unsatisfied performance obligations when the original expected contract duration is one year or less.

Revenue is primarily generated from the sale of hardware and management tools (products), as well as the related implied post contract services (“PCS”). The Company determines revenue recognition through the five step model under ASC 606 which includes i) identification of the contract, or contracts, with a customer, ii) identification of the performance obligation in the contract, iii) determination of the transaction price, iv) allocation of the transaction price to the performance obligation within the contract, v) recognition of revenue when, or as, a performance obligation is satisfied.

Contracts and Performance Obligations

The Company accounts for a contract with a customer when there is an approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of the consideration is probable. The Company's distinct performance obligations consist mainly of transferring control of its products identified in the contracts, purchase orders or invoices and implied PCS services.

Transaction price and allocation to performance obligations

Transaction prices are typically based on contracted rates. Generally, payment is due from customers within 60 days of the invoice date and the contracts do not have significant financing components or include extended payment terms. The Company is directly responsible for fulfilling its performance obligations in contracts with customers and does not rely on another party to fulfill its promise. We use observable prices to determine the stand-alone selling price of our performance obligation related to our products, and we utilize a cost plus margin approach to estimate the stand-along selling price of our implied PCS obligation. When our contracts contain multiple performance obligation, we allocate the transaction price based on the estimated standalone selling prices of the promised products or services underlying each performance obligation.

The expected costs associated with our base warranties continue to be recognized as an expense when the products are sold and is not considered a separate performance obligation.

Revenue Recognition

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

Disaggregation of Revenue

See note 14 of Notes to Consolidated Financial Statements “Segment Information” for disaggregation of revenue by product category and geography.

Contract Balances

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

As of September 30, 2018 , the Company's customer deposits were \$0.7 million .

As of September 30, 2018 , the Company's deferred revenue, included in current liabilities and noncurrent liabilities, was \$10.5 million and \$5.6 million , respectively.

Variable Consideration

The Company does provide for rights of return to certain customers on product sales and therefore records a provision for returns related to this variable consideration based upon its historical returns experience with these customers. The Company also provides certain customers with discounts that are recorded as a reduction of revenue in the period the related product revenue is recognized and are reflected as a reduction of outstanding accounts receivable. The Company's contracts with customers generally do not contain other forms of variable consideration, however when additional variable consideration is included, the Company estimates the amount of variable consideration and determines what portion of that, if any, has a high probability of significant subsequent revenue reversal, and if so, that amount is excluded from the transaction price.

These reflect the Company's best estimates of the amount of consideration to which it is entitled based on the terms of the contract. Actual amounts of consideration ultimately received may differ from the Company's estimates. If actual results in the future vary from the Company's estimates, the Company adjusts these estimates, which would affect net product revenue and earnings in the period such variances become known.

NOTE 4—FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Company records securities available-for-sale at fair value on a recurring basis. We classify our investments within Level 1 or 2 because they are valued using either quoted market prices or inputs other than quoted prices which are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded.

Our fixed income available-for-sale securities consist of high quality, investment grade securities from diverse issuers. The valuation techniques used to measure the fair value of our marketable securities incorporate bond terms and conditions, current performance data, proprietary pricing models, real time quotes from contributing dealers, trade prices and, other market data.

The Company began investing cash in various fixed income available-for-sale securities in the first quarter of fiscal 2019, therefore no comparative tables as of the fiscal year ending June 30, 2018 have been disclosed.

The Company held no Level 3 financial instruments as of September 30, 2018 .

The following tables summarize the Company's financial instruments' adjusted cost, gross unrealized gains and losses, and fair value by significant investment category as of September 30, 2018 (in thousands):

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	September 30, 2018							
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents (1)	Short-Term Investments	Long-Term Investments	
Level 1								
Money market funds	\$ 50,896	\$ —	\$ —	\$ 50,896	\$ 50,896	\$ —	\$ —	
Subtotal	\$ 50,896	\$ —	\$ —	\$ 50,896	\$ 50,896	\$ —	\$ —	
Level 2								
Commercial paper	\$ 5,553	\$ —	\$ —	\$ 5,553	\$ —	\$ 5,553	\$ —	
Corporate securities	113,724	8	(143)	113,589	595	69,299	43,695	
U.S agency securities	7,069	—	(7)	7,062	—	7,062	—	
US Government Bonds	22,878	—	(4)	22,874	3,772	14,352	4,750	
Subtotal	\$ 149,224	\$ 8	\$ (154)	\$ 149,078	\$ 4,367	\$ 96,266	\$ 48,445	
Total	\$ 200,120	\$ 8	\$ (154)	\$ 199,974	\$ 55,263	\$ 96,266	\$ 48,445	

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

During the three months ended September 30, 2018 , we did not reclassify any amount to earnings from accumulated other comprehensive loss related to unrealized gains or losses.

The following table represents the Company's marketable securities that had been in continuous unrealized loss position for less than 12 months and for 12 months or greater as of September 30, 2018 (in thousands):

	September 30, 2018		
	Continuous Unrealized Losses		
	Less than 12 Months	12 Months or Greater	Total
Fair Value of marketable securities	\$ 133,930	\$ —	\$ 133,930
Unrealized Loss	\$ (154)	\$ —	\$ (154)

Based on evaluation of securities that have been in a continuous loss position, we did not recognize any other-than-temporary impairment charges during the three months ended September 30, 2018 .

The following table represents the adjusted costs and fair value of investment by contractual maturity as of September 30, 2018 (in thousands):

	Available-For-Sale	
	Adjusted Cost	Fair Value
Due within 1 year	\$ 151,603	\$ 151,529
Due after 1 year through 5 years	48,517	48,445
Total	\$ 200,120	\$ 199,974

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

As of September 30, 2018 and June 30, 2018 , the Company had debt associated with its Second Amended & Restated Credit Agreement (See Note 8), which is carried at historical cost. The fair value of the Company's debt disclosed below was estimated based on the current rates offered to the Company for debt with similar terms and remaining maturities and was a Level 2 measurement. As of September 30, 2018 and June 30, 2018 , the fair value of the Company's debt carried at historical cost was \$481.3 million and \$487.5 million , respectively.

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NOTE 5—EARNINGS PER SHARE

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

	Three Months Ended September 30,	
	2018	2017
Numerator:		
Net income	\$ 85,703	\$ 74,925
Denominator:		
Weighted-average shares used in computing basic earnings per share	73,774	80,135
Add—dilutive potential common shares:		
Stock options	118	1,538
Restricted stock units	71	75
Weighted-average shares used in computing diluted net income per share	73,963	81,748
Net income per share of common stock:		
Basic	\$ 1.16	\$ 0.93
Diluted	\$ 1.16	\$ 0.92

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

	Three Months Ended September 30,	
	2018	2017
Restricted stock units	1	—

NOTE 6—BALANCE SHEET COMPONENTS

Inventories

Inventories consisted of the following (in thousands):

	September 30, 2018	June 30, 2018
Finished goods	\$ 134,854	\$ 96,747
Raw materials	5,072	5,473
Total	\$ 139,926	\$ 102,220

Property and Equipment, Net

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

	September 30, 2018	June 30, 2018
Testing equipment	\$ 8,843	\$ 8,577
Computer and other equipment	6,465	6,265
Tooling equipment	9,807	9,594
Furniture and fixtures	1,897	1,890
Leasehold improvements	10,183	10,106
Software	6,067	6,032
Property and Equipment, Gross	43,262	42,464
Less: Accumulated depreciation	(29,791)	(28,136)
Property and Equipment, Net	\$ 13,471	\$ 14,328

Other Long-term Assets

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

	September 30, 2018	June 30, 2018
Intangible assets, net ⁽¹⁾	\$ 3,423	\$ 460
Other long-term assets	3,306	3,331
Total	\$ 6,729	\$ 3,791

(1) - Accumulated amortization was \$1.4 million and \$ 1.3 million as of September 30, 2018 and June 30, 2018 , respectively.

Other Current Liabilities

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

	September 30, 2018	June 30, 2018
Accrued expenses	\$ 15,471	\$ 18,241
Accrued compensation and benefits	3,240	3,091
Warranty accrual	4,094	3,840
Deferred revenue — short-term	10,455	8,509
Customer deposits	698	770
Reserve for sales returns	1,269	1,219
Other payables	25,455	32,943
Total	\$ 60,682	\$ 68,613

Other Long Term Liabilities

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

	September 30, 2018	June 30, 2018
Deferred Revenue — long-term	\$ 5,635	\$ 4,275
Other long-term liabilities	1,688	1,567
Total	\$ 7,323	\$ 5,842

NOTE 7—ACCRUED WARRANTY

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

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

	Three Months Ended September 30,	
	2018	2017
Beginning balance	\$ 3,840	\$ 3,601
Accruals for warranties issued during the period	1,699	1,912
Changes in liability for pre-existing warranties during the period	126	(100)
Settlements made during the period	(1,571)	(1,318)
Ending balance	\$ 4,094	\$ 4,095

NOTE 8—DEBT

On January 17, 2018, Ubiquiti Networks, Inc., the Cayman Borrower and certain subsidiaries entered into an amended and restated credit agreement (the "Second Amended & Restated Credit Agreement") with Wells Fargo, the other financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders, that provides for a \$400 million senior secured revolving credit facility (the "Revolving Facility") and a \$500 million senior secured term loan facility (the

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"Term Facility", together with the Revolving Facility, the "Facilities"), with an option to request increases in the amounts of such credit facilities by up to an additional \$300 million in the aggregate (any such increase to be in each lender's sole discretion). The maturity date of the Facilities is January 17, 2023.

The Term Facility was fully drawn at the closing of the Second Amended & Restated Credit Agreement, of which \$354.5 million and \$68.9 million was used to repay the prior revolver facility and term facility, respectively. The Company incurred \$4.6 million of debt issuance costs which are capitalized and amortized as interest expense over the life of the facilities.

On June 29, 2018, Ubiquiti Networks, Inc., the Cayman Borrower and certain subsidiaries entered into the First Amendment to the Second Amended and Restated Credit Agreement and Joinder Agreement (the "Joinder Agreement"). The Joinder Agreement added certain subsidiary of Cayman Borrower to the loan documents as a guarantor.

Our Debt consisted of the following (in thousands):

	September 30, 2018	June 30, 2018
Term Loan - short term	\$ 25,000	\$ 25,000
Debt issuance costs, net	(575)	(575)
Total Debt - short term	24,425	24,425
Term Loan - long term	456,250	462,500
Debt issuance costs, net	(1,997)	(2,148)
Total Debt - long term	\$ 454,253	\$ 460,352

The Revolving Facility includes a sub-limit of \$10.0 million for letters of credit and a sub-limit of \$25.0 million for swingline loans. The Facilities are available for working capital and general corporate purposes that comply with the terms of the Second Amended & Restated Credit Agreement, including to finance the repurchase of the Company's common stock or to make dividends to the holders of the Company's common stock. Under the Second Amended & Restated Credit Agreement, revolving loans and swingline loans may be borrowed, repaid and reborrowed until January 17, 2023, at which time all amounts borrowed must be repaid. The term loan is payable in quarterly installments of 1.25% of the original principal amount of the term loan until December 31, 2019, thereafter increasing to 1.875% until December 31, 2020, and thereafter increasing to 2.50% of the original principal amount of the term loan. Revolving, swingline and term loans may be prepaid at any time without penalty.

Revolving and term loans bear interest, at the Company's option, at either (i) a floating rate per annum equal to the base rate plus a margin of between 0.50% and 1.25%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter or (ii) a floating per annum rate equal to the applicable LIBOR rate (or replacement rate) for a specified period, plus a margin of between 1.50% and 2.25%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter. Swingline loans bear interest at a floating rate per annum equal to the base rate plus a margin of between 0.50% and 1.25%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter. Base rate is defined as the greatest of (A) Wells Fargo's prime rate, (B) the federal funds rate plus 0.50% or (C) the applicable LIBOR rate (or replacement rate) for a period of one month plus 1.00%. A default interest rate shall apply on all obligations during certain events of default under the Second Amended & Restated Credit Agreement at a rate per annum equal to 2.00% above the applicable interest rate. The Company will pay to each lender a facility fee on a quarterly basis based on the unused amount of each lender's commitment to make revolving loans, of between 0.20% and 0.35%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter. The Company will also pay to the applicable lenders on a quarterly basis certain fees based on the daily amount available to be drawn under each outstanding letter of credit, including aggregate letter of credit commissions of between 1.50% and 2.25%, depending on the Company's consolidated total leverage ratio as of the most recently ended fiscal quarter, and issuance fees of 0.125% per annum. The Company is also obligated to pay Wells Fargo, as agent, fees customary for a credit facility of this size and type. The Second Amended & Restated Credit Agreement requires the Company to maintain during the term of the Facilities (i) a maximum consolidated total leverage ratio of 3.25 to 1.00 and (ii) minimum liquidity of \$250.0 million, which can be satisfied with unrestricted cash and cash equivalents and up to \$50.0 million of availability under the Revolving Facility. In addition, the Second Amended & Restated Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the ability of the Company and its subsidiaries to, among other things, grant liens or enter into agreements restricting their ability to grant liens on property, enter into mergers, dispose of assets, change their accounting or reporting policies, change their business and incur indebtedness, in each case subject to customary exceptions for a credit facility of this size and type. The Second Amended & Restated Credit Agreement includes customary events of default that include, among other things, non-payment of principal, interest or fees, inaccuracy of representations and warranties, violation of covenants, cross default to certain other indebtedness, bankruptcy and insolvency events, material judgments, change of control and certain ERISA events. The occurrence of an event of default could result in the acceleration of the obligations under the Second Amended & Restated Credit Agreement. The obligations of Ubiquiti Networks, Inc. and certain domestic subsidiaries, if any,

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under the Second Amended & Restated Credit Agreement are required to be guaranteed by such domestic subsidiaries (the "Domestic Guarantors") and are collateralized by substantially all assets (excluding intellectual property) of Ubiquiti Networks, Inc. and the Domestic Guarantors. The obligations of the Cayman Borrower and certain foreign subsidiaries under the Second Amended & Restated Credit Agreement are required to be guaranteed by certain domestic and material foreign subsidiaries (the "Guarantors") and are collateralized by substantially all assets (excluding intellectual property) of Ubiquiti Networks, Inc. and the Guarantors.

Second Amended & Restated Credit Agreement

Under the Second Amended & Restated Credit Agreement, during the three months ended September 30, 2018, the Company made aggregate payments of \$14.5 million against the balance under the Term Facility, of which \$6.3 million was repayment of principal and \$8.2 million was payment of interest.

As of September 30, 2018, we had no outstanding borrowings on our \$400 million Revolving Facility.

As of September 30, 2018, the interest rate on the Term Facility was 3.99%. As of October 31, 2018, the most currently available reset date, the Term Facility has an interest rate of 4.05%.

The following table summarizes our estimated debt and interest payment obligations as of September 30, 2018, for the remainder of fiscal 2019 and future fiscal years (in thousands):

	2019 (remainder)	2020	2021	2022	2023	Thereafter	Total
Debt payment obligations	\$ 18,750	\$ 31,250	\$ 43,750	\$ 50,000	\$ 337,500	\$ —	\$ 481,250
Interest and other payments on debt payment obligations ⁽¹⁾	15,139	19,378	17,871	15,943	7,906	—	76,237
Total	\$ 33,889	\$ 50,628	\$ 61,621	\$ 65,943	\$ 345,406	\$ —	\$ 557,487

(1) - Interest payments are calculated based on the applicable rates and payment dates as of September 30, 2018.

NOTE 9—COMMITMENTS AND CONTINGENCIES

Operating Leases

Certain facilities and equipment are leased under non-cancelable operating leases. The Company generally pays taxes, insurance and maintenance costs on leased facilities and equipment. The Company leases its headquarters in New York, New York and other locations under non-cancelable operating leases that expire at various dates through fiscal 2024.

As of September 30, 2018, future minimum annual payments under operating leases for the remainder of fiscal 2019 and future fiscal years are as follows (in thousands):

	2019 (remainder)	2020	2021	2022	2023	Thereafter	Total
Operating leases	\$ 5,619	\$ 6,532	\$ 4,615	\$ 1,790	\$ 1,376	\$ 314	\$ 20,246

Purchase Obligations

We subcontract with third parties to manufacture our products. During the normal course of business, our contract manufacturers procure components and manufacture product based upon orders placed by us. If we cancel all or part of the orders, we may still be liable to the contract manufacturers for the cost of the components purchased by the subcontractors to manufacture our products. We periodically review the potential liability, and as of September 30, 2018, we have \$3.3 million recorded purchase obligation liability related to FrontRow. There have been no other significant liabilities for cancellations recorded as of September 30, 2018. 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. The Company had inventory purchase obligations of \$37.5 million for finished goods and \$1.3 million for raw materials as of September 30, 2018. Additionally, we may be subject to additional purchase obligations for components ordered by our contract manufacturers based on manufacturing forecasts we provide them each month. We estimate the amount of these additional purchase obligation to range from \$147 million to \$244 million as of September 30, 2018, depending upon the timing of orders placed for these components by our manufacturers.

Other Obligations

The Company had other obligations of \$1.6 million as of September 30, 2018, which consisted primarily of commitments related to research and development projects.

Indemnification Obligations

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

Legal Matters

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

Synopsys

On February 3, 2017, Synopsys, Inc. ("Synopsys") filed a complaint against the Company, one of our subsidiaries and an employee in the United States District Court for the Northern District of California, alleging claims under the Digital Millennium Copyright Act ("DMCA"). On March 28, 2017, Synopsys filed an amended complaint alleging (i) additional claims under the DMCA, (ii) claims under the Anti-Counterfeiting Act, and (iii) claims for label trafficking, fraud, civil RICO and negligent misrepresentation. On April 11, 2017, the Company moved to dismiss all but the initial DMCA claim in the amended complaint and its subsidiary moved to dismiss for lack of personal jurisdiction and joined the Company's motion to dismiss certain claims. On August 15, 2017, the court issued an order granting the Company's motion to dismiss the Anti- Counterfeiting Act claim and certain of the predicate acts alleged under the civil RICO claim. The court denied the motion to dismiss the remaining claims, and denied the subsidiary's motion to dismiss for lack of jurisdiction. On September 5, 2017, Synopsys filed a Second Amended Complaint. On September 19, 2017, the defendants answered, and Ubiquiti Networks International Limited ("UNIL") filed counterclaims for (1) declaratory judgment under 17 U.S.C. § 1201, (2) violation of 18 U.S.C. § 1030, the Computer Fraud and Abuse Act, (3) violation of California Penal Code § 502, the Computer Data Access Fraud Act, (4) trespass to personal property and chattels, (5) conversion, (6) civil RICO pursuant to 18 U.S.C. § 1962(c), (7) RICO conspiracy pursuant to 18 U.S.C. § 1962(d), and (8) common law fraud. The Company also moved for leave to amend its existing counterclaims against Synopsys, for breach of contract and declaratory judgment under 17 U.S.C. § 1201, to include the counterclaims filed by UNIL. On October 3, 2017, Synopsys filed its opposition to the Company's motion for leave to amend its counterclaims, as well as a motion to dismiss UNIL's counterclaims and an anti-SLAPP motion to strike state law claims by both the Company and UNIL. On March 13, 2018, the Judge granted the motion to dismiss UNIL's counterclaims and denied the Company's request for leave to amend its counterclaims. On June 7, 2018, Synopsys filed a Third Amended Complaint. The Third Amended Complaint includes new allegations relating to alleged predicate acts for the RICO claims but it does not add any new causes of action beyond those that were included in the Second Amended Complaint. The Company answered the Third Amended Complaint on June 21, 2018. The Company plans to vigorously defend itself against these claims; however, there can be no assurance that the Company will prevail in the lawsuit. The Company cannot currently estimate the possible loss or range of losses, if any, that it may experience in connection with this litigation.

Vivato/XR

On April 19, 2017, XR Communications, LLC, d/b/a Vivato Technologies ("Vivato"), filed a complaint against the Company in the United States District Court for the Central District of California, alleging that at least one of the Company's products infringes United States Patent Numbers 7,062,296 (the "'296 Patent"), 7,729,728 (the "'728 Patent"), and 6,611,231 (the "'231 Patent and, collectively, the "Patents-in-Suit"). The '296 and '728 Patents are entitled "Forced Beam Switching in Wireless Communication Systems Having Smart Antennas." The '231 Patent is entitled "Wireless Packet Switched Communications Systems and Networks Using Adaptively Steered Antenna Arrays." Vivato amended its complaint on June 23, 2017 and again on July 6, 2017. According to the complaint, the products accused of infringing the Patents-in-Suit include Wi-Fi access points and routers supporting MU-MIMO, including without limitation access points and routers utilizing the IEEE 802.11ac-2013 standard. Vivato has also filed nine other lawsuits asserting the same patents against other defendants in the Central District of California. On October 2, 2017, the ten cases were consolidated into a single action for all purposes except trial. On March 19,

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2018, the Company and the remaining defendants in the consolidated action moved to stay the case (the “Motion to Stay”) pending completion of certain inter partes review proceedings before the Patent Trial and Appeal Board. On April 9, 2018, the Court held a hearing on the Motion to Stay, and, on April 11, 2018, the Court granted the motion. On October 22, 2018, the Court maintained the stay pending a status conference scheduled for February 11, 2019.

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

SEC Subpoena

As previously disclosed on the Form 8-K filed by the Company on February 20, 2018, on February 13, 2018, the Securities and Exchange Commission (the “SEC”) issued subpoenas to the Company and certain of the Company’s officers requesting documents and information relating to a range of topics, including metrics relating to the Ubiquiti Community, accounting practices, financial information, auditors, international trade practices, and relationships with distributors and various other third parties. The Company is in the process of responding to the requests and intends to cooperate fully with the SEC. As the SEC’s investigation is ongoing, we cannot currently predict the timing or the outcome of such investigation.

Shareholder Class Actions

On February 21, 2018, a purported class action, captioned Paul Vanderheiden v. Ubiquiti Networks, Inc. et al., No. 18-cv-01620 (the “Vanderheiden Action”), was filed in the United States District Court for the Southern District of New York against the Company and certain of its current and former officers. The Vanderheiden Action complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making false and/or misleading statements, including purported overstatements of the Company’s online community user engagement metrics and accounts receivable. On February 28, 2018 and March 13, 2018, substantially similar purported class actions, captioned Xiya Qian v. Ubiquiti Networks, Inc. et al., No. 18-cv-01841 (the “Qian Action”) and John Kho v. Ubiquiti Networks, Inc. et al., No. 18-cv-02242 (the “Kho Action”, together with the Vanderheiden Action and the Qian Action, the “Class Actions”), respectively, were filed in the United States District Court for the Southern District of New York. On October 24, 2018, the court consolidated the Class Actions and appointed lead plaintiff and lead counsel (the “Consolidated Class Action”). The deadline for lead plaintiff to file an amended and consolidated complaint (the “Amended Complaint”) is December 26, 2018. Defendants will have 60 days from the date on which the Amended Complaint is filed in which to respond.

While the Company believes that the Consolidated Class Action is without merit and plans to vigorously defend itself, there can be no assurance that the Company will prevail. The Company cannot currently estimate the possible loss or range of losses, if any, that it may experience in connection with this litigation.

Shareholder Derivative Action & Section 220 Demand

On March 13, 2018, Anthony Franchi filed a shareholder derivative complaint in the Superior Court of the State of California, County of San Mateo against the Company’s directors, and certain of its officers (the “Franchi Action”). The Company is named as a nominal defendant. The complaint asserts claims against all individual defendants for breach of fiduciary duty for disseminating false and misleading information and failure to maintain internal controls and unjust enrichment. Additional claims are asserted against Robert Pera for breach of fiduciary duty for insider selling and misappropriation of information, as well as the violation of California Corporations Code § 25402. The allegations in support of these claims are similar to the allegations made in the Class Actions. Plaintiff seeks a judgment on behalf of the Company for all damages incurred or that will be incurred as a result of the alleged breaches of fiduciary duty by the individual defendants, a judgment ordering disgorgement of all profits, benefits, and other compensation obtained by the individual defendants, a judgment directing the Company to reform its governance and internal procedures, and attorneys’ fees and other costs. The Company moved for a stay of the derivative action pending resolution of the Consolidated Class Action. The court denied the Company’s motion, but stayed discovery until the resolution of any motion to dismiss the Consolidated Class Action. On August 27, 2018, the individual defendants and nominal defendant Ubiquiti demurred to dismiss the Franchi Action. Plaintiff filed an omnibus response on October 5, 2018 and defendants filed replies on October 22, 2018. Oral argument on the motions to dismiss is presently scheduled for November 30, 2018.

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On June 4, 2018, alleged Ubiquiti stockholder Richard Gericke served a demand to inspect the Company's books and records pursuant to Section 220 of the Delaware General Corporation Law. The Company commenced its production of documents responding to Mr. Gericke's requests for records on August 22, 2018 and completed its production on October 10, 2018. In addition to serving his Section 220 demand, Mr. Gericke has moved for leave to intervene in the Franchi Action. Oral argument on Mr. Gericke's motion to intervene is currently scheduled for November 30, 2018.

On June 1, 2018, a second shareholder derivative complaint was filed in the Supreme Court of the State of New York, County of New York by Eric Carlson against the Company's directors and certain of its officers. The Company was named as a nominal defendant. The complaint asserted claims against all defendants for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. As with the complaint in the Franchi Action, the allegations in support of these claims were similar to the allegations made in the Class Actions. Plaintiff sought a declaration that the individual defendants had breached and/or aided and abetted the breach of their fiduciary duties to the Company, a judgment on behalf of the Company of the damages sustained by the individual defendants' alleged wrongdoing, a declaration that the Company and individual defendants take action to reform and improve corporate governance and internal procedures, an award to the Company of restitution from the individual defendants, and an award to Plaintiff of the costs and disbursements of the action, including attorneys' fees. On September 11, 2018, Plaintiff voluntarily dismissed the action in its entirety without prejudice.

NOTE 10—COMMON STOCK AND TREASURY STOCK

Common Stock Repurchases

On March 13, 2018, the Board of Directors of the Company approved a \$200 million stock repurchase program (the "March Repurchase Program"). Under the March Repurchase Program, the Company is authorized to repurchase up to \$200 million of its common stock.

On May 8, 2018, the Board of Directors of the Company approved a new \$200 million stock repurchase program (the "May Repurchase Program"). Under the May Repurchase Program, the Company is authorized to repurchase up to an additional \$200 million of its common stock, along with any remaining balances under the March Repurchase Program. During the third and fourth quarters of fiscal 2018, the Company repurchased and retired 757,219 and 586,924 shares of common stock at an average price of \$69.48 and \$70.11 for an aggregate amount of \$52.6 million and \$41.1 million respectively. Both the March and May Repurchase Programs expire on June 30, 2019.

During the first quarter of fiscal 2019, the Company repurchased and retired an additional 1,238,163 shares of common stock at an average price of \$91.07 for an aggregate amount of \$112.8 million. This included unpaid stock repurchases of \$6.0 million relating to repurchases executed on or prior to September 30, 2018 for trades settled in the second quarter of fiscal 2019. As of September 30, 2018, there was no remaining balance available for share repurchases under the March Repurchase Program and \$193.5 million available for repurchases under the May Repurchase Program.

On November 6, 2018, the Board of Directors of the Company approved a new \$200 million stock repurchase program ("November Repurchase Program"). Under the November Repurchase Program, the Company is authorized to repurchase up to \$200 million of its common stock. The November Repurchase Program expires on December 31, 2019. See note 16 of Notes to Consolidated Financial Statements for additional information.

NOTE 11—ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income consists of two components, net income and other comprehensive income (loss). Other comprehensive income (loss) refers to gains and losses that are recorded as an element of stockholders' equity but are excluded from net income pursuant to GAAP. As of September 30, 2018, the Company's accumulated other comprehensive income includes \$0.1 million of net unrealized loss from our available-for-sale securities.

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, 2018, the Company had 10,570,839 authorized shares available for future issuance under all of its stock incentive plans.

Stock-Based Compensation

The following table shows total stock-based compensation expense included in the Consolidated Statements of Operations for the three months ended September 30, 2018 and 2017 (in thousands):

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	Three Months Ended September 30,	
	2018	2017
Cost of revenues	\$ 33	\$ 245
Research and development	467	456
Sales, general and administrative	275	211
	<u>\$ 775</u>	<u>\$ 912</u>

Stock Options

The following is a summary of option activity for the Company's stock incentive plans for the three months ended September 30, 2018 :

	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, 2018	137,491	\$ 9.15	3.62	\$ 10,390
Exercised	(17,378)	\$ 11.17		
Forfeitures and cancellations	(1,980)	\$ 11.09		
Balance, September 30, 2018	<u>118,133</u>	\$ 8.83	3.24	\$ 10,636
Vested as of September 30, 2018	<u>118,133</u>	\$ 8.83	3.24	\$ 10,636
Vested and exercisable as of September 30, 2018	<u>118,133</u>	\$ 8.83	3.24	\$ 10,636

During the three months ended September 30, 2018 and 2017 , the aggregate intrinsic value of options exercised under the Company's stock incentive plans was \$1.3 million and \$3.9 million , respectively, as determined as of the date of option exercise.

As of September 30, 2018 , the Company had no unrecognized compensation costs related to stock options.

The Company did not grant any employee stock options during the three months ended September 30, 2018 and 2017 .

Restricted Stock Units ("RSUs")

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

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Non-vested RSUs, June 30, 2018	144,100	\$ 53.24
RSUs granted	25,759	\$ 85.38
RSUs vested	(10,131)	\$ 41.90
RSUs canceled	(2,841)	\$ 43.11
Non-vested RSUs, September 30, 2018	<u>156,887</u>	\$ 59.44

The intrinsic value of RSUs vested in the three months ended September 30, 2018 and 2017 was \$0.9 million and \$1.3 million , respectively. The total intrinsic value of all outstanding RSUs was \$15.5 million as of September 30, 2018 .

As of September 30, 2018 , there were unrecognized compensation costs related to RSUs of \$6.7 million which the Company expects to recognize over a weighted average period of 3.7 years .

NOTE 13—INCOME TAXES

The Company recorded a tax provisions of \$11.4 million for the three months ended September 30, 2018 as compared to \$10.8 million for the three months ended September 30, 2017 . The increase is primarily related to a change in pre-tax profit mix from jurisdiction with lower tax rates to higher tax rate jurisdictions for the three months ended September 30, 2018 as compared to the three months ended September 30, 2017.

The Company's estimated fiscal year 2019 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, excess tax benefit from stock-based compensation and the impact of the 2017 Tax Act.

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On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued by the SEC to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. Because the Company is still in the process of analyzing certain provisions of the 2017 Tax Act, in accordance with SAB 118, the Company has determined that the adjustments to its deferred taxes and its estimated Transition Tax remain at September 30, 2018, as the company continues to refine its computations of earnings and profits and related tax pools. Additionally, the 2017 Tax Act creates a new requirement that certain income (i.e., GILTI) earned by controlled foreign corporations ("CFCs") after July 1, 2018, must be included currently in the gross income of the CFCs' U.S. shareholders. The Company's selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing its global income to determine whether it expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Since the Company is not yet able to reasonably estimate the effect of this provision of the 2017 Tax Act, the Company has not made a policy decision regarding whether to record deferred taxes on GILTI.

As of September 30, 2018, the Company had approximately \$29.3 million of unrecognized tax benefits, substantially all of which would, if recognized, affect its tax expense. The Company recorded a net increase of its unrecognized tax benefits of \$0.1 million for the three months ended September 30, 2018. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Statement of Operations and Comprehensive Income. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet.

As of September 30, 2018, the Company had \$3.4 million accrued interest related to uncertain tax matters. The Company, or one of its subsidiaries, files income tax returns in the United States federal jurisdiction, and various state, local, and foreign jurisdictions and is currently undergoing income tax examinations by the U.S. Internal Revenue Service and the Hong Kong Inland Revenue Department. All material consolidated federal income tax matters have been concluded for years through 2014. All material state and local income tax matters have been concluded through 2014. The majority of the Company's foreign jurisdictions have been concluded through 2014, with the exception of Hong Kong which has been reviewed through 2009. The Company believes that within the next twelve months, it is reasonably possible that a decrease of up to \$3.2 million in unrecognized tax benefits may occur due to settlements with tax authorities or statute lapse.

In July 2018, the Company received a draft Notice of Proposed Adjustment ("NOPA") from the Internal Revenue Service (IRS) proposing an adjustment to income for the fiscal 2015 and 2016 tax years based on its interpretation of certain obligations of the non-US entities under the credit facility. The incremental tax liability associated with the income adjustment proposed in the draft NOPA would be approximately \$50 million, excluding interest and penalties. The Company strongly believes the position of the IRS with regard to this matter is inconsistent with the provisions of the credit facility and applicable tax laws. However, there can be no assurance that this matter will be resolved in the Company's favor. Regardless of whether the matter is resolved in the Company's favor, the final resolution of this matter could be expensive and time-consuming to defend and/or settle. While the Company believes that the tax originally paid in fiscal 2015 and 2016 is correct, it has not provided an additional reserve for this tax uncertainty. However, there is still a possibility that an adverse outcome of the matter could have a material effect on the Company's results of operations and financial condition.

On July 27, 2015, in Altera Corp. v. Commissioner, the U.S. Tax Court issued a decision related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement, holding that the Treasury Regulations under which the compensation was mandatorily included as costs were invalid. On June 27, 2016, the Internal Revenue Service (IRS) appealed the court's decision to the Ninth Circuit Court of Appeals. On July 24, 2018 the Ninth Circuit Court of Appeals overturned the U.S. Tax Court's decision reversing in favor of the IRS, and holding that the Regulations were valid. On August 8, 2018, the Ninth Circuit Court of Appeals withdrew this decision, and assigned a new panel to consider the appeal. We will continue to monitor ongoing developments and potential impacts of this case on our consolidated financial statements, and intercompany arrangements.

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

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

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

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- **Enterprise Technology** our UniFi and mFi platforms, including UniFi enterprise Wi-Fi, UniFi Video Products, UniFi switching and routing solutions, including AmpliFi.

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

	Three Months Ended September 30,			
	2018	2017		
Service Provider Technology	\$ 104,957	37%	\$ 119,915	49%
Enterprise Technology	177,948	63%	125,953	51%
Total revenues	\$ 282,905	100%	\$ 245,868	100%

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

	Three Months Ended September 30,			
	2018	2017		
North America ⁽¹⁾	\$ 119,371	42%	\$ 96,170	39%
South America	14,176	5%	31,053	13%
Europe, the Middle East and Africa ("EMEA")	124,931	44%	93,314	38%
Asia Pacific	24,427	9%	25,331	10%
Total revenues	\$ 282,905	100%	\$ 245,868	100%

(1) Revenue for the United States was \$112.3 million and \$91.8 million for the three months ended September 30, 2018 and 2017, respectively.

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

	Percentage of Revenues		Percentage of Accounts Receivable	
	Three Months Ended September 30,		September 30,	June 30,
	2018	2017	2018	2018
Customer A	10%	*	11%	12%
Customer B	12%	12%	16%	15%

* denotes less than 10%

NOTE 15—RELATED PARTY TRANSACTIONS AND CERTAIN OTHER TRANSACTIONS

Aircraft Lease Agreement

On November 13, 2013, the Company entered into an aircraft lease agreement (the "Aircraft Lease Agreement") with RJP Manageco LLC (the "Lessor"), a limited liability company owned by the Company's CEO, Robert J. Pera. Pursuant to the Aircraft Lease Agreement, the Company may lease an aircraft owned by the Lessor for Company business purposes. Under the Aircraft Lease Agreement, the aircraft may be leased at a rate of \$ 5,000 per flight hour. This hourly rate does not include the cost of flight crew or on-board services, which the Company purchases from a third-party provider. The Company recognized a total of approximately \$0.4 million and \$0.4 million in expenses pursuant to the Aircraft Lease Agreement during the three months ended September 30, 2018 and 2017, respectively. All expenses pursuant to the Aircraft Lease Agreement have been included in the Company's sales, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income.

NOTE 16 - SUBSEQUENT EVENTS

Repurchase Program

On November 6, 2018, the Board of Directors of the Company approved a new \$200 million stock repurchase program ("November Repurchase Program"). Under the November Repurchase Program, the Company is authorized to repurchase up to \$200 million of its common stock. The November Repurchase Program expires on December 31, 2019.

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Subsequent to September 30, 2018, the Company repurchased and retired an additional 2,022,648 shares of common stock at an average price of \$89.30 for an aggregate amount of \$180.6 million . As of November 7, 2018, the Company had \$12.9 million and \$200 million available under the May Repurchase Program and November Repurchase Program, respectively.

Dividends

On November 9, 2018, the Company announced that its Board of Directors had approved a quarterly cash dividend of \$0.25 per share payable on November 26, 2018 to shareholders of record at the close of business on November 19, 2018. The Company intends to pay regular quarter cash dividends of at least \$0.25 per share for the remainder of fiscal year 2019. Any future dividends will be subject to the approval of the Company's Board of Directors.

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

The following discussion of our financial condition and results of operations should be read together with the financial statements and related notes that are included elsewhere in this quarterly report. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this quarterly report, particularly in Note 9 "Commitments and Contingencies" to our consolidated financial statements and Part II "Other Information", Item 1-Legal Proceedings and 1A-Risk Factors, in this report.

Overview

The Company develops technology platforms for high-capacity distributed Internet access, unified information technology, and next-generation consumer electronics for home and personal use. We categorize our solutions into three main categories: high performance networking technology for service providers, enterprises and consumers.

The majority of the Company's resources consist of entrepreneurial and de-centralized research and development teams ("R&D"). Ubiquiti does not employ a traditional direct sales force, but instead drives brand awareness through online reviews and publications, its website, its distributors and the company's user community where customers can interface directly with R&D, marketing, and support. Our technology platforms are designed from the ground up with a focus on delivering highly-advanced and easily deployable solutions that appeal to a global customer base in underserved and underpenetrated markets. Our differentiated business model, we believe has enabled us to break down traditional barriers such as high product and network deployment costs and offer solutions with disruptive price-performance characteristics. We strive to offer solutions that provide an ecosystem which simplifies the users experience and the deployment process of additional hardware.

The Company maintains an industry leading financial profile by leveraging its unique business model. This differentiated business model, combined with our innovative, proprietary technologies, has resulted in an attractive alternative to traditional high touch, high cost providers, allowing us to advance the market adoption of our platforms for ubiquitous connectivity. As a result, our technology has enabled hundreds of millions of people throughout the world to stay connected.

We offer a broad and expanding portfolio of networking products and solutions for operator-owners of wireless internet services (WISP's), enterprises and smart homes. Our operator-owner service provider -product platforms provide carrier-class network infrastructure for fixed wireless broadband, wireless backhaul systems and routing and the related software for WISP's to easily control, track and bill their customers. Our enterprise product platforms provide wireless LAN (WLAN) infrastructure, video surveillance products, switching and routing solutions, security gateways, and other complimentary WLAN products along with a unique software platform, which enables users to control their network from one simple, easy to use software interface. Our consumer products, sold under the Ubiquiti Labs brand name, are targeted to the smart home and highly connected consumers. We believe that our products are highly differentiated due to our proprietary software protocol innovation, firmware expertise, and hardware design capabilities. This differentiation allows our product portfolio to meet the demanding performance requirements of video, voice and data applications at prices that are a fraction of those offered by our competitors.

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

- **Rapid customer and community driven product development.** We have an active, loyal community built from our customers that we believe is a sustainable competitive advantage. Our solutions benefit from the active engagement between the Ubiquiti Community and our development engineers throughout the product development cycle, which

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eliminates long and expensive multistep internal processes and results in rapid introduction and adoption of our products. This approach significantly reduces our development costs and time to market.

- **Scalable sales and marketing model.** We do not maintain the traditional direct sales force as compared to some of our competitors, but instead utilize digital marketing and the Ubiquiti Community to drive market awareness and demand for our products and solutions. We believe this community-propagated viral marketing enables us to reach underserved and underpenetrated markets far more efficiently and cost-effectively than is possible through traditional sales models. Leveraging the information transparency of the Internet allows customers to research, evaluate and validate our solutions with the Ubiquiti Community and via third party web sites. This allows us to operate a scalable sales and marketing model and effectively create awareness of our brand and products.

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

Key Components of Our Results of Operations and Financial Condition

Revenues

We operate our business as one reportable and operating segment. Further information can be found in Note 14 of Notes to Consolidated Financial Statements. Our revenues are derived principally from the sale of networking hardware and management tools. Because we have historically included it free of charge in many of our arrangements, we attribute a portion of our systems revenues to this implied post-contract customer support (“PCS”).

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

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

We sell our products and solutions globally to service providers and enterprises primarily through our extensive network of distributors, and, to a lesser extent, direct customers. Sales to distributors accounted for 97% of our revenues during the three months ended September 30, 2018 .

Cost of Revenues

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

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

Gross Profit

Our gross profit has been, and may in the future be, influenced by several factors including changes in product mix, target end markets for our products, channel inventory levels, tariffs, pricing due to competitive pressure, production costs and global demand for electronic components. Although we procure and sell our products in U.S. dollars, our contract manufacturers incur many costs, including labor costs, in other currencies. To the extent that the exchange rates move unfavorably for our contract manufacturers, they may try to pass these additional costs on to us, which could have a material impact on our future average selling prices and unit costs. In June 2018, the Office of the United States Trade Representative announced new proposed tariffs for certain products imported into the U.S. from China. As of September 24, 2018, these tariffs were implemented, and will impact a portion of our products. As a result, we expect our near-term margins to be negatively impacted as we explore alternatives to mitigate the tariffs.

Operating Expenses

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

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

Deferred Revenues

We recognize revenues when performance obligations under the terms of a contract with our customers are satisfied. Our deferred revenues are primarily comprised of remaining performance obligation attributable to implied PCS that we expect to fulfill in the future. As of September 30, 2018 , and June 30, 2018 , we had deferred revenues of \$15.9 million and \$12.7 million , respectively, related to these obligations.

Provisions for Income Taxes

We use the asset and liability method to account for income taxes. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. In preparing the consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. The Company must assess such potential exposures and, where necessary, provide a reserve to cover any expected loss. To the extent that the Company establishes a reserve, its provision for income taxes would be increased. If the Company ultimately determines that payment of these amounts is unnecessary, it reverses the liability and recognizes a tax benefit during the period in which it determines that the liability is no longer necessary. The Company records an additional charge in its provision for taxes in the period in which it determines that tax liability is greater than its original estimate. The Company recognizes interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying consolidated statement of operations.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. In other cases, management’s judgment is required in selecting among available alternative accounting standards that provide for different accounting treatment for similar transactions. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the amounts we report as assets, liabilities, revenues, costs and expenses and affect the related disclosures. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. In many instances, we could reasonably use different accounting estimates, and in some instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, our actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. Our critical accounting policies are discussed in our Annual Report, and there have been no material changes other than that have been disclosed in Note 2 to our consolidated financial statements herein.

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Results of Operations

Comparison of Three Months Ended September 30, 2018 and 2017

	Three Months Ended September 30,			
	2018		2017	
	(In thousands, except percentages)			
Revenues	\$ 282,905	100%	\$ 245,868	100%
Cost of revenues ⁽¹⁾	151,299	53%	134,212	55%
Gross profit	131,606	47%	111,656	45%
Operating expenses:				
Research and development ⁽¹⁾	18,222	6%	16,928	7%
Sales, general and administrative ⁽¹⁾	13,766	5%	7,665	3%
Total operating expenses	31,988	11%	24,593	10%
Income from operations	99,618	35%	87,063	35%
Interest expense and other, net	(2,527)	*	(1,361)	*
Income before income taxes	97,091	34%	85,702	35%
Provisions for income taxes	11,388	4%	10,777	4%
Net income	\$ 85,703	30%	\$ 74,925	30%
* Less than 1%				
(1) Includes stock-based compensation as follows:				
Cost of revenues	\$ 33		\$ 245	
Research and development	467		456	
Sales, general and administrative	275		211	
Total stock-based compensation	\$ 775		\$ 912	

Revenues

Total revenues increased \$37.0 million, or 15%, from \$245.9 million in the three months ended September 30, 2017 to \$282.9 million in the three months ended September 30, 2018.

During the three months ended September 30, 2018, there were no material price changes in the Company's products sold. However, the Company continues to introduce new products which may have average selling price and margins different than our legacy products.

Revenues by Product Type

	Three Months Ended September 30,			
	2018		2017	
	(in thousands, except percentages)			
Service Provider Technology	\$ 104,957	37%	\$ 119,915	49%
Enterprise Technology	177,948	63%	125,953	51%
Total revenues	\$ 282,905	100%	\$ 245,868	100%

Service Provider Technology revenue decreased \$14.9 million, or 12%, from \$119.9 million in the three months ended September 30, 2017 to \$105.0 million in the three months ended September 30, 2018.

The decrease in Service Provider Technology revenue during the three months ended September 30, 2018 as compared to the same period in the prior year, was primarily due to decreased revenue in South America, North America and Asia Pacific, partially offset by an increase in revenue in Europe, the Middle East and Africa ("EMEA").

Enterprise Technology revenue increased \$51.9 million, or 41%, from \$126.0 million in the three months ended September 30, 2017 to \$177.9 million in the three months ended September 30, 2018.

The increase in Enterprise Technology revenue during the three months ended September 30, 2018 as compared to the same period in the prior year, was primarily due to product expansion and further adoption of our UniFi technology platform across all regions except for South America, which had a slight decline in our UniFi technology platform.

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Revenues by Geography

We have determined the geographical distribution of our product revenues based on our customers' ship-to destinations. A majority of our sales are to distributors who either sell to resellers or directly to end customers, who may be located in different countries than the initial ship-to destination. The following are our revenues by geography for the three months ended September 30, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended September 30,				
	2018		2017		
	(in thousands, except percentages)				
North America ⁽¹⁾	\$ 119,371	42%	\$ 96,170	39%	
South America	14,176	5%	31,053	13%	
Europe, the Middle East and Africa ("EMEA")	124,931	44%	93,314	38%	
Asia Pacific	24,427	9%	25,331	10%	
Total revenues	\$ 282,905	100%	\$ 245,868	100%	

(1) Revenue for the United States was \$112.3 million and \$91.8 million for the three months ended September 30, 2018 and 2017, respectively.

North America

Revenues in North America increased \$23.2 million, or 24%, from \$96.2 million in the three months ended September 30, 2017 to \$119.4 million in the three months ended September 30, 2018.

The increase in North America revenues during the three months ended September 30, 2018 as compared to the same period in the prior year, was primarily due to increased revenue from our Enterprise Technology products partially offset by a slight decrease in revenue from Service Provider Technology products.

South America

Revenues in South America decreased \$16.9 million, or 54%, from \$31.1 million in the three months ended September 30, 2017 to \$14.2 million in the three months ended September 30, 2018.

The decrease in South America revenues during the three months ended September 30, 2018 as compared to the same period in the prior year was primarily due to decreased revenue for both our Service Provider Technology products and Enterprise Technology products.

Europe, the Middle East, and Africa (EMEA)

Revenues in EMEA increased \$31.6 million, or 34%, from \$93.3 million in the three months ended September 30, 2017 to \$124.9 million in the three months ended September 30, 2018.

The increase in EMEA revenues during the three months ended September 30, 2018 as compared to the same period in the prior year was primarily due to increased revenue for both our Enterprise Technology products and Service Provider Technology products.

Asia Pacific

Revenues in the Asia Pacific region decreased \$0.9 million, or 4%, from \$25.3 million in the three months ended September 30, 2017 to \$24.4 million in the three months ended September 30, 2018. The decrease in Asia Pacific revenues during the three months ended September 30, 2018 as compared to the same period in the prior year was primarily due to decreased revenue from Service Provider Technology products, offset in part by a slight increase in revenue from Enterprise Technology products.

Cost of Revenues and Gross Profit

Cost of revenues increased \$17.1 million, or 13%, from \$134.2 million in the three months ended September 30, 2017 to \$151.3 million in the three months ended September 30, 2018.

The increase during the three months ended September 30, 2018 was primarily due to cost increases associated with an overall increase in revenue and an increase in indirect costs.

Gross profit margin increased to 47% in the three months ended September 30, 2018 compared to 45% in the three months ended September 30, 2017. The increase during the three months ended September 30, 2018 was primarily driven by changes in product mix and to lesser extent the benefit of product cost reduction strategies, partially offset by an increase in indirect costs.

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Operating Expenses

Research and Development

Research and development (“R&D”) expenses increased \$1.3 million , or 8% , from \$16.9 million in the three months ended September 30, 2017 to \$18.2 million in the three months ended September 30, 2018 . As a percentage of revenues, R&D expenses decreased from 7% for the three months ended September 30, 2017 to 6% for the three months ended September 30, 2018 .

The increase in research and development expenses in absolute dollars during the three months ended September 30, 2018 was primarily due to costs associated with increased headcount.

Sales, General and Administrative

Sales, general and administrative expenses increased \$6.1 million , or 79% , from \$7.7 million in the three months ended September 30, 2017 to \$13.8 million in the three months ended September 30, 2018 . As a percentage of revenues, sales, general and administrative expenses increased from 3% for the three months ended September 30, 2017 to 5% for the three months ended September 30, 2018 .

The increase in sales, general and administrative expenses in absolute dollars during both the three months ended September 30, 2018 was primarily related to professional fees and costs associated with increased headcount.

Provision for Income Taxes

Our provision for income taxes increased \$0.6 million or 6% , from \$10.8 million for the three months ended September 30, 2017 to \$11.4 million for the three months ended September 30, 2018 . Our effective tax rate decreased to 12% for the three months ended September 30, 2018 as compared to 13% for the three months ended September 30, 2017 .

The lower effective tax rate was primarily due to a lower domestic tax rate due to the change in US tax law, partially offset by a decrease in excess tax benefit from stock-based compensation for the three months ended September 30, 2018 as compared to the same period in the prior year.

Liquidity and Capital Resources

Sources and Uses of Cash

Our principal sources of liquidity are cash and cash equivalents, cash generated by operations, the availability of additional funds under the Facilities and short and long term investments. We had cash and cash equivalents of \$480.8 million and \$666.7 million as of September 30, 2018 and June 30, 2018 , respectively. Cash and cash equivalents includes securities that have a maturity of three months or less at the date of purchase.

During the first quarter of fiscal year ended 2019, the Company began investing cash in various fixed income available-for-sale securities. As of September 30, 2018 , we held \$200.0 million in total investments of which \$55.8 million is recorded in cash and cash equivalents. Our securities investment portfolio consists of high quality, investment grade securities from diverse issuers.

Consolidated Cash Flow Data

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

	Three Months Ended September 30,	
	2019	2018
	(In thousands)	
Net cash provided by operating activities	\$ 93,941	\$ 96,920
Net cash (used in) investing activities	(148,119)	(2,932)
Net cash (used in) financing activities	(131,691)	(66,376)
Net (decrease) increase in cash and cash equivalents	\$ (185,869)	\$ 27,612

Cash Flows from Operating Activities

Net cash provided by operating activities in the three months ended September 30, 2018 consisted primarily of net income of \$85.7 million , in addition to the changes in operating assets and liabilities that resulted in net cash inflows of \$6.1 million . This net change was primarily driven by inflows arising from a \$9.6 million increase in taxes payable due to the timing of federal tax payments, a \$12.7 million increase in net accounts payable and accrued liabilities, and \$9.3 million decrease in accounts

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receivable due to increased cash receipts in the period. These inflows were partly offset by a \$37.9 million increase in inventory, as a result of increased stock level to meet customer demand, partially offset by \$6.8 million decrease in vendor deposits.

Net cash provided by operating activities in the three months ended September 30, 2017 consisted primarily of net income of \$74.9 million, in addition to the changes in operating assets and liabilities that resulted in net cash inflows of \$18.6 million. This net change was primarily driven by inflows arising from a \$12.0 million decrease in accounts receivable due to increased cash receipts in the period, a \$7.1 million increase in taxes payable due to the timing of federal tax payments as well as a \$19.4 million decrease in inventory which were partially offset with \$15.8 million increase in vendor deposits and a \$6.7 million net decrease in accounts payable and accrued liabilities.

Cash Flows from Investing Activities

We used \$148.1 million of cash in investing activities during the three months ended September 30, 2018 . For the three months ended September 30, 2018, our investing activities consist of net purchases of available-for-sale securities of \$144.1 million and capital expenditures and purchase of intangible assets of \$4.0 million . For the three months ended September 30, 2017, our investing activities consisted of capital expenditures of \$2.9 million.

Cash Flows from Financing Activities

We used \$131.7 million of cash in financing activities during the three months ended September 30, 2018. During the three months ended September 30, 2018, we had financing cash outflows of \$106.8 million related to the repurchase of our common stock, \$18.5 million related to dividends paid on our common stock and \$6.3 million repayment on our term loan under our credit facility.

We used \$66.4 million of cash in financing activities during the three months ended September 30, 2017. During the three months ended September 30, 2017 we had financing cash outflows of \$108.0 million related to the repurchases of our common stock and \$3.8 million repayment against our outstanding term loan under the Amended Credit Facility, offset in part by cash inflows of \$45.0 million related to a draw on our revolver under our credit facility.

Liquidity

We believe our existing cash and cash equivalents, cash provided by operations and the availability of additional funds, under the Facilities and short and long term investments, will be sufficient to meet our working capital, future stock repurchases, dividends, and capital expenditure needs for the next twelve months. However, this estimate is based on a number of assumptions that may prove to be wrong and we could exhaust our available cash and cash equivalents earlier than presently anticipated. 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.

Warranties and Indemnifications

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

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

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

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indemnification obligations to our directors, officers and certain other employees. We believe the fair value of these indemnification agreements is minimal. We have not recorded any liabilities for these agreements as of September 30, 2018 .

Based upon our historical experience and information known as of the date of this report, we do not believe it is likely that we have a material liability for the above indemnities as of September 30, 2018 .

Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes our contractual obligations as of September 30, 2018 for the remainder of fiscal 2019 and future fiscal years (in thousands):

	2019 (remainder)	2020	2021	2022	2023	Thereafter	Total
Operating leases	\$ 5,619	\$ 6,532	\$ 4,615	\$ 1,790	\$ 1,376	\$ 314	\$ 20,246
Debt payment obligations	18,750	31,250	43,750	50,000	337,500	—	481,250
Interest and other payments on debt payment obligations	15,139	19,378	17,871	15,943	7,906	—	76,237
Purchase obligations	38,848	—	—	—	—	—	38,848
Repatriation Tax	—	8,844	8,844	8,844	8,844	66,325	101,701
Other obligations	1,567	—	—	—	—	—	1,567
Total	\$ 79,923	\$ 66,004	\$ 75,080	\$ 76,577	\$ 355,626	\$ 66,639	\$ 719,849

Operating Leases

The Company leases its headquarters in New York, NY and other locations worldwide under non cancelable operating leases that expire at various dates through 2024.

Debt and Interest Payment Obligations

On January 17, 2018, Ubiquiti Networks, Inc., the Cayman Borrower and certain subsidiaries entered into an amended and restated credit agreement (the "Second Amended & Restated Credit Agreement") with Wells Fargo, the other financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders, that provides for a \$400 million senior secured revolving credit facility (the "Revolving Facility") and a \$500 million senior secured term loan facility (the "Term Facility", together with the Revolving Facility, the "Facilities"), with an option to request increases in the amounts of such credit facilities by up to an additional \$300 million in the aggregate (any such increase to be in each lender's sole discretion). The maturity date of the Facilities is January 17, 2023.

The Second Amended & Restated Credit Agreement replaced the Company's existing \$425 million senior secured revolving facility and \$100 million senior secured term facility.

The Second Amended & Restated Credit Agreement requires the Company to maintain during the term of the Facilities (i) a maximum consolidated total leverage ratio of 3.25 to 1.00 and (ii) minimum liquidity of \$250.0 million , which can be satisfied with unrestricted cash and cash equivalents and up to \$50.0 million of availability under the Revolving Facility. Please see Note 8 of the Notes to the Consolidated Financial Statements for more information. We have calculated estimated interest payments for our debt based on the applicable rates and payments dates. Although our interest rates on our debt obligations may vary, we have assumed the most recent available interest rates for all years presented.

Purchase Obligations

We subcontract with third parties to manufacture our products. During the normal course of business, our contract manufacturers procure components and manufacture product based upon orders placed by us. If we cancel all or part of the orders, we may still be liable to the contract manufacturers for the cost of the components purchased by the subcontractors to manufacture our products. We periodically review the potential liability, and as of September 30, 2018 we have \$3.3 million recorded purchase obligation liability related to FrontRow. There have been no other significant liabilities for cancellations recorded as of September 30, 2018 . 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. The Company had inventory purchase obligations of \$37.5 million for finished goods and \$1.3 million for raw materials as of September 30, 2018 . Additionally, we may be subject to additional purchase obligations for components ordered by our contract manufacturers based on manufacturing forecasts we provide them each month. We estimate the amount of these additional purchase obligation to range from \$147 million to \$244 million as of September 30, 2018 , depending upon the timing of orders placed for these components by our manufacturers. The Company expects to consume these materials within the next twelve months in the

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normal course of business and therefore may not result in component purchase obligations. For that reason, the estimate amount of these additional purchase obligations have been excluded from the table above.

Transition Tax

The Company also had obligations of \$101.7 million as of September 30, 2018 , related to Repatriation Tax as further described in Note 13. These obligations are included within Income taxes payable and Long-term taxes payable on our Consolidated Balance Sheets.

Other Obligations

We had other obligations of \$1.6 million as of September 30, 2018 , which consisted primarily of commitments related to tooling research and development projects.

Unrecognized Tax Benefits

As of September 30, 2018 , we had \$29.3 million and an additional \$3.4 million for accrued interest, classified as non-current liabilities. At this time, we are unable to make a reasonably reliable estimate of timing of payments in individual years in connection with these tax liabilities; therefore, such amounts are not included in the above contractual obligation table.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, refer to Note 2 to the consolidated financial statements.

Note About Forward-Looking Statements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity

We had cash and cash equivalents of \$480.8 million and \$666.7 million as of September 30, 2018 and June 30, 2018 , respectively. Cash and cash equivalents includes securities that have a maturity of three months or less at the date of purchase. These amounts were held primarily in cash deposit accounts in U.S. dollars. The fair value of our cash and cash equivalents would not be significantly affected by either a 10% increase or decrease in interest rates due mainly to the short-term nature of these instruments.

Debt

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We are exposed to interest rates risks primarily through borrowing under our credit facility. Interest on our borrowings is based on variable rates. Based on a sensitivity analysis, as of September 30, 2018 , an instantaneous and sustained 200-basis-point increase in interest rates affecting our floating rate debt obligations, and assuming that we take no counteractive measures, would result in an incremental charge to our income before income taxes of approximately \$9.6 million over the next twelve months.

Investments

Our investments are primarily invested in money market funds, corporate bonds, U.S. agency bonds and commercial papers and we do not enter into investments for trading or speculative purposes. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss. We are exposed to market risk related to changes in interest rates where a decline in interest rates would reduce our interest income and conversely, an increase in interest rates would have an adverse impact on the fair value of our investment portfolio. The effect of a hypothetical 100 basis points increase or decrease in overall interest rate would not materially change the total fair value of the portfolio due to the conservative and short-term nature of these investments.

As of September 30, 2018 , the Company held \$200.0 million in total investments, which consists of various fixed income available-for-sale securities.

Foreign Currency Risk

Our sales are denominated in U.S. dollars, and therefore, our revenues are not directly subject to foreign currency risk. Certain of our operating expenses are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Chinese Yuan, Euro, and Taiwan Dollar. A 10% appreciation or depreciation in the value of the U.S. dollar relative to the other currencies in which our expenses are denominated would result in a charge to our income before income taxes of approximately \$1.0 million .

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Company's Chief Executive Officer and Chief Accounting Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018 . The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based on the evaluation of our disclosure controls and procedures as of September 30, 2018 , our Chief Executive Officer and Chief Accounting Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2018 , that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

Please see Part I, Item 1, Note 9 of the notes to consolidated financial statements for a discussion of our legal proceedings.

Item 1A. Risk Factors

This Report contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risk factors set forth

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below. These risks and uncertainties are not the only ones we face. If any event related to these known or unknown risks or uncertainties actually occurs, our business prospects, results of operation, and financial condition could be materially adversely affected.

Risks Related to Our Business and Industry

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

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

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

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

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

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

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

Sales to the service provider market are especially volatile, and weakness in orders from this industry could harm our future operating results.

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

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

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

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

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

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

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

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

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

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

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

The market for our wireless broadband networking equipment is emerging and is characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. The markets for enterprise networking equipment and consumer products possess similar characteristics of rapid technological updates, evolving industry standards, frequent changes in consumer preferences, frequent new product introductions and short and unpredictable product life cycles. Our ability to keep pace in these markets depends upon our ability to enhance our current products, and continue to develop and introduce new products rapidly and at competitive prices. The success of new product introductions or updates on existing products depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, our ability to manage the risks associated with new product production ramp-up, the effective management of our inventory and manufacturing schedule and the risk that new products may have defects or other deficiencies in the early stages of introduction. The development of our products is complex and costly, and we typically have several products in development at the same time. Given the complexity, we occasionally have experienced, and could experience in the future, lower than expected yields on new or enhanced products and delays in completing the development and introduction of new products and enhancements to existing products. In addition, new products may have lower selling prices or higher costs than

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existing products, which could negatively impact our operating results. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and engineering staff, to successfully innovate, and to adapt to technological changes and advances in the industry. Development and delivery schedules for our products are difficult to predict. We may fail to introduce new products or enhancements to existing products in a timely fashion. If new releases of our products are delayed, our distributors may curtail their efforts to market and promote our products and our users may switch to competing products.

The markets in which we compete are highly competitive.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We believe a significant portion of our growth to date has been driven by the diverse and actively engaged Ubiquiti Community, and our business model is predicated on the assumption that the Ubiquiti Community will continue to provide these benefits. We do not maintain the traditional direct sales force compared to some of our competitors, but instead utilize digital marketing and the Ubiquiti Community to drive market awareness and demand for our products and solutions. Although the Ubiquiti Community is central to the success of our business, the interactions within the Ubiquiti Community, and participation levels, are largely outside of our control. Any negative information about us or our products in the Ubiquiti Community, whether or not justified, could quickly and materially decrease the demand for our products.

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

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

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

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

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

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

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

We retain contract manufacturers, located primarily in China, to manufacture our products. Any significant change in our relationship with these manufacturers could have a material adverse effect on our business, operating results and financial

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condition. Our reliance on contract manufacturers for manufacturing our products can present significant risks to us because, among other things, we do not have direct control over their activities. If we fail to manage our relationship with our manufacturers effectively, or if they experience operational difficulties, our ability to ship products to our retailers and distributors could be impaired and our competitive position and reputation could be harmed.

We significantly depend upon our contract manufacturers to:

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

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

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

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

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

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

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

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

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

We and our contract manufacturers generally rely on short-term purchase orders rather than long-term contracts with the suppliers of components for our products. As a result, even if components are available, we and our contract manufacturers may not be able to procure sufficient components at reasonable prices to build our products in a timely manner. Further, in order to minimize their inventory risk, our manufacturers might not order components from third-party suppliers with adequate

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lead time, thereby impacting our ability to meet our demand forecast. We may, therefore, be unable to meet customer demand for our products, which would have a material adverse effect on our business, operating results and financial condition.

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

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

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

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

The global macroeconomic environment has been challenging and inconsistent caused by instability in the global credit markets, the impact of uncertainty regarding global central bank monetary policy, the instability in the geopolitical environment in many parts of the world, including the June 2016 referendum by the United Kingdom in which voters approved an exit from the European Union, commonly referred to as "Brexit". As a result of the referendum, it is expected that the United Kingdom government will negotiate the terms of the United Kingdom's future relationship with the European Union. Although it is unknown what those terms will be, the Brexit has created global economic uncertainty and could cause disruptions in the markets that we serve. Additionally, we may be adversely affected by the Brexit in ways we do not currently anticipate.

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

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

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

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

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

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

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

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

In connection with introduction of new products, and our consumer products, in particular, we may spend significant amount on advertising and other marketing campaigns, such as television, print advertising, social media and others, as well as increased promotional activities, to build brand awareness and acquire new users. While we seek to structure our advertising campaigns in the manner that we believe is most likely to encourage people to use our products and services, we may fail to identify advertising opportunities that satisfy our anticipated return on advertising spend, accurately predict customer acquisition, or fully understand or estimate the conditions and behaviors that drive customer behavior. If for any reason any of our advertising campaigns prove less successful than anticipated in attracting new customer, we may not be able to recover our advertising spend, and our rate of user acquisition may fail to meet our expectations, either of which could have an adverse effect on our business. There can be no assurance that our advertising and other marketing efforts will result in increased sales of our consumer products.

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

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

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

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

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

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

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

Risks Related to Our International Operations

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

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

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

If any of these risks were to come to fruition, it could negatively affect our business outside the United States and, consequently, our 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.

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

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

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

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

- bearing the fixed costs of these activities;
- directly procuring components and materials;
- regulatory and other compliance requirements, including import and export license requirements, tariffs, economic sanctions, contractual limitations and other trade barriers;
- exposure to casualty loss and other disruptions;
- quality control;
- labor relations; and
- our limited experience in operating manufacturing facilities.

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

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

Geopolitical uncertainties and events could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on us, our suppliers, logistics providers, manufacturing vendors and customers, including our channel partners. Changes in commodity prices may also cause political uncertainty, and increase currency volatility that can affect economic activity. Policies and statements by the current White House administration, as well as the Republican Party maintaining control of both the House of Representatives and Senate of the U.S. in the congressional election, has created uncertainty with how trade might be affected between the U.S. and the rest of the world, and China, in particular. Changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently develop and sell products, and any negative sentiments towards the U.S. as a result of such changes, could adversely affect our business. For example, if the U.S. government withdraws or materially modifies existing or proposed trade agreements, places greater restriction on free trade generally or imposes increases on tariffs on goods imported into the U.S., particularly from China, our business, financial condition and results of operations could be adversely affected. In addition, negative sentiments towards the U.S. among non-U.S. customers and among non-U.S. employees or prospective employees could adversely affect sales or hiring and retention, respectively.

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

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

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

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

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

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

Risks Related to Intellectual Property

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

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

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

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

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

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

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

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

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

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

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

We operate in an industry with extensive intellectual property litigation.

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

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

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

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

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

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

Some of our competitors may have substantially greater resources than we do and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, patent holding companies and other third-party non-practicing entities that focus on extracting royalties and settlements by enforcing patent rights may target our component suppliers, manufacturers, us, our distributors, members of our sales channels, our network operators and service providers, or other purchasers of our products. These companies typically have little or no product revenues and therefore our patents may provide little or no deterrence against such companies filing patent infringement lawsuits against our component suppliers, manufacturers, us, our distributors, members of our sales channels, network operators and service providers, or other purchasers of our products.

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

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

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

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

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

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

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

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

Risks Related to Our Management and Structure

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

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

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

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

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

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

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

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

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

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

Over the past several years, we have increased our expenditure on infrastructure to support our anticipated growth and as a result of our being a public company. We are continuing to make significant investments in information systems, hiring more administrative personnel, using more professional services and expanding our operations outside the United States. We intend to make additional investments in systems and personnel and continue to expand our operations to support anticipated growth in our business. As a result, we expect our operating expenses to increase.

In addition, we may need in the future to build a traditional direct sales force to market and sell our products or provide additional resources or cooperative funds to our distributors. Such changes to our existing sales model would likely result in higher selling, general and administrative expenses as a percentage of our revenues.

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

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

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

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

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

We rely on third party service providers, such as G-Suite, Google Cloud and Amazon Web Services, to provide distributed computing infrastructure platforms for business operations, or what is commonly referred to as a “cloud” computing service. Any transition of the cloud services currently provided by these service providers to another cloud provider would be difficult to implement and will cause us to incur significant time and expense. If our existing cloud service providers experience interruptions in service regularly or for a prolonged basis, or other similar issues, our business would be seriously harmed. Additionally, our existing cloud service providers have broad discretion to change and interpret its terms of service and other policies with respect to us, and they may take actions beyond our control that could harm our business.

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

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

As of September 30, 2018 , our balance outstanding under our Term Facility, under the Second Amended & Restated Credit Agreement, was \$ 481.3 million . As of September 30, 2018 , we had no outstanding borrowing on our Revolving Facility, under the Second Amended & Restated Credit Agreement. In the future we may need to raise additional capital to fund our growth and operational goals. If additional financing is not available when required or on acceptable terms, we may not be able to expand our business, develop or enhance our products, take advantage of business opportunities or respond to competitive pressures, which could result in lower revenues and reduce the competitiveness of our products.

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

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

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

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

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

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

Our Chief Executive Officer owns a majority of our stock.

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

As of November 9, 2018 , Mr. Pera beneficially owned 56,278,181 shares of our common stock. These shares are eligible for resale into the public market within the restrictions imposed by Rule 144 under the Securities Act of 1933. Sales of a significant amount of Mr. Pera's shares could adversely affect the market price for our common stock. Mr. Pera had informed us he has entered into arrangements under which he has pledged up to 25% of the shares of our common stock that he beneficially owns to secure loans with financial institutions. Mr. Pera had also indicated these loans have or will have various requirements to repay all or a portion of the loan upon the occurrence of various events, including when the price of the common stock goes below certain specified levels. Mr. Pera may need to sell shares of our common stock to meet these repayment requirements. Upon a default under one or more of these loans, the lender could sell the pledged shares into the market without limitation on volume or manner of sale. Sales of shares by Mr. Pera to reduce his loan balance or the lenders upon foreclosure are likely to adversely affect our stock price. Mr. Pera has also indicated to us that he may in the future from time to time pledge additional shares of common stock as collateral for margin or other loans, enter into derivative transactions based on the value of our common stock, dispose of shares of common stock, otherwise monetize shares of his common stock and/or engage in other transactions relating to shares of our common stock and/or other securities of the company. Any of these activities by Mr. Pera may adversely affect the price of our common stock. However, Mr. Pera has also indicated that he intends to continue to own at least a majority of our outstanding shares of common stock.

Risks Related to Regulatory, Legal and Tax Matters

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

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

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

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

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

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

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

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

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

In particular, there are numerous U.S. federal, state, and local laws and regulations and foreign laws and regulations regarding privacy and the collection, sharing, use, processing, disclosure, and protection of personal information and other user data. Such laws and regulations often have changes in scope, may be subject to differing interpretations, and may be inconsistent among different jurisdictions. For example, in April 2016, the E.U. Parliament approved a new data protection regulation, known as the General Data Protection Regulation ("GDPR"), which came into force on May 25, 2018. The GDPR includes operational requirements for companies that receive or process personal data of residents of the European Union that are different than those previously in place in the European Union, and that include significant penalties for non-compliance. Another example, in November 2016, the Standing Committee of China's National People's Congress passed China's first Cybersecurity Law ("CSL"), which took effect in June 2017. The CSL is the first Chinese law that

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systematically lays out the regulatory requirements on cybersecurity and data protection, subjecting many previously under-regulated or unregulated activities in cyberspace to government scrutiny. The costs of compliance with, and other burdens imposed by, the GDPR and CSL may limit the use and adoption of our products and services and could have an adverse impact on our business, operating results and financial condition.

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

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

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

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

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

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

We could be adversely affected by unfavorable results in litigation.

We may be involved, from time to time, in a variety of claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters, consumer or securities class-actions and other litigation matters relating to various claims that arise in the normal course of business and otherwise. It can be difficult or impossible to predict the outcome of legal proceedings with any degree of certainty, particularly given that laws may be ambiguous and factual findings can often be the result of incomplete evidence, opinions, varying standards or proof, and extraneous factors. Any such proceedings or matters may adversely affect how we operate the business, divert the attention of management from the operation of the business, have an adverse effect on our reputation, result in additional costs and

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adversely affect our results of operations. If one or more of the legal proceedings to which we may be or become a party are resolved against us, our results of operations and financial condition could be adversely affected.

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

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

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

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

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

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

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

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

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ultimately held responsible. Any violation of FCPA or similar laws could result in severe criminal or civil sanctions and suspension or debarment from U.S. government contracting, which could have a material and adverse effect on our reputation, business, operating results and financial condition.

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

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

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

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

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

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

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

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

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act significantly changes the taxation of U.S.-based multinational corporations, by, among other things, reducing the U.S. corporate income tax rate, changing rules regarding the use and carrying of net operating losses, adopting elements of a territorial tax system, assessing a one-time transition tax under revised Section 965 of the Internal Revenue Code on earnings of certain foreign subsidiaries that were previously tax deferred (the "Transition Tax"), imposing a new minimum tax if deductible payments to foreign affiliates exceed a certain threshold, and creating new taxes on certain foreign-sourced earnings. The changes included in the 2017 Tax Act are broad and complex. The 2017 Tax Act is also unclear in some respects and will require interpretations and implementing regulations from the U.S. Treasury and Internal Revenue Service, as well as state tax authorities, and the legislation could be subject to potential amendments and technical

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corrections, any of which could lessen or increase certain adverse impacts of the legislation. The final transition impacts of the 2017 Tax Act may differ from the estimates provided elsewhere in this report, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the 2017 Tax Act, or any updates or changes to estimates the Company has utilized to calculate the transition impacts.

As we have a June 30 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in a U.S. federal statutory blended rate of 28% for our fiscal year ending June 30, 2018, and 21% for subsequent fiscal years. In addition, the reduction of the U.S. corporate tax rate caused us to adjust our U.S. deferred tax assets and liabilities to the lower federal base rate of 21%

A significant portion of our earnings are earned by our subsidiaries outside the U.S. Changes to the taxation of certain foreign earnings resulting from the 2017 Tax Act, along with the state tax impact of these changes and potential future cash distributions, may have an adverse effect on our effective tax rate. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. We are continuing to evaluate the overall impact of the 2017 Tax Act on our operations and U.S. federal income tax position. There can be no assurance that changes in the 2017 Tax Act will not materially and adversely affect our effective tax rate, tax payments, financial condition and results of operations.

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

Issuer Purchases of Equity Securities

On March 13, 2018, the Board of Directors of the Company approved a \$200 million stock repurchase program (the "March Repurchase Program"). Under the March Repurchase Program, the Company is authorized to repurchase up to \$200 million of its common stock.

On May 8, 2018, the Board of Directors of the Company approved a new \$200 million stock repurchase program (the "May Repurchase Program"). Under the May Repurchase Program, the Company is authorized to repurchase up to an additional \$200 million of its common stock, along with any remaining balances under the March Repurchase Program. During the third and fourth quarters of fiscal 2018, the Company repurchased and retired 757,219 and 586,924 shares of common stock at an average price of \$69.48 and \$70.11 for an aggregate amount of \$52.6 million and \$41.1 million respectively. Both the March and May Repurchase Programs expire on June 30, 2019.

During the first quarter of fiscal 2019, the Company repurchased and retired an additional 1,238,163 shares of common stock at an average price of \$91.07 for an aggregate amount of \$112.8 million. This included unpaid stock repurchases of \$6.0 million relating to repurchases executed on or prior to September 30, 2018 for trades settled in the second quarter of fiscal 2019. As of September 30, 2018, there was no remaining balance available for share repurchases under the March Repurchase Program and \$193.5 million available for repurchases under the May Repurchase Program.

On November 6, 2018, the Board of Directors of the Company approved a new \$200 million stock repurchase program ("November Repurchase Program"). Under the November Repurchase Program, the Company is authorized to repurchase up to \$200 million of its common stock. The November Repurchase Program expires on December 31, 2019. See note 16 of Notes to Consolidated Financial Statements for additional information.

Common Stock repurchases activity under the share repurchase program during the three months ended September 30, 2018 was as follows (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Estimated Remaining Balance Available for Share Repurchases
July 1, 2018 - July 31, 2018	—	\$ —	—	\$ 306,240
August 1, 2018 - August 31, 2018	415,318	\$ 85.90	415,318	\$ 270,563
September 1, 2018 - September 30, 2018	822,845	\$ 93.68	822,845	\$ 193,476
Total	1,238,163	\$ 91.07	1,238,163	\$ 193,476

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

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None.

Item 5. Other Information

None.

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Exhibit Number		Incorporated by Reference from Form	Incorporated by Reference from Exhibit Number	Date Filed	Filed Herewith
3.1	Amended and Restated Bylaws of Ubiquiti Networks, Inc. as amended				X
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.				X
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.				X
32.1	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.				X
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Schema Linkbase Document				
101.CAL	XBRL Taxonomy Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Definition Linkbase Document				
101.LAB	XBRL Taxonomy Labels Linkbase Document				
101.PRE	XBRL Taxonomy Presentation Linkbase Document				

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Signatures

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

UBIQUITI NETWORKS, INC.

Dated: November 9, 2018

By: /s/ Robert J. Pera

Robert J. Pera

*Chief Executive Officer and Director
(Principal Executive Officer)*

Dated: November 9, 2018

By: /s/ Kevin Radigan

Kevin Radigan

*Chief Accounting Officer
(Principal Financial Officer)*

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101.LAB	XBRL Taxonomy Labels Linkbase Document				
101.PRE	XBRL Taxonomy Presentation Linkbase Document				

**AMENDED AND RESTATED BYLAWS OF
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(as amended on November 1, 2018)

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**AMENDED AND RESTATED
BYLAWS OF UBIQUITI NETWORKS, INC.**

ARTICLE I - CORPORATE OFFICES

1.1 REGISTERED OFFICE

The registered office of Ubiquiti Networks, Inc. shall be fixed in the corporation's certificate of incorporation, as the same may be amended from time to time.

1.2 OTHER OFFICES

The corporation's board of directors may at any time establish other offices at any place or places where the corporation is qualified to do business.

ARTICLE II - MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. The board of directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the Delaware General Corporation Law (the "DGCL"). In the absence of any such designation or determination, stockholders' meetings shall be held at the corporation's principal executive office.

2.2 ANNUAL MEETING

The annual meeting of stockholders shall be held each year. The board of directors shall designate the date and time of the annual meeting. In the absence of such designation the annual meeting of stockholders shall be held on the second Tuesday of November of each year at 10:00 a.m. However, if such day falls on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding business day. At the annual meeting, directors shall be elected and any other proper business may be transacted.

2.3 SPECIAL MEETING

(i) A special meeting of the stockholders, other than those required by statute, may be called at any time by the board of directors acting pursuant to a resolution adopted by a majority of the Whole Board, chairperson of the board of directors, chief executive officer or president (in the absence of a chief executive officer), but a special meeting may not be called by any other person or persons. For purposes of these bylaws, the term "**Whole Board**" shall mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships. The board of directors acting pursuant to a resolution adopted by a majority of the Whole Board may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the stockholders.

(ii) The notice of a special meeting shall include the purpose for which the meeting is called. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting by or at the direction of the Whole Board or chief executive officer. Nothing contained in this Section 2.3(ii) shall be construed as limiting, fixing or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

2.4 ADVANCE NOTICE PROCEDURES

(i) *Advance Notice of Stockholder Business.* At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be brought: (A) pursuant to the corporation's proxy materials with respect to such meeting, (B) by or at the direction of the board of directors, or (C) by a stockholder of the corporation who (1) is a stockholder

of record at the time of the giving of the notice required by this Section 2.4(i) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has timely complied in proper written form with the notice procedures set forth in this Section 2.4(i). In addition, for business to be properly brought before an annual meeting by a stockholder, such business must be a proper matter for stockholder action pursuant to these bylaws and applicable law. Except for proposals properly made in accordance with Rule 14a-8 under the Securities and Exchange Act of 1934, as amended, and the rules and regulations thereunder, and included in the notice of meeting given by or at the direction of the board of directors, for the avoidance of doubt, clause (C) above shall be the exclusive means for a stockholder to bring business before an annual meeting of stockholders.

(a) To comply with clause (C) of Section 2.4(i) above, a stockholder's notice must set forth all information required under this Section 2.4(i) and must be timely received by the secretary of the corporation. To be timely, a stockholder's notice must be received by the secretary at the principal executive offices of the corporation not later than the 45th day nor earlier than the 75th day before the one-year anniversary of the date on which the corporation first mailed its proxy materials or a notice of availability of proxy materials (whichever is earlier) for the preceding year's annual meeting; *provided, however*, that in the event that no annual meeting was held in the previous year or if the date of the annual meeting is advanced by more than 30 days prior to or delayed by more than 60 days after the one-year anniversary of the date of the previous year's annual meeting, then, for notice by the stockholder to be timely, it must be so received by the secretary not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of (i) the 90th day prior to such annual meeting, or (ii) the tenth day following the day on which Public Announcement (as defined below) of the date of such annual meeting is first made. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described in this Section 2.4(i)(a). **"Public Announcement"** shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or any successor thereto (the **"1934 Act"**).

(b) To be in proper written form, a stockholder's notice to the secretary must set forth as to each matter of business the stockholder intends to bring before the annual meeting: (1) a brief description of the business intended to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (2) the name and address, as they appear on the corporation's books, of the stockholder proposing such business and any Stockholder Associated Person (as defined below), (3) the class and number of shares of the corporation that are held of record or are beneficially owned by the stockholder or any Stockholder Associated Person and any derivative positions held or beneficially held by the stockholder or any Stockholder Associated Person, (4) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit from share price changes for, or to increase or decrease the voting power of, such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, (5) any material interest of the stockholder or a Stockholder Associated Person in such business, and (6) a statement whether either such stockholder or any Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of at least the percentage of the corporation's voting shares required under applicable law to carry the proposal (such information provided and statements made as required by clauses (1) through (6), a **"Business Solicitation Statement"**). In addition, to be in proper written form, a stockholder's notice to the secretary must be supplemented not later than ten days following the record date to disclose the information contained in clauses (3) and (4) above as of the record date. For purposes of this Section 2.4, a **"Stockholder Associated Person"** of any stockholder shall mean (i) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such stockholder and on whose behalf the proposal or nomination, as the case may be, is being made, or (iii) any person controlling, controlled by or under common control with such person referred to in the preceding clauses (i) and (ii).

(c) Without exception, no business shall be conducted at any annual meeting except in accordance with the provisions set forth in this Section 2.4(i) and, if applicable, Section 2.4(ii). In addition, business proposed to be

brought by a stockholder may not be brought before the annual meeting if such stockholder or a Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Business Solicitation Statement applicable to such business or if the Business Solicitation Statement applicable to such business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that business was not properly brought before the annual meeting and in accordance with the provisions of this Section 2.4(i), and, if the chairperson should so determine, he or she shall so declare at the annual meeting that any such business not properly brought before the annual meeting shall not be conducted.

(ii) *Advance Notice of Director Nominations at Annual Meetings.* Notwithstanding anything in these bylaws to the contrary, only persons who are nominated in accordance with the procedures set forth in this Section 2.4(ii) shall be eligible for election or re-election as directors at an annual meeting of stockholders. Nominations of persons for election to the board of directors of the corporation shall be made at an annual meeting of stockholders only (A) by or at the direction of the board of directors or (B) by a stockholder of the corporation who (1) was a stockholder of record at the time of the giving of the notice required by this Section 2.4(ii) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has complied with the notice procedures set forth in this Section 2.4(ii). In addition to any other applicable requirements, for a nomination to be made by a stockholder, the stockholder must have given timely notice thereof in proper written form to the secretary of the corporation.

(a) To comply with clause (B) of Section 2.4(ii) above, a nomination to be made by a stockholder must set forth all information required under this Section 2.4(ii) and must be received by the secretary of the corporation at the principal executive offices of the corporation at the time set forth in, and in accordance with, the final three sentences of Section 2.4(i)(a) above.

(b) To be in proper written form, such stockholder's notice to the secretary must set forth:

(1) as to each person (a "nominee") whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of the nominee, (B) the principal occupation or employment of the nominee, (C) the class and number of shares of the corporation that are held of record or are beneficially owned by the nominee and any derivative positions held or beneficially held by the nominee, (D) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of the nominee with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit of share price changes for, or to increase or decrease the voting power of the nominee, (E) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, (F) a written statement executed by the nominee acknowledging that as a director of the corporation, the nominee will owe a fiduciary duty under Delaware law with respect to the corporation and its stockholders, and (G) any other information relating to the nominee that would be required to be disclosed about such nominee if proxies were being solicited for the election of the nominee as a director, or that is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation the nominee's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and

(2) as to such stockholder giving notice, (A) the information required to be provided pursuant to clauses (2) through (5) of Section 2.4(i)(b) above, and the supplement referenced in the second sentence of Section 2.4(i)(b) above (except that the references to "business" in such clauses shall instead refer to nominations of directors for purposes of this paragraph), and (B) a statement whether either such stockholder or Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of a number of the corporation's voting shares reasonably believed by such stockholder or Stockholder Associated Person to be necessary to elect such nominee(s) (such information provided and statements made as required by clauses (A) and (B) above, a "**Nominee Solicitation Statement**").

(c) At the request of the board of directors, any person nominated by a stockholder for election as a

director must furnish to the secretary of the corporation (1) that information required to be set forth in the stockholder's notice of nomination of such person as a director as of a date subsequent to the date on which the notice of such person's nomination was given and (2) such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as an independent director of the corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee; in the absence of the furnishing of such information if requested, such stockholder's nomination shall not be considered in proper form pursuant to this Section 2.4(ii).

(d) Without exception, no person shall be eligible for election or re-election as a director of the corporation at an annual meeting of stockholders unless nominated in accordance with the provisions set forth in this Section 2.4(ii). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that a nomination was not made in accordance with the provisions prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the annual meeting, and the defective nomination shall be disregarded.

(iii) Advance Notice of Director Nominations for Special Meetings.

(a) For a special meeting of stockholders at which directors are to be elected pursuant to Section 2.3, nominations of persons for election to the board of directors shall be made only (1) by or at the direction of the board of directors or (2) by any stockholder of the corporation who (A) is a stockholder of record at the time of the giving of the notice required by this Section 2.4(iii) and on the record date for the determination of stockholders entitled to vote at the special meeting and (B) delivers a timely written notice of the nomination to the secretary of the corporation that includes the information set forth in Sections 2.4(ii)(b) and (ii)(c) above. To be timely, such notice must be received by the secretary at the principal executive offices of the corporation not later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which Public Announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. A person shall not be eligible for election or re-election as a director at a special meeting unless the person is nominated (i) by or at the direction of the board of directors or (ii) by a stockholder in accordance with the notice procedures set forth in this Section 2.4(iii). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading.

(b) The chairperson of the special meeting shall, if the facts warrant, determine and declare at the meeting that a nomination or business was not made in accordance with the procedures prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the meeting, and the defective nomination or business shall be disregarded.

(iv) *Other Requirements and Rights.* In addition to the foregoing provisions of this Section 2.4, a stockholder must also comply with all applicable requirements of state law and of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.4, including, with respect to business such stockholder intends to bring before the annual meeting that involves a proposal that such stockholder requests to be included in the corporation's proxy statement, the requirements of Rule 14a-8 (or any successor provision) under the 1934 Act. Nothing in this Section 2.4 shall be deemed to affect any right of the corporation to omit a proposal from the corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the 1934 Act.

2.5 NOTICE OF STOCKHOLDERS' MEETINGS

Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting

shall be given which shall state the place, if any, date and hour of the meeting, the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as otherwise provided in the DGCL, the certificate of incorporation or these bylaws, the written notice of any meeting of stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting as of the record date for determining the stockholders entitled to notice of the meeting.

2.6 QUORUM

The holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders. Where a separate vote by a class or series or classes or series is required, a majority of the outstanding shares of such class or series or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter, except as otherwise provided by law, the certificate of incorporation or these bylaws.

If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairperson of the meeting, or (ii) the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

2.7 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the board of directors shall fix a new record date for notice of such adjourned meeting in accordance with Section 213(a) of the DGCL and Section 2.11 of these bylaws, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting.

2.8 CONDUCT OF BUSINESS

The chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business.

2.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to Section 217 (relating to voting rights of fiduciaries, pledgees and joint owners of stock) and Section 218 (relating to voting trusts and other voting agreements) of the DGCL.

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

Except as otherwise required by law, the certificate of incorporation or these bylaws, in all matters other than the election of directors, the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Except as otherwise required by law, the certificate of incorporation or these bylaws, directors shall be elected by a

plurality of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or series or classes or series is required, in all matters other than the election of directors, the affirmative vote of the majority of shares of such class or series or classes or series present in person or represented by proxy at the meeting shall be the act of such class or series or classes or series, except as otherwise provided by law, the certificate of incorporation or these bylaws.

2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Subject to the rights of the holders of the shares of any series of Preferred Stock or any other class of stock or series thereof having a preference over the Common Stock as dividend or upon liquidation, any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

2.11 RECORD DATES

In order that the corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If the board of directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the board of directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination.

If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however,* that the board of directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the provisions of Section 213 of the DGCL and this Section 2.11 at the adjourned meeting.

In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

2.12 PROXIES

Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL.

2.13 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; *provided, however,* if the record date for determining the stockholders entitled to vote is less than 10 days before the meeting date, the

list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, *provided* that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the corporation's principal place of business. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

2.14 INSPECTORS OF ELECTION

A written proxy may be in the form of a telegram, cablegram, or other means of electronic transmission which sets forth or is submitted with information from which it can be determined that the telegram, cablegram, or other means of electronic transmission was authorized by the person.

Before any meeting of stockholders, the board of directors shall appoint an inspector or inspectors of election to act at the meeting or its adjournment. The number of inspectors shall be either one (1) or three (3). If any person appointed as inspector fails to appear or fails or refuses to act, then the chairperson of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

- (i) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;
- (ii) receive votes, ballots or consents;
- (iii) hear and determine all challenges and questions in any way arising in connection with the right to vote;
- (iv) count and tabulate all vote or consents;
- (v) determine when the polls shall close;
- (vi) determine the result; and
- (vii) do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three (3) inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is *prima facie* evidence of the facts stated therein.

ARTICLE III - DIRECTORS

3.1 POWERS

The business and affairs of the corporation shall be managed by or under the direction of the board of directors, except as may be otherwise provided in the DGCL or the certificate of incorporation.

3.2 NUMBER OF DIRECTORS

The board of directors shall consist of one or more members, each of whom shall be a natural person. Unless the certificate of incorporation fixes the number of directors, the number of directors shall be determined from time to time by resolution of the board of directors. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS

Except as provided in Section 3.4 of these bylaws, each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until such director's successor is elected and qualified or until such director's earlier death, resignation or removal. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws. The certificate of incorporation or these bylaws may prescribe other qualifications for directors.

If so provided in the certificate of incorporation, the directors of the corporation shall be divided into three classes.

3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon notice given in writing or by electronic transmission to the corporation. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. A resignation which is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable. Unless otherwise provided in the certificate of incorporation or these bylaws, when one or more directors resign from the board of directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

Unless otherwise provided in the certificate of incorporation or these bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. If the directors are divided into classes, a person so elected by the directors then in office to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been duly elected and qualified.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder; may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the DGCL.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board of directors (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the voting stock at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the DGCL as far as applicable.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

The board of directors may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or other communications equipment by means of

which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board of directors.

3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairperson of the board of directors, the chief executive officer, the president, the secretary or a majority of the authorized number of directors.

Notice of the time and place of special meetings shall be:

- (i) delivered personally by hand, by courier or by telephone;
- (ii) sent by United States first-class mail, postage prepaid;
- (iii) sent by facsimile; or
- (iv) sent by electronic mail,

directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the corporation's records.

If the notice is (i) delivered personally by hand, by courier or by telephone, (ii) sent by facsimile or (iii) sent by electronic mail, it shall be delivered or sent at least 24 hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place of the meeting (if the meeting is to be held at the corporation's principal executive office) nor the purpose of the meeting.

3.8 QUORUM; VOTING

At all meetings of the board of directors, a majority of the total authorized number of directors shall constitute a quorum for the transaction of business. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

The vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the board of directors, except as may be otherwise specifically provided by statute, the certificate of incorporation or these bylaws.

If the certificate of incorporation provides that one or more directors shall have more or less than one vote per director on any matter, every reference in these bylaws to a majority or other proportion of the directors shall refer to a majority or other proportion of the votes of the directors.

3.9 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board of directors or committee, as the case may be, consent thereto in writing or by electronic

transmission and the number of members of the board of directors or committee serving at the time constitutes a quorum. The writing or writings or electronic transmission or transmissions shall be filed with the minutes of proceedings of the board of directors or committee and such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

3.10 FEES AND COMPENSATION OF DIRECTORS

Unless otherwise restricted by the certificate of incorporation or these bylaws, the board of directors shall have the authority to fix the compensation of directors.

3.11 REMOVAL OF DIRECTORS

Any director may be removed from office by the stockholders of the corporation only for cause.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

ARTICLE IV- COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may, by resolution passed by a majority of the authorized number of directors, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board of directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in these bylaws, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) approve or adopt, or recommend to the stockholders, any action or matter (other than the election or removal of directors) expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopt, amend or repeal any bylaw of the corporation.

4.2 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of:

- (i) Section 3.5 (place of meetings and meetings by telephone);
- (ii) Section 3.6 (regular meetings);
- (iii) Section 3.7 (special meetings and notice);
- (iv) Section 3.8 (quorum; voting);
- (v) Section 7.5 (waiver of notice); and
- (vi) Section 3.9 (action without a meeting)

with such changes in the context of those bylaws as are necessary to substitute the committee and its members for

the board of directors and its members. *However:*

- (i) the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee;
- (ii) special meetings of committees may also be called by resolution of the board of directors; and
- (iii) notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

Any provision in the certificate of incorporation providing that one or more directors shall have more or less than one vote per director on any matter shall apply to voting in any committee or subcommittee, unless otherwise provided in the certificate of incorporation or these bylaws.

4.4 SUBCOMMITTEES

Unless otherwise provided in the certificate of incorporation, these bylaws or the resolutions of the board of directors designating the committee, a committee may create one or more subcommittees, each subcommittee to consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee.

ARTICLE V - OFFICERS

5.1 OFFICERS

The officers of the corporation shall be a president and a secretary. The corporation may also have, at the discretion of the board of directors, a chairperson of the board of directors, a vice chairperson of the board of directors, a chief executive officer, a chief financial officer or treasurer, one or more vice presidents, one or more assistant vice presidents, one or more assistant treasurers, one or more assistant secretaries, and any such other officers as may be appointed in accordance with the provisions of these bylaws. Any number of offices may be held by the same person.

5.2 APPOINTMENT OF OFFICERS

The board of directors shall appoint the officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 of these bylaws, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS

The board of directors may appoint, or empower the chief executive officer or, in the absence of a chief executive officer, the president, to appoint, such other officers and agents as the business of the corporation may require. Each of such officers and agents shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board of directors or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

Any vacancy occurring in any office of the corporation shall be filled by the board of directors or as provided in Section 5.3.

5.6 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairperson of the board of directors, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

5.7 AUTHORITY AND DUTIES OF OFFICERS

All officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors or the stockholders and, to the extent not so provided, as generally pertain to their respective offices, subject to the control of the board of directors.

ARTICLE VI - STOCK

6.1 STOCK CERTIFICATES; PARTLY PAID SHARES

The shares of the corporation shall be represented by certificates, provided that the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of the corporation by the chairperson of the board of directors or vice-chairperson of the board of directors, or the president or a vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. The corporation shall not have power to issue a certificate in bearer form.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly-paid shares, or upon the books and records of the corporation in the case of uncertificated partly-paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully-paid shares, the corporation shall declare a dividend upon partly-paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

6.2 SPECIAL DESIGNATION ON CERTIFICATES

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; *provided, however,* that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating,

optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this Section 6.2 or Sections 156, 202(a) or 218(a) of the DGCL or with respect to this Section 6.2 a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

6.3 LOST CERTIFICATES

Except as provided in this Section 6.3, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

6.4 DIVIDENDS

The board of directors, subject to any restrictions contained in the certificate of incorporation or applicable law, may declare and pay dividends upon the shares of the corporation's capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock, subject to the provisions of the certificate of incorporation.

The board of directors may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

6.5 TRANSFER OF STOCK

Transfers of record of shares of stock of the corporation shall be made only upon its books by the holders thereof, in person or by an attorney duly authorized, and, if such stock is certificated, upon the surrender of a certificate or certificates for a like number of shares, properly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer.

6.6 STOCK TRANSFER AGREEMENTS

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

6.7 REGISTERED STOCKHOLDERS

The corporation:

- (i) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner;
- (ii) shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares; and
- (iii) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII - MANNER OF GIVING NOTICE AND WAIVER

7.1 NOTICE OF STOCKHOLDERS' MEETINGS

Notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the corporation's records. An affidavit of the secretary or an assistant secretary of the corporation or of the transfer agent or other agent of the corporation that the notice has been given shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

7.2 NOTICE BY ELECTRONIC TRANSMISSION

Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the certificate of incorporation or these bylaws, any notice to stockholders given by the corporation under any provision of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if:

- (i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent; and
- (ii) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

- (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;
- (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;
- (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and
- (iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

An "**electronic transmission**" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Notice by a form of electronic transmission shall not apply to Sections 164, 296, 311, 312 or 324 of the DGCL.

7.3 NOTICE TO STOCKHOLDERS SHARING AN ADDRESS

Except as otherwise prohibited under the DGCL, without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the corporation under the provisions of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a single written notice to stockholders who share an address if consented to by the stockholders at that address to whom such notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any stockholder who

fails to object in writing to the corporation, within 60 days of having been given written notice by the corporation of its intention to send the single notice, shall be deemed to have consented to receiving such single written notice.

7.4 NOTICE TO PERSON WITH WHOM COMMUNICATION IS UNLAWFUL

Whenever notice is required to be given, under the DGCL, the certificate of incorporation or these bylaws, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under the DGCL, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

7.5 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the DGCL, the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

ARTICLE VIII- INDEMNIFICATION

8.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN THIRD PARTY PROCEEDINGS

Subject to the other provisions of this Article VIII, the corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "**Proceeding**") (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director or officer of the corporation, or is or was a director or officer of the corporation serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

8.2 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN ACTIONS BY OR IN THE RIGHT OF THE CORPORATION

Subject to the other provisions of this Article VIII, the corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the corporation, or is or was a director or officer of the corporation serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including

attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

8.3 SUCCESSFUL DEFENSE

To the extent that a present or former director or officer of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described in Section 8.1 or Section 8.2, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

8.4 INDEMNIFICATION OF OTHERS

Subject to the other provisions of this Article VIII, the corporation shall have power to indemnify its employees and agents to the extent not prohibited by the DGCL or other applicable law. The board of directors shall have the power to delegate to such person or persons the determination of whether employees or agents shall be indemnified.

8.5 ADVANCED PAYMENT OF EXPENSES

Expenses (including attorneys' fees) incurred by an officer or director of the corporation in defending any Proceeding shall be paid by the corporation in advance of the final disposition of such Proceeding upon receipt of a written request therefor (together with documentation reasonably evidencing such expenses) and an undertaking by or on behalf of the person to repay such amounts if it shall ultimately be determined that the person is not entitled to be indemnified under this Article VIII or the DGCL. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents of the corporation or by persons serving at the request of the corporation as directors, officers, employees or agents of another corporation, partnership, joint venture, trust or other enterprise may be so paid upon such terms and conditions, if any, as the corporation deems appropriate. The right to advancement of expenses shall not apply to any claim for which indemnity is excluded pursuant to these bylaws, but shall apply to any Proceeding referenced in Section 8.6(ii) or 8.6(iii) prior to a determination that the person is not entitled to be indemnified by the corporation.

Notwithstanding the foregoing, unless otherwise determined pursuant to Section 8.8, no advance shall be made by the corporation to an officer of the corporation (except by reason of the fact that such officer is or was a director of the corporation, in which event this paragraph shall not apply) in any Proceeding if a determination is reasonably and promptly made (i) by a majority vote of the directors who are not parties to such Proceeding, even though less than a quorum, or (ii) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, that facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

8.6 LIMITATION ON INDEMNIFICATION

Subject to the requirements in Section 8.3 and the DGCL, the corporation shall not be obligated to indemnify any person pursuant to this Article VIII in connection with any Proceeding (or any part of any Proceeding):

- (i) for which payment has actually been made to or on behalf of such person under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid;
- (ii) for an accounting or disgorgement of profits pursuant to Section 16(b) of the 1934 Act, or similar provisions of federal, state or local statutory law or common law, if such person is held liable therefor (including

pursuant to any settlement arrangements);

(iii) for any reimbursement of the corporation by such person of any bonus or other incentive-based or equity-based compensation or of any profits realized by such person from the sale of securities of the corporation, as required in each case under the 1934 Act (including any such reimbursements that arise from an accounting restatement of the corporation pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**"), or the payment to the corporation of profits arising from the purchase and sale by such person of securities in violation of Section 306 of the Sarbanes-Oxley Act), if such person is held liable therefor (including pursuant to any settlement arrangements);

(iv) initiated by such person, including any Proceeding (or any part of any Proceeding) initiated by such person against the corporation or its directors, officers, employees, agents or other indemnitees, unless (a) the board of directors authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (b) the corporation provides the indemnification, in its sole discretion, pursuant to the powers vested in the corporation under applicable law, (c) otherwise required to be made under Section 8.7 or (d) otherwise required by applicable law; or

(v) if prohibited by applicable law.

8.7 DETERMINATION; CLAIM

If a claim for indemnification or advancement of expenses under this Article VIII is not paid in full within 90 days after receipt by the corporation of the written request therefor, the claimant shall be entitled to an adjudication by a court of competent jurisdiction of his or her entitlement to such indemnification or advancement of expenses. The corporation shall indemnify such person against any and all expenses that are incurred by such person in connection with any action for indemnification or advancement of expenses from the corporation under this Article VIII, to the extent such person is successful in such action, and to the extent not prohibited by law. In any such suit, the corporation shall, to the fullest extent not prohibited by law, have the burden of proving that the claimant is not entitled to the requested indemnification or advancement of expenses.

8.8 NON-EXCLUSIVITY OF RIGHTS

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the certificate of incorporation or any statute, bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advancement of expenses, to the fullest extent not prohibited by the DGCL or other applicable law.

8.9 INSURANCE

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under the provisions of the DGCL.

8.10 SURVIVAL

The rights to indemnification and advancement of expenses conferred by this Article VIII shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

8.11 EFFECT OF REPEAL OR MODIFICATION

Any amendment, alteration or repeal of this Article VIII shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to such amendment, alteration or repeal.

8.12 CERTAIN DEFINITIONS

For purposes of this Article VIII, references to the "**corporation**" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to "**other enterprises**" shall include employee benefit plans; references to "**fines**" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "**serving at the request of the corporation**" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "**not opposed to the best interests of the corporation**" as referred to in this Article VIII.

ARTICLE IX - GENERAL MATTERS

9.1 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS

Except as otherwise provided by law, the certificate of incorporation or these bylaws, the board of directors may authorize any officer or officers, or agent or agents, to enter into any contract or execute any document or instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

9.2 FISCAL YEAR

The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

9.3 SEAL

The corporation may adopt a corporate seal, which shall be adopted and which may be altered by the board of directors. The corporation may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

9.4 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "**person**" includes both a corporation and a natural person.

ARTICLE X - AMENDMENTS

These bylaws may be adopted, amended or repealed by the stockholders entitled to vote. The corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact

that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

A bylaw amendment adopted by stockholders which specifies the votes that shall be necessary for the election of directors shall not be further amended or repealed by the board of directors.

Notwithstanding the foregoing and any provision of law that might otherwise permit a lesser vote or no vote, a resolution adopted by the affirmative vote of the holders at least sixty-six and two-thirds percent (66 2/3%) of the then outstanding common stock then entitled to vote shall be required to amend or repeal Section 2.3, Section 2.4, Section 2.10, Section 2.14, Section 3.4, Section 3.11 of these bylaws, or this sentence of this Article X.

ARTICLE XI – FORUM SELECTION

Unless the corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer, other employee or stockholder of the corporation to the corporation or the corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, the certificate of incorporation or these bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware, or (iv) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of capital stock of the corporation shall be deemed to have notice of and consented to the provisions of this Article XI.

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

I, Robert J. Pera, certify that:

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

Date: November 9, 2018

/s/ Robert J. Pera

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

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

I, Kevin Radigan, certify that:

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

Date: November 9, 2018

/s/ Kevin Radigan

Kevin Radigan
Chief Accounting Officer
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL 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, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended 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, 2018

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

I, Kevin Radigan, 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, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended 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, 2018

By: /s/ Kevin Radigan
Name: Kevin Radigan
Title: Chief Accounting Officer
(Principal Financial Officer)