Ubiquiti Networks, Inc.
Form 10-Q
May 09, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-35300

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

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

2580 Orchard Parkway, San Jose, CA 95131
(Address of principal executive offices, Zip Code)
(408) 942-3085
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer, large accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨		Accelerated filer	x
Non-accelerated filer	¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [x]
As of May 5, 2014, 88,099,761 shares of Common Stock, par value $0.001, were issued and outstanding.

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QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2014

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements
UBIQUITI NETWORKS, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	March 31, 2014	June 30, 2013[1]
Assets		
Current assets:		
Cash and cash equivalents	$291,670	$227,826
Accounts receivable, net of allowance for doubtful accounts of $1,400 and $2,200, respectively	49,530	35,884
Inventories	66,004	15,880
Current deferred tax asset	903	733
Prepaid income taxes	5,052	—
Prepaid expenses and other current assets	11,578	3,151
Total current assets	424,737	283,474
Property and equipment, net	7,174	5,976
Long-term deferred tax asset	—	4
Other long–term assets	2,662	2,886
Total assets	$434,573	$292,340
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$46,375	$36,187
Customer deposits	4,347	5,123
Deferred revenues	1,126	691
Income taxes payable	—	1,257
Debt - short-term	6,269	5,013
Other current liabilities	9,746	11,150
Total current liabilities	67,863	59,421
Long-term taxes payable	14,012	11,857
Debt - long-term	66,139	71,116
Deferred revenues - long-term	2,670	2,510
Total liabilities	150,684	144,904
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock—$0.001 par value; 50,000,000 shares authorized; none issued	—	—
Common stock—$0.001 par value; 500,000,000 shares authorized:		
88,064,987 and 87,213,803 outstanding at March 31, 2014 and June 30, 2013, respectively	88	87
Additional paid–in capital	143,915	134,982
Treasury stock—44,238,960 shares held in treasury at March 31, 2014 and June 30, 2013	(123,864)	(123,864)
Retained earnings	263,750	136,231
Total stockholders' equity	283,889	147,436
Total liabilities and stockholders' equity	$434,573	$292,340

(1) Derived from audited consolidated financial statements as of and for the year ended June 30, 2013.

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Revenues	$148,331	$83,155	$416,457	$219,591
Cost of revenues	82,719	47,690	231,851	128,621
Gross profit	65,612	35,465	184,606	90,970
Operating expenses:				
Research and development	9,413	5,677	23,807	15,440
Sales, general and administrative	6,064	6,285	17,648	16,133
Total operating expenses	15,477	11,962	41,455	31,573
Income from operations	50,135	23,503	143,151	59,397
Interest expense and other, net	(283)	(287)	(778)	(570)
Income before provision for income taxes	49,852	23,216	142,373	58,827
Provision for income taxes	4,653	2,549	14,854	7,178
Net income and comprehensive income	$45,199	$20,667	$127,519	$51,649
Net income per share of common stock:				
Basic	$0.51	$0.24	$1.45	$0.58
Diluted	$0.50	$0.23	$1.42	$0.57
Weighted average shares used in computing net income per share of common stock:				
Basic	87,901	87,004	87,656	88,702
Diluted	89,775	88,953	89,667	90,656
Cash dividends declared per common share	$—	$—	$—	$0.18

See notes to condensed consolidated financial statements.

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

	Nine Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities:		
Net income and comprehensive income	$127,519	$51,649
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,038	1,262
Provision for inventory obsolescence	2,045	1,075
Deferred taxes	1,989	—
Excess tax benefit from employee stock-based awards	(5,279)	(414)
Stock-based compensation	3,630	2,249
Loss on disposal of fixed assets	45	150
Write-off of intangible assets	229	—
Provision for doubtful accounts	(658)	1,596
Changes in operating assets and liabilities:		
Accounts receivable	(12,988)	35,631
Inventories	(52,169)	(12,722)
Deferred cost of revenues	(82)	(541)
Prepaid income taxes	(5,052)	—
Prepaid expenses and other assets	(8,335)	(1,461)
Accounts payable	10,136	5,030
Taxes payable	4,022	3,655
Deferred revenues	595	1,036
Accrued liabilities and other	(2,151)	(2,511)
Net cash provided by operating activities	65,534	85,684
Cash Flows from Investing Activities:		
Purchase of property and equipment and other long-term assets	(3,244)	(4,408)
Net cash used in investing activities	(3,244)	(4,408)
Cash Flows from Financing Activities:		
Proceeds from term loan	—	50,833
Repayments on term loan balance	(3,750)	(3,083)
Repurchases of common stock	—	(54,354)
Payment of special common stock dividend	—	(15,652)
Proceeds from exercise of stock options	1,783	306
Excess tax benefit from employee stock-based awards	5,279	414
Tax withholdings related to net share settlements of restricted stock units	(1,758)	(111)
Net cash provided by (used in) financing activities	1,554	(21,647)
Net increase in cash and cash equivalents	63,844	59,629
Cash and cash equivalents at beginning of period	227,826	122,060
Cash and cash equivalents at end of period	$291,670	$181,689

See notes to condensed consolidated financial statements.

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

NOTE 1—BUSINESS AND BASIS OF PRESENTATION

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

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

On October 13, 2011, the Company entered into an underwriting agreement for its initial public offering of 7,038,230 shares of its common stock at $15.00 per share. The Company's initial public offering closed on October 19, 2011. Immediately prior to the closing of the initial public offering, all outstanding shares of the Company’s preferred stock converted to common stock on a one for one basis.

On June 18, 2013, the Company completed a secondary offering of 7,031,464 shares of common stock at an offering price of $16.00 per share, which included 531,464 shares sold in connection with the partial exercise of the option to purchase additional shares granted to the underwriters. All of the shares sold in the offering were sold by existing stockholders of the Company, including entities affiliated with Summit Partners, L.P., and the Company's chief executive officer, Robert J. Pera. No shares were sold by the Company in the offering, and as such, the Company did not receive any proceeds from the offering.

The Company operates on a fiscal year ending June 30. In this Quarterly Report, the fiscal year ending June 30, 2014 is referred to as “fiscal 2014” and the fiscal year ended June 30, 2013 is referred to as “fiscal 2013.”

Basis of Presentation— The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) related to interim financial statements based on applicable Securities and Exchange Commission (“SEC”) rules and regulations. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. This information reflects all adjustments, which are, in the opinion of the Company, of a normal and recurring nature and necessary to state fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The June 30, 2013 balance sheet was derived from the audited financial statements as of that date. All significant intercompany transactions and balances have been eliminated.

These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended June 30, 2013 included in its Annual Report on Form 10-K, as filed on September 13, 2013 with the SEC (the “Annual Report”). The results of operations for the three and nine months ended March 31, 2014 are not necessarily indicative of the results to be expected for any future periods.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company’s significant accounting policies are disclosed in its audited consolidated financial statements for the year ended June 30, 2013 included in the Annual Report. Unless otherwise noted below, the Company's significant accounting policies have not changed since June 30, 2013.

Advertising Costs

The Company expenses all advertising costs as incurred. Advertising costs totaled $1.8 million and $2.4 million during the three and nine months ended March 31, 2014. Advertising costs during the three and nine months ended March 31, 2013 were not significant.

Recent Accounting Pronouncements

In July 2013, the FASB issued a new accounting standard update on the financial statement presentation of unrecognized tax benefits. The new guidance provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a new operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new guidance will become effective for the Company on July 1, 2014 and it should be applied prospectively to unrecognized tax benefits that exist as of the effective date with retrospective application permitted. The Company is currently assessing the impact of this new guidance.

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NOTE 3—FAIR VALUE OF FINANCIAL INSTRUMENTS

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The accounting guidance establishes a three-tier fair value hierarchy that requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The fair value hierarchy prioritizes the inputs into three levels that may be used in measuring fair value as follows:

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

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

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

For certain of the Company’s financial instruments, including cash, accounts receivable and accounts payable, the carrying amounts approximate fair value due to their short maturities, and are therefore excluded from the fair value tables below. Additionally, as of March 31, 2014, we held $274.9 million of our $291.7 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States and we will incur significant tax liabilities if we were to repatriate those amounts.

At March 31, 2014 and June 30, 2013 the Company had debt associated with its Loan and Security Agreement with East West Bank (see Note 7). The fair value of the Company’s debt was estimated based on the current rates offered to the Company for debt with similar terms and remaining maturities and was determined to be a Level 2 measurement. As of March 31, 2014 and June 30, 2013, the fair value hierarchy for the Company’s financial liabilities was as follows (in thousands):

	March 31, 2014				June 30, 2013			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Debt	$72,408	$—	$72,408	$—	$76,129	$—	$76,129	$—

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NOTE 4—EARNINGS PER SHARE

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Numerator:				
Net income attributable to common stockholders	$45,199	$20,667	$127,519	$51,649
Denominator:				
Weighted-average shares used in computing basic net income per share	87,901	87,004	87,656	88,702
Add—dilutive potential common shares:				
Stock options	1,646	1,803	1,754	1,808
Restricted stock units	228	146	257	146
Weighted-average shares used in computing diluted net income per share	89,775	88,953	89,667	90,656
Net income per share of common stock:				
Basic	$0.51	$0.24	$1.45	$0.58
Diluted	$0.50	$0.23	$1.42	$0.57

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Stock options	—	655	—	356
Restricted stock units	6	205	85	129
	6	860	85	485

NOTE 5—BALANCE SHEET COMPONENTS

Inventories

Inventories consisted of the following (in thousands):

	March 31, 2014	June 30, 2013
Finished goods	$65,622	$15,618
Raw materials	382	262
	$66,004	$15,880

Prepaid Expenses and Other Current Assets

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

	March 31, 2014	June 30, 2013
Vendor deposits	$8,043	$—
Non-trade receivables	1,727	2,203
Other current assets	1,808	948
	$11,578	$3,151

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Property and Equipment, Net

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

	March 31, 2014	June 30, 2013
Testing equipment	$3,677	$3,309
Computer and other equipment	1,009	841
Tooling equipment	2,854	1,737
Furniture and fixtures	768	652
Leasehold improvements	2,902	1,858
Software	343	245
	11,553	8,642
Less: Accumulated depreciation and amortization	(4,379)	(2,666)
	$7,174	$5,976

Other Long-term Assets

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

	March 31, 2014	June 30, 2013
Long-term deferred cost of revenues	$1,218	$1,185
Intangible assets, net	815	1,029
Other long-term assets	629	672
	$2,662	$2,886

The Company's intangible assets consist primarily of legal costs associated with the application for and registration of the Company's trademarks. The Company recorded $25,000 and $200,000 of amortization of intangible assets during the three and nine months ended March 31, 2014, respectively. The Company did not record any amortization of intangible assets during the three and nine months ended March 31, 2013. The balance of accumulated amortization was $400,000 and $200,000 at March 31, 2014 and June 30, 2013, respectively. Estimated future amortization related to trademark registration fees is $37,000, $244,000, $244,000, $222,000, $61,000 and $7,000 for the remainder of fiscal 2014 and fiscal years 2015, 2016, 2017, 2018, and thereafter, respectively.

Other Current Liabilities

Accrued liabilities consisted of the following (in thousands):

	March 31, 2014	June 30, 2013
Warranty accrual	$2,950	$2,913
Accrued compensation and benefits	2,724	2,712
Accrual for an export compliance matter	—	1,625
Other accruals	4,072	3,900
	$9,746	$11,150

NOTE 6—ACCRUED WARRANTY

The Company offers warranties on certain products, generally for a period of one year, and records a liability for the estimated future costs associated with potential warranty claims. The warranty costs are reflected in the Company's consolidated statement of operations within cost of revenues. The warranties are typically in effect for 12 months from the distributor's purchase date of the product. The Company's estimate of future warranty costs is largely based on historical experience factors including product failure rates, material usage, and service delivery cost incurred in correcting product failures. In certain circumstances, the Company may have recourse from its contract manufacturers for replacement cost of defective products, which it also factors into its warranty liability assessment.

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

	Nine Months Ended March 31,	
	2014	2013
Beginning balance	$2,913	$1,381
Accruals for warranties issued during the period	3,287	1,684
Warranty costs incurred during the period	(3,250)	(1,115)
	$2,950	$1,950

NOTE 7—DEBT

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

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

Interest is due and payable monthly in arrears in the case of loans bearing interest at the base rate and at the end of an interest period in the case of loans bearing interest at the adjusted LIBOR rate. Principal payments under the Term Loan Facility will be made in quarterly installments on the first day of each calendar quarter, and each such quarterly installment shall be equal to $1.25 million through July 1, 2014, then equal to $1.875 million from October 1, 2014 through July 1, 2015, and then equal to $2.5 million from October 1, 2015 through July 1, 2017, with the remaining outstanding principal balance and all accrued and unpaid interest due on August 7, 2017. All outstanding loans under the Revolving Credit Facility, together with all accrued and unpaid interest, are due on August 7, 2015.

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

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

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

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March 31, 2014, the Company was in compliance with all affirmative and negative covenants, debt service coverage ratio, leverage ratio and liquidity ratio requirements.

The Loan Agreement includes customary events of default that include, among other things, defaults for the failure to timely pay principal, interest, or other amounts due, defaults due to the inaccuracy of representations and warranties, covenant defaults, a cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, defaults due to the unenforceability of a guaranty, and defaults due to circumstances that have or could reasonably be expected to have a material adverse effect on the Company's business, operations or financial condition, its ability to pay or perform under the Loan Agreement, or on the lenders' security interests. The occurrence of an event of default could result in the acceleration of the obligations under the Loan Agreement. During the existence of an event of default, interest on the obligations under the Loan Agreement could be increased by 2.00% above the otherwise applicable interest rate.

During the three and nine months ended March 31, 2014, the Company made aggregate payments of $1.3 million and $3.8 million, respectively, against the loan balance. During the three and nine months ended March 31, 2013, the Company made aggregate payments of $1.3 million and $3.1 million, respectively, against the loan balance. As of March 31, 2014, the Company has classified $6.3 million and $66.1 million in short-term and long-term debt, respectively, on its condensed consolidated balance sheet related to the Loan Agreement.

The following table summarizes our estimated debt and interest payment obligations as of March 31, 2014 for the remainder of fiscal 2014 and future fiscal years (in thousands):

	2014 (remainder)	2015	2016	2017	2018	Total
Debt payment obligations	$ 1,250	$ 6,875	$ 39,375	$ 10,000	$ 15,000	$ 72,500
Interest payments on debt payment obligations	446	1,723	1,043	532	125	3,869
Total	$ 1,696	$ 8,598	$ 40,418	$ 10,532	$ 15,125	$ 76,369

On May 5, 2014, the Company entered into a credit agreement with Wells Fargo Bank, National Association (“Wells Fargo”), the financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders. In connection with the execution of the credit agreement, the Company terminated and repaid all outstanding obligations under the Term Loan Facility and Revolving Credit Facility under the Loan Agreement described above. Please see Part 1, Item 1, Note 14 below for a full description of the credit agreement.

NOTE 8—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 office space in San Jose, California and other locations under various non-cancelable operating leases that expire at various dates through fiscal 2019.

At March 31, 2014, future minimum annual payments under operating leases for the remainder of fiscal 2014 and future fiscal years are as follows (in thousands):

	2014 (remainder)	2015	2016	2017	2018	Thereafter	Total
Operating leases	$ 633	$ 2,503	$ 2,497	$ 1,537	$ 297	$ 53	$ 7,520

Purchase Commitments

The Company subcontracts with other companies to manufacture its products. During the normal course of business, the Company’s contract manufacturers procure components based upon orders placed by the Company. If the Company cancels all or part of the orders, it may still be liable to the contract manufacturers for the cost of the components purchased by them to manufacture the Company’s products. The Company periodically reviews the potential liability and to date no significant accruals have been recorded. The Company had $20.9 million in non-cancelable purchase commitments as of March 31, 2014, the related expenses of which are expected to be incurred in future periods. The Company did not have any non-cancelable purchase commitments as of June 30, 2013.

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Indemnification Obligations

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

Legal Matters

The Company may be involved, from time to time, in a variety of claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters and other litigation matters relating to various claims that arise in the normal course of business. The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using available information. The Company develops its views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Taking all of the above factors into account, the Company records an amount where it is probable that the Company will incur a loss and where that loss can be reasonably estimated. However, the Company’s estimates may be incorrect and the Company could ultimately incur more or less than the amounts initially recorded. The Company may also incur significant legal fees, which are expensed as incurred, in defending against these claims.

Export Compliance Matters

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

Shareholder Class Action Lawsuits

Beginning on September 7, 2012, two class action lawsuits were filed in the United States District Court for the Northern District of California against Ubiquiti Networks, Inc. (the “Company”), certain of its officers and directors, and the underwriters of its initial public offering, alleging claims under U.S. securities laws. On January 30, 2013, the plaintiffs filed an amended consolidated complaint. The Company filed a motion to dismiss the complaint, and on March 26, 2014, the court issued an order granting the motion to dismiss with leave to amend the complaint. Following the plaintiffs’ decision not to file an amended complaint, on April 16, 2014 the court ordered the dismissal of the shareholder class action lawsuit with prejudice, and entered judgment in favor of the Company and the other defendants, and against the plaintiffs. The plaintiffs may appeal the court’s decision.

NOTE 9—COMMON STOCK AND TREASURY STOCK

As of March 31, 2014 and June 30, 2013, the authorized capital of the Company included 500,000,000 shares of common stock. As of March 31, 2014, 132,303,947 shares of common stock were issued and 88,064,987 were outstanding. As of June 30, 2013, 131,452,763 shares of common stock were issued and 87,213,803 were outstanding.

Common Stock Repurchases

On August 9, 2012, the Company announced that its Board of Directors authorized the Company to repurchase up to $100 million of its common stock. The share repurchase program commenced August 13, 2012 and expired on August 12, 2013. The

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share repurchase program was funded with proceeds from the Loan Agreement as discussed in Note 7 and from existing cash on hand.

Common stock repurchase activity under the share repurchase program was as follows (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Estimated remaining balance available for share repurchase
August 13, 2012 – August 31, 2012	2,179,900	$8.88	$80,599
September 1, 2012 – September 30, 2012	992,014	$11.93	$68,742
October 1, 2012 - October 31, 2012	371,665	$11.72	$64,377
November 1, 2012 - November 30, 2012	657,700	$11.16	$57,024
December 1, 2012 - December 31, 2012	957,771	$11.86	$45,646
Total	5,159,050	$10.52	$45,646

The Company did not repurchase any of its common stock from January 1, 2013 through August 12, 2013, the date that the plan expired.

Special Dividend

On December 14, 2012, the Company announced that its Board of Directors had authorized a special cash dividend of $0.18 per share for each share of common stock outstanding on December 24, 2012. The aggregate dividend payment of $15.7 million was paid on December 28, 2012 to stockholders of record on December 24, 2012. The dividend payment was funded using proceeds from the Loan Agreement as discussed in Note 7.

NOTE 10—STOCK BASED COMPENSATION

Stock-Based Compensation Plans

The Company’s 2010 Equity Incentive Plan and 2005 Equity Incentive Plan are described in its Annual Report. As of March 31, 2014, the Company had 9,916,169 authorized shares available for future issuance under all of its stock incentive plans.

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Stock-based Compensation

The following table shows total stock-based compensation expense included in the Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Cost of revenues	$153	$124	$445	$309
Research and development	630	324	1,679	991
Sales, general and administrative	258	252	1,506	949
	$1,041	$700	$3,630	$2,249

Stock Options

The following is a summary of option activity for the Company's stock incentive plans for the nine months ended March 31, 2014:

	Common Stock Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Balance, June 30, 2013	3,614,262	$3.07		
Exercised	(749,237)	2.38		
Forfeitures and cancellations	(107,318)	10.55		
Balance, March 31, 2014	2,757,707	$2.96	5.36	$117,166
Vested and expected to vest as of March 31, 2014	2,730,108	$2.88	5.33	$116,212
Vested and exercisable as of March 31, 2014	2,240,079	$1.44	4.73	$98,595

During the three months ended March 31, 2014 and 2013, the aggregate intrinsic value of options exercised under the Company's stock incentive plans was $13.2 million and $1.1 million, respectively, as determined as of the date of option exercise. During the nine months ended March 31, 2014 and 2013, the aggregate intrinsic value of options exercised under the Company's stock incentive plans was $26.9 million and $1.5 million, respectively, as determined as of the date of option exercise.

As of March 31, 2014, the Company had unrecognized compensation costs of $2.3 million related to stock options which the Company expects to recognize over a weighted-average period of 2.4 years. Future option grants will increase the amount of compensation expense to be recorded in these periods.

The Company estimates the fair value of employee stock options using the Black-Scholes option pricing model. The fair value of employee stock options is being amortized on a straight-line basis over the requisite service period of the awards. The Company did not grant any employee stock options during the three and nine months ended March 31, 2014. For the three and nine months ended March 31, 2013, the fair value of employee stock options was estimated using the following weighted average assumptions:

	Three Months Ended March 31, 2013	Nine Months Ended March 31, 2013
Expected term	6.1 years	6.1 years
Expected volatility	52%	52%
Risk-free interest rate	1.0%	0.8%
Expected dividend yield	—	—
Weighted average grant date fair value	$6.69	$5.51

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Restricted Stock Units (“RSUs”)

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

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested RSUs, June 30, 2013	744,906	$14.74
RSUs granted	193,528	37.72
RSUs vested	(149,697)	15.28
RSUs canceled	(223,124)	22.01
Non-vested RSUs, March 31, 2014	565,613	$19.59

The intrinsic value of RSUs vested in the three months ended March 31, 2014 and 2013 was $2.4 million and $389,000, respectively. The intrinsic value of RSUs vested in the nine months ended March 31, 2014 and 2013 was $5.3 million and $622,000, respectively.

As of March 31, 2014, there was unrecognized compensation costs related to RSUs of $10.1 million which the Company expects to recognize over a weighted average period of 3.4 years.

NOTE 11—INCOME TAXES

As of March 31, 2014, the Company had approximately $13.8 million of unrecognized tax benefits, substantially all of which would, if recognized, affect its tax expense. The Company has elected to include interest and penalties related to uncertain tax positions as a component of tax expense. At March 31, 2014, an insignificant amount of interest and penalties are included in long-term income tax payable. The Company recorded an increase of its unrecognized tax benefits of $535,000 for the three months ended March 31, 2014. The Company does not expect any significant increases or decreases to its unrecognized tax benefits in the next twelve months.

The Company recorded income tax provisions of $4.7 million and $14.9 million for the three and nine months ended March 31, 2014, respectively. The Company’s estimated 2014 effective tax rate differs from the U.S. statutory rate primarily due to profits earned in jurisdictions where the tax rate is lower than the U.S. tax rate.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company’s tax years from 2009 and onwards could be subject to examinations by tax authorities.

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

During the first quarter of fiscal 2014, the Company began presenting its revenues by product type in two primary categories, Service Provider Technology and Enterprise Technology. These categories better represent how the Company's business is managed and benchmarked internally, and better reflect the Company’s end user customer delineation.

- Service Provider Technology includes the Company's airMAX, EdgeMAX and airFiber platforms, as well as embedded radio products and other 802.11 standard products including base stations, radios, backhaul equipment and Customer Premise Equipment (“CPE”). Additionally, Service Provider Technology includes antennas and other products in the 2.0 to 6.0GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters.

- Enterprise Technology includes the Company's UniFi, mFi and airVision platforms.

Revenues by product type for the three and nine months ended March 31, 2014 and 2013 were as follows (in thousands, except percentages):

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014		2013		2014		2013	
Service Provider Technology	$120,987	82 %	$75,475	91 %	$326,658	78 %	$195,262	89 %
Enterprise Technology	27,344	18 %	7,680	9 %	89,799	22 %	24,329	11 %

Total revenues	$	148,331	100	%	$	83,155	100	%	$	416,457	100	%	$	219,591	100	%

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The Company generally forwards products directly from its manufacturers to its customers via logistics distribution hubs in Asia. Beginning in the quarter ended December 31, 2012, the Company's products were predominantly routed through a third party logistics provider in China and prior to the quarter ended December 31, 2012, the Company's products were predominantly delivered to its customers through distribution hubs in Hong Kong. The Company's logistics provider, in turn, ships to other locations throughout the world. The Company has determined the geographical distribution of product revenues based upon the customer's ship-to destinations.

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

	Three Months Ended March 31,						Nine Months Ended March 31,					
	2014			2013			2014			2013		
North America(1)	$29,178	20	%	$21,052	25	%	$99,178	24	%	$53,519	24	%
South America	25,059	17	%	18,496	22	%	73,827	18	%	45,820	21	%
Europe, the Middle East and Africa	77,883	52	%	31,617	38	%	189,591	45	%	90,690	41	%
Asia Pacific	16,211	11	%	11,990	15	%	53,861	13	%	29,562	14	%
Total revenues	$148,331	100	%	$83,155	100	%	$416,457	100	%	$219,591	100	%

(1) Revenue for the United States was $27.7 million and $19.7 million for the three months ended March 31, 2014 and 2013, respectively. Revenue for the United States was $95.0 million and $50.5 million for the nine months ended March 31, 2014 and 2013, respectively.

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

	Percentage of Revenues								Percentage of Accounts Receivable			
	Three Months Ended March 31,				Nine Months Ended March 31,				March 31,		June 30,	
	2014		2013		2014		2013		2014		2013	
Customer A	11	%	15	%	13	%	13	%	12	%	12	%
Customer B	10	%	*		*		*		15	%	*	
Customer C	*		*		*		*		14	%	11	%
Customer D	*		*		*		*		*		15	%

* denotes less than 10%

NOTE 13—RELATED PARTY TRANSACTIONS AND CERTAIN OTHER TRANSACTIONS

On November 13, 2013, the Company entered into an aircraft lease agreement (the "Aircraft Lease Agreement") with RJP Manageco LLC (the "Lessor"), a limited liability company owned by the Company’s CEO, Robert J. Pera. Pursuant to the Aircraft Lease Agreement, the Company may lease an aircraft owned by the Lessor for Company business purposes. Under the Aircraft Lease Agreement, the aircraft may be leased at a rate of $5,000 per flight hour. This hourly rate does not include the cost of flight crew or on-board services, which the Company will purchase from a third-party provider. The Company recognized a total of approximately $120,000 in expenses pursuant to the Aircraft Lease Agreement during the three months ended March 31, 2014. All expenses pursuant to the Aircraft Lease Agreement have been included in the Company's sales, general and administrative expenses in the Condensed Consolidated Statements of Operations.

NOTE 14—SUBSEQUENT EVENTS

On May 5, 2014, the Company and certain of its subsidiaries entered into a credit agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”), the financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders, that provides for a $150 million senior secured revolving credit facility, with an option to request an increase in the amount of the credit facility by up to an additional $50 million (any such increase to be in each lender's sole discretion). The Company may borrow up to $110 million of the facility as a U.S. sublimit. The entire amount of the facility is available to Ubiquiti International Holding Company Limited, a wholly-owned subsidiary of the Company organized under the laws of the Cayman Islands. The credit facility includes a sub-limit of $5 million for letters of credit and a sub-limit of $15 million for swingline loans. In connection with the execution of the Credit Agreement, the Company terminated the $50 million line of credit facility under the Loan Agreement described in Note 7, "Debt". Under the Credit

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Agreement, revolving loans and swingline loans may be borrowed, repaid and reborrowed until May 5, 2019, at which time all amounts borrowed must be repaid. Additionally, $72.3 million is currently outstanding under the Credit Agreement, which was borrowed by the Company to repay obligations under the Loan Agreement and to pay transaction fees and costs. Revolving loans bear interest, at the Company's option, at either (i) a floating rate per annum equal to the base rate plus a margin of between 0.250% and 1.000%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter or (ii) a per annum rate equal to the applicable LIBOR rate for a specified period, plus a margin of between 1.250% and 2.000%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. Swingline loans will bear interest at a floating rate per annum equal to the base rate plus a margin of between 0.250% and 1.000%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. Base rate is defined as the greatest of (A) Wells Fargo's prime rate, (B) the federal funds rate plus 0.500% or (C) a per annum rate equal to the rate at which dollar deposits are offered in the London interbank market for a period of one month plus 1.000%. A default interest rate shall apply on all obligations during a payment event of default under the Credit Agreement at a rate per annum equal to 2.000% above the applicable interest rate. The Company will pay to each lender a facility fee on a quarterly basis based on the unused amount of each lender's commitment to make loans, of between 0.200% and 0.350%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. Revolving loans and swingline loans may be prepaid at any time without penalty. The Company is also obligated to pay Wells Fargo, as agent, fees customary for a credit facility of this size and type.

The Credit Agreement requires the Company to maintain a maximum leverage ratio and a minimum interest coverage ratio during the term of the credit facility. In addition, the Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the ability of the Company and its subsidiaries to, among other things, grant liens or enter into agreements restricting their ability to grant liens on property, enter into mergers, dispose of assets, change their accounting or reporting policies, change their business and incur subsidiary indebtedness, in each case subject to customary exceptions for a credit facility of this size and type. The Credit Agreement includes customary events of default that, include among other things, non-payment of principal, interest or fees, inaccuracy of representations and warranties, violation of covenants, cross default to certain other indebtedness, bankruptcy and insolvency events, material judgments, change of control and certain ERISA events. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. The credit facility under the Credit Agreement expires May 5, 2019.

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

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

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

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

Overview

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

We offer a broad and expanding portfolio of networking products and solutions for service providers and enterprises. Our service provider product platforms provide carrier-class network infrastructure for fixed wireless broadband, wireless backhaul systems and routing. Our enterprise product platforms provide wireless LAN infrastructure, video surveillance products, and machine-to-machine communication components. We believe that our products are highly differentiated due to our proprietary

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software protocol innovation, firmware expertise, and hardware design capabilities. This differentiation allows our portfolio to meet the demanding performance requirements of video, voice and data applications at prices that are a fraction of those offered by our competitors.

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

- Rapid customer and community driven product development. We have an active, loyal community built from our customers that we believe is a sustainable competitive advantage. Our solutions benefit from the active engagement between the Ubiquiti Community and our development engineers throughout the product development cycle, which eliminates long and expensive multistep internal processes and results in rapid introduction and adoption of our products. This approach significantly reduces our development costs and time to market.

- Scalable sales and marketing model. We do not currently have, nor do we plan to hire, a direct sales force, but instead utilize the Ubiquiti Community to drive market awareness and demand for our products and solutions. This community-propagated viral marketing enables us to reach underserved and underpenetrated markets far more efficiently and cost-effectively than is possible through traditional sales models. Leveraging the information transparency of the Internet allows customers to research, evaluate and validate our solutions with the Ubiquiti Community and via third party web sites. This allows us to operate a scalable sales and marketing model and effectively create awareness of our brand and products. Word of mouth referrals from the Ubiquiti Community generate high quality leads for our distributors at relatively little cost.

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

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

Our revenues increased 78% to $148.3 million in the three months ended March 31, 2014 from $83.2 million in the three months ended March 31, 2013. Our revenues increased 90% to $416.5 million in the nine months ended March 31, 2014 from $219.6 million in the nine months ended March 31, 2013. We believe the overall increase in revenues during the three and nine months ended March 31, 2014 was driven by increased adoption of our service provider and enterprise technologies. Additionally, during three and nine months ended March 31, 2013, we believe we experienced lost sales due to the proliferation of counterfeit versions of our products. We believe these factors contributed to a buildup in channel inventory with our distributors, further impacting our revenues. We had net income of $45.2 million and $20.7 million in the three months ended March 31, 2014 and 2013, respectively. We had net income of $127.5 million and $51.6 million in the nine months ended March 31, 2014 and 2013, respectively. The increase in net income in both the three and nine months ended March 31, 2014 as compared to the same periods in the prior year was primarily due to the increase in revenues.

Key Components of Our Results of Operations and Financial Condition

Revenues

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

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

- Service Provider Technology includes our airMAX, EdgeMAX and airFiber platforms, as well as embedded radio products and other 802.11 standard products including base stations, radios, backhaul equipment and Customer Premise Equipment ("CPE"). Additionally, Service Provider Technology includes antennas and other products in the 2.0 to 6.0GHz spectrum and miscellaneous products such as mounting brackets, cables and power over Ethernet adapters.

- Enterprise Technology includes the Company's UniFi, mFi and airVision platforms.

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We sell substantially all of our products through a limited number of distributors and other channel partners, such as resellers and OEMs. Sales to distributors accounted for 99% and 98% of our revenues in the three months ended March 31, 2014 and 2013, respectively. Sales to distributors accounted for 99% and 97% of our revenues in the nine months ended March 31, 2014 and 2013, respectively. Other channel partners, such as resellers and OEMs, largely accounted for the balance of our revenues. We sell our products without any right of return.

Cost of Revenues

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

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

Gross Profit

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

Operating Expenses

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

- Research and development expenses consist primarily of salary and benefit expenses, including stock-based compensation, for employees and costs for contractors engaged in research, design and development activities, as well as costs for prototypes, facilities and travel. Over time, we expect our research and development costs to increase as we continue making significant investments in developing new products and developing new versions of our existing products.

- Sales, general and administrative expenses include salary and benefit expenses, including stock-based compensation, for employees and costs for contractors engaged in sales, marketing and general and administrative activities, as well as the costs of legal expenses, trade shows, marketing programs, promotional materials, bad debt expense, professional services, facilities, general liability insurance and travel. As our product portfolio and targeted markets expand, we may need to employ different sales models, such as building a direct sales force. These sales models would likely increase our costs. Over time, we expect our sales, general and administrative expenses to increase in absolute dollars due to continued growth in headcount, expansion of our efforts to register and defend trademarks and patents and to support our business and operations.

Deferred Revenues and Costs

In the event that collectability of a receivable from products we have shipped is not probable, we classify those amounts as deferred revenues on our balance sheet until such time as we receive payment of the accounts receivable. We classify the cost of products associated with these deferred revenues as deferred costs of revenues. At March 31, 2014, \$2.3 million of revenue was deferred for transactions where we lacked evidence that collectability of the receivables recorded was reasonably assured. At June 30, 2013, \$2.2 million of revenue was deferred for transactions where we lacked evidence that collectability of the receivables recorded was reasonably assured. The related deferred cost of revenues balance was \$1.2 million at both March 31, 2014 and June 30, 2013.

Also included in our deferred revenues is a portion related to PCS obligations that we estimate we will perform in the future. As of March 31, 2014 and June 30, 2013, we had deferred revenues of \$1.4 million and \$1.0 million respectively, related to these obligations.

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Critical Accounting Policies

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. In other cases, management’s judgment is required in selecting among available alternative accounting standards that provide for different accounting treatment for similar transactions. The preparation of condensed consolidated financial statements also requires us to make estimates and assumptions that affect the amounts we report as assets, liabilities, revenues, costs and expenses and affect the related disclosures. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. In many instances, we could reasonably use different accounting estimates, and in some instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, our actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. Our critical accounting policies are discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, as filed on September 13, 2013 with the SEC, or the Annual Report, and there have been no material changes except as noted below.

Recognition of Revenues

Revenues consist primarily of revenues from the sale of hardware and management tools, as well as the related implied PCS. We recognize revenues when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and the collectability of the resulting receivable is reasonably assured. In cases where we lack evidence that collectability of the resulting receivable is reasonably assured, we defer recognition of revenue until the receipt of cash. For our sales, evidence of the arrangement consists of an order from a customer. We consider delivery to have occurred once our products have been shipped and title and risk of loss have been transferred. For our sales, these criteria are met at the time the products are transferred to the customer's shipping agent. Our arrangements with customers typically do not include provisions for cancellation, returns, inventory swaps or refunds that would significantly impact recognized revenues.

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Results of Operations

Comparison of Three and Nine Months Ended March 31, 2014 and 2013

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014		2013		2014		2013	
	(In thousands, except percentages)							
Revenues	$148,331	100 %	$83,155	100 %	$416,457	100 %	$219,591	100 %
Cost of revenues(1)	82,719	56 %	47,690	57 %	231,851	56 %	128,621	59 %
Gross profit	65,612	44 %	35,465	43 %	184,606	44 %	90,970	41 %
Operating expenses:								
Research and development(1)	9,413	6 %	5,677	7 %	23,807	6 %	15,440	7 %
Sales, general and administrative(1)(2)	6,064	4 %	6,285	8 %	17,648	4 %	16,133	7 %
Total operating expenses	15,477	10 %	11,962	15 %	41,455	10 %	31,573	14 %
Income from operations	50,135	34 %	23,503	28 %	143,151	34 %	59,397	27 %
Interest expense and other, net	(283)	*	(287)	*	(778)	*	(570)	*
Income before provision for income taxes	49,852	34 %	23,216	28 %	142,373	34 %	58,827	27 %
Provision for income taxes	4,653	3 %	2,549	3 %	14,854	4 %	7,178	3 %
Net income and comprehensive income	$45,199	31 %	$20,667	25 %	$127,519	30 %	$51,649	24 %

* Less than 1%

(1) Includes stock-based compensation as follows:				
Cost of revenues	$153	$124	$445	$309
Research and development	630	324	1,679	991
Sales, general and administrative	258	252	1,506	949
Total stock-based compensation	$1,041	$700	$3,630	$2,249
(2) Includes gain on reversal of charge for an export compliance matter as follows:	$(1,121)	$—	$(1,121)	$—

Revenues

Revenues increased $65.2 million, or 78%, from $83.2 million in the three months ended March 31, 2013 to $148.3 million in the three months ended March 31, 2014. Revenues increased $196.9 million, or 90%, from $219.6 million in the nine months ended March 31, 2013 to $416.5 million in the nine months ended March 31, 2014. We believe the overall increase in revenues during both the three and nine months ended March 31, 2014 was driven by increased adoption of our service provider and enterprise technologies. Additionally, during the three and nine months ended March 31, 2013, we believe we experienced lost sales due to the proliferation of counterfeit versions of our products, which also created customer uncertainty regarding the authenticity of their potential purchases.

In the three months ended March 31, 2014, revenues from Customer A and Customer B represented 11% and 10% of our revenues, respectively. In the nine months ended months ended March 31, 2014, revenues from Customer A represented 13% of our revenues. In the three and nine months ended March 31, 2013, revenues from Customer A represented 15% and 13%, respectively.

Revenues by Product Type

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014		2013		2014		2013	
	(in thousands, except percentages)							
Service Provider Technology	$120,987	82 %	$75,475	91 %	$326,658	78 %	$195,262	89 %

Enterprise Technology	27,344	18	%	7,680	9	%	89,799	22	%	24,329	11	%
Total revenues	$148,331	100	%	$83,155	100	%	$416,457	100	%	$219,591	100	%

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Service Provider Technology revenues increased $45.5 million, or 60%, from $75.5 million in the three months ended March 31, 2013 to $121.0 million in the three months ended March 31, 2014. Revenues from Service Provider Technologies increased $131.4 million, or 67%, from $195.3 million in the nine months ended March 31, 2013 to $326.7 million in the nine months ended March 31, 2014. The increases in both periods were primarily due to continued expansion of core infrastructure build-outs in our wireless markets. Additionally, we believe we experienced significant lost sales during the three and nine months ended March 31, 2013 due to the proliferation of counterfeit versions of our products as discussed above, which also created customer uncertainty regarding the authenticity of their potential purchases.

Enterprise Technology revenues increased $19.7 million, or 256% from $7.7 million in the three months ended March 31, 2013 to $27.3 million in the three months ended March 31, 2014. Enterprise Technology revenues increased $65.5 million, or 269% from $24.3 million in the nine months ended March 31, 2013 to $89.8 million in the nine months ended March 31, 2014. The increase in Enterprise Technology revenues during both the three and nine months ended March 31, 2014 was due primarily to product expansion and further adoption of our UniFi technology platform.

Revenues by Geography

We generally forward products directly from our contract manufacturers to our customers via logistics distribution hubs in China. Beginning in the quarter ended December 31, 2012, our products were predominantly routed through a third party logistics provider in China and prior to the quarter ended December 31, 2012, our products were predominantly delivered to our customers through distribution hubs in Hong Kong. Our logistics provider, in turn, ships to other locations throughout the world. We have determined the geographical distribution of our product revenues based on our customers' ship-to destinations. A majority of our sales are to distributors who in turn sell to resellers or directly to end customers, which may be different countries than the initial ship-to destination. For the three and nine months ended March 31, 2014, revenues in all regions increased due to increased adoption of our Service Provider and Enterprise Technologies. Additionally, during the three and nine months ended March 31, 2013, we believe we experienced lost sales due to the proliferation of counterfeit versions of our products, which also created customer uncertainty regarding the authenticity of their potential purchases.

The following are our revenues by geography for the three and nine months ended March 31, 2014 and 2013 (in thousands, except percentages):

	Three Months Ended March 31,						Nine Months Ended March 31,					
	2014			2013			2014			2013		
North America(1)	$29,178	20	%	$21,052	25	%	$99,178	24	%	$53,519	24	%
South America	25,059	17	%	18,496	22	%	73,827	18	%	45,820	21	%
Europe, the Middle East and Africa	77,883	52	%	31,617	38	%	189,591	45	%	90,690	41	%
Asia Pacific	16,211	11	%	11,990	15	%	53,861	13	%	29,562	14	%
Total revenues	$148,331	100	%	$83,155	100	%	$416,457	100	%	$219,591	100	%

(1) Revenue for the United States was $27.7 million and $19.7 million for the three months ended March 31, 2014 and 2013, respectively. Revenue for the United States was $95.0 million and $50.5 million for the nine months ended March 31, 2014 and 2013, respectively.

Cost of Revenues and Gross Profit

Cost of revenues increased $35.0 million, or 73%, from $47.7 million in the three months ended March 31, 2013 to $82.7 million in the three months ended March 31, 2014. Cost of revenues increased $103.2 million, or 80%, from $128.6 million in the nine months ended March 31, 2013 to $231.9 million in the three months ended March 31, 2014. The increase in cost of revenues in both the three and nine months ended March 31, 2014 was primarily due to increased revenues and to a lesser extent, changes in product mix.

Gross profit increased to 44% in the three months ended March 31, 2014 compared to 43% in the three months ended March 31, 2013, and increased to 44% in the nine months ended March 31, 2014 compared to 41% in the nine months ended March 31, 2013, reflecting a high level of revenue growth, increasing economies of scale, a reduction in warranty expense, a one-time benefit from a rebate program with one of our vendors, and changes in product mix.

Operating Expenses

Research and Development

Research and development expenses increased $3.7 million, or 66%, from $5.7 million in the three months ended March 31, 2013 to $9.4 million in the three months ended March 31, 2014. As a percentage of revenues, research and development expenses decreased from 7% in the three months ended March 31, 2013 to 6% in the three months ended March 31, 2014. Research and development expenses increased $8.4 million, or 54%, from $15.4 million in the nine months ended March 31, 2013 to $23.8 million in the nine months ended March 31, 2014. As a percentage of revenues, research and development expenses decreased from 7% in the nine months ended March 31, 2013 to 6% in the nine months ended March 31, 2014. The increase in research and development expenses in absolute dollars in both periods was primarily due to increases in headcount as we broadened our research and development activities to introduce new products and new versions of existing products. As a percentage of revenues, research and development expenses decreased primarily due to our overall increase in revenues. Over time, we expect our research and development costs to increase in absolute dollars as we continue making significant investments in developing new products and developing new versions of our existing products.

Sales, General and Administrative

Sales, general and administrative expenses decreased $221,000, or 4%, from $6.3 million in the three months ended March 31, 2013 to $6.1 million in the three months ended March 31, 2014. As a percentage of revenues, sales, general and administrative expenses decreased from 8% in the three months ended March 31, 2013 to 4% in the three months ended March 31, 2014. Sales, general and administrative expenses increased $1.5 million, or 9%, from $16.1 million in the nine months ended March 31, 2013 to $17.6 million in the nine months ended March 31, 2014. As a percentage of revenues, sales, general and administrative expenses decreased from 7% in the nine months ended March 31, 2013 to 4% in the nine months ended March 31, 2014. The slight decrease in sales, general and administrative expenses in the three months ended March 31, 2014 compared to the same period in the prior year was primarily due to the partial reversal of our accrual relating to the settlement agreement with OFAC in March 2014 and decreases in legal fees from reduced spending on anti-counterfeiting efforts and decreases to our allowance for doubtful accounts, partially offset by increased marketing activity. Sales, general and administrative expenses increased in the nine months ended March 31, 2014 compared to the same period in the prior year, primarily due to increased marketing activity, increased professional fees, primarily related to the ancillary support of certain management functions, and overall increases in headcount to further expand our marketing and administrative functions to support our revenue growth, partially offset by decreases in legal fees from reduced spending on anti-counterfeiting efforts, decreases to our allowance for doubtful accounts and the partial reversal of our accrual relating to the settlement agreement with OFAC in March 2014. As a percentage of revenues, sales, general and administrative expenses decreased in both periods primarily due to our overall revenue increase. Over time, we expect our sales, general and administrative expenses to increase in absolute dollars due to continued efforts to protect our intellectual property and growth in headcount to support the growth in business and operations.

Interest Expense and Other, Net

Interest expense and other, net was $283,000 for the three months ended March 31, 2014, representing a slight decrease from $287,000 for the three months ended March 31, 2013. Interest expense and other, net was $778,000 for the nine months ended March 31, 2014, representing an increase of $208,000 from $570,000 for the nine months ended March 31, 2013. The increase in interest expense and other, net during the nine months ended March 31, 2014 compared to the same period in the prior year was primarily due to additional interest expense resulting from our increased borrowings from East West Bank during the nine months ended March 31, 2013.

Provision for Income Taxes

Our provision for income taxes increased $2.1 million, or 83%, from $2.5 million for the three months ended March 31, 2013 to $4.7 million for the three months ended March 31, 2014. Our effective tax rate decreased to 9% for the three months ended March 31, 2014 as compared to 11% the three months ended March 31, 2013. Our provision for income taxes increased $7.7 million, or 107%, from $7.2 million for the nine months ended March 31, 2013 to $14.9 million for the nine months ended March 31, 2014. Our effective tax rate decreased to 10% for the nine months ended March 31, 2014 as compared to 12% in the nine months ended March 31, 2013. The lower effective tax rate in the nine months ended March 31, 2014 was primarily due to a larger percentage of our overall profitability occurring in foreign jurisdictions with lower income tax rates.

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Liquidity and Capital Resources

Sources and Uses of Cash

Since inception, our operations primarily have been funded through cash generated by operations. Cash and cash equivalents increased from $227.8 million at June 30, 2013 to $291.7 million at March 31, 2014.

Consolidated Cash Flow Data

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

	Nine Months Ended March 31,	
	2014	2013
	(In thousands)	
Net cash provided by operating activities	$65,534	$85,684
Net cash used in investing activities	(3,244)	(4,408)
Net cash provided by (used in) financing activities	1,554	(21,647)
Net increase in cash and cash equivalents	$63,844	$59,629

Cash Flows from Operating Activities

Net cash provided by operating activities in the nine months ended March 31, 2014 of $65.5 million consisted primarily of net income of $127.5 million partially offset by net changes in operating assets and liabilities that resulted in net cash outflows of $66.0 million. These changes consisted primarily of a $52.2 million increase in inventory due to our efforts to build warehouse stock levels and ultimately decrease lead times, an $8.3 million increase in prepaid expenses and other current assets due to timing of deposit payments with our suppliers, an $8.0 million increase in accounts payable and accrued liabilities due primarily to our increase in cost of revenues, a $5.1 million increase in prepaid taxes due to the timing of federal tax payments and a $4.0 million increase in taxes payable. Additionally, our net income included non-cash adjustments due to stock-based compensation, depreciation and amortization, increases to our provision for inventory obsolescence, decreases in our allowance for doubtful accounts, a write-off of our intangible assets and taxes. The net of these non-cash adjustments resulted in an increase of our net cash provided by operating activities of $4.0 million.

Net cash provided by operating activities in the nine months ended March 31, 2013 of $85.7 million consisted primarily of net income of $51.6 million and net changes in operating assets and liabilities that resulted in net cash inflows of $28.1 million. These changes consisted primarily of a $35.6 million decrease in accounts receivable due to decreased revenues and improved cash collections, a $12.7 million increase in inventory due to increased inventory on hand as a result of a transition to a third-party logistics provider during December 2012, a $3.7 million increase in taxes payable due the timing of federal tax payments, a $2.5 million increase in accounts payable and accrued liabilities due to the timing of payments with our vendors and a $1.5 million increase in prepaid expenses and other current assets due to an increase in overall business activity. Additionally, our net income included non-cash adjustments due to stock-based compensation, depreciation and amortization, increases to our provision for doubtful accounts and write-downs for inventory obsolescence and an excess tax benefit from stock-based awards. The net of these non-cash adjustments resulted in an increase of our net cash provided by operating activities of $5.9 million.

Cash Flows from Investing Activities

Our investing activities consist solely of capital expenditures and purchases of intangible assets. Capital expenditures for the nine months ended March 31, 2014 and 2013 were $3.0 million and $3.3 million, respectively. Additionally, we had cash outflows related to the purchase of intangible assets of $207,000 and $1.1 million during the nine months ended March 31, 2014 and 2013, respectively.

Cash Flows from Financing Activities

On August 7, 2012, we entered into a Loan and Security Agreement (the “Loan Agreement”) with U.S. Bank, as syndication agent, and East West Bank, as administrative agent for the lenders party to the Loan Agreement. The Loan Agreement replaced the East West Bank Loan Agreement discussed below. The Loan Agreement provides for (i) a $50.0 million revolving credit facility, with a $5.0 million sublimit for the issuance of letters of credit and a $5.0

million sublimit for the making of swingline loan advances (the "Revolving Credit Facility"), and (ii) a $50.0 million term loan facility (the "Term Loan Facility"). We may request borrowings under the Revolving Credit Facility until August 7, 2015. The Loan Agreement replaced a previous

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agreement whereby we had an existing term loan balance of $29.2 million as of the date of the new Loan Agreement. On August 7, 2012, we borrowed $20.8 million of term loans under the Term Loan Facility, and no borrowings remain available thereunder. On November 21, 2012, the Company borrowed $10.0 million under the Revolving Credit Facility. On December 20, 2012, the Company borrowed an additional $20.0 million under the Revolving Credit Facility, and $20.0 million remains available for borrowing thereunder.

On August 9, 2012, we announced that our Board of Directors authorized us to repurchase up to $100.0 million of our common stock. The share repurchase program commenced August 13, 2012 and expired on August 12, 2013. During the nine months ended March 31, 2013, we repurchased 5,159,050 shares for a total cost of $54.4 million.

On December 14, 2012, we announced that our Board of Directors had authorized a special cash dividend of $0.18 per share for each share of common stock outstanding on December 24, 2012. The aggregate dividend payment of $15.7 million was paid on December 28, 2012 to stockholders of record on December 24, 2012.

Liquidity

We believe our existing cash and cash equivalents, cash provided by operations and the availability of additional funds under our loan agreements will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support development efforts, the timing of new product introductions, market acceptance of our products and overall economic conditions. As of March 31, 2014, we held $274.9 million of our $291.7 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States and we will incur significant tax liabilities if we decide to repatriate those amounts. We do not presently intend to repatriate those funds.

Commitments and Contingencies

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

Warranties and Indemnifications

Our products are generally accompanied by a 12 month warranty, which covers both parts and labor. Generally the distributor is responsible for the freight costs associated with warranty returns, and we absorb the freight costs of replacing items under warranty. In accordance with the Financial Accounting Standards Board's ("FASB's"), Accounting Standards Codification ("ASC"), 450-30, Loss Contingencies, we record an accrual when we believe it is estimable and probable based upon historical experience. We record a provision for estimated future warranty work in cost of goods sold upon recognition of revenues and we review the resulting accrual regularly and periodically adjust it to reflect changes in warranty estimates.

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

We have agreed to indemnify our directors, officers and certain other employees for certain events or occurrences, subject to certain limits, while such persons are or were serving at our request in such capacity. We may terminate the indemnification agreements with these persons upon the termination of their services with us but termination will not affect claims for

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indemnification related to events occurring prior to the effective date of termination. The maximum amount of potential future indemnification is unlimited. We have a Directors and Officers insurance policy that limits our potential exposure. We believe the fair value of these indemnification agreements is minimal. We had not recorded any liabilities for these agreements as of March 31, 2014 or June 30, 2013.

Based upon our historical experience and information known as of the date of this report, we do not believe it is likely that we will have significant liability for the above indemnities at March 31, 2014.

Contractual Obligations and Off-Balance Sheet Arrangements

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

On August 7, 2012, we entered into the Loan Agreement with U.S. Bank, as syndication agent, and East West Bank, as administrative agent for the lenders party to the Loan Agreement. The Loan Agreement provides for (i) a $50.0 million revolving credit facility, with a $5.0 million sublimit for the issuance of letters of credit and a $5.0 million sublimit for the making of swingline loan advances, and (ii) a $50.0 million Term Loan Facility. The Loan Agreement replaced a previous agreement whereby we had an existing term loan balance of $29.2 million as of the date of the new Loan Agreement. On August 7, 2012, we borrowed $20.8 million of term loans under the Term Loan Facility bringing the total borrowed to $50.0 million, and no borrowings remain available thereunder. On November 21, 2012, we borrowed $10.0 million under the Revolving Credit Facility. On December 20, 2012 we borrowed an additional $20.0 million under the Revolving Credit Facility, and $20.0 million remained available for borrowing thereunder. As of March 31, 2014 we made aggregate payments of $7.5 million against the Term Loan Facility.

The following table summarizes our contractual obligations as of March 31, 2014 for the remainder of fiscal 2014 and future fiscal years:

	2014 (remainder)	2015	2016	2017	2018	Thereafter	Total
Operating leases	$633	$2,503	$2,497	$1,537	$297	$53	$7,520
Debt payment obligations	1,250	6,875	39,375	10,000	15,000	—	72,500
Interest payments on debt payment obligations	446	1,723	1,043	532	125	—	3,869
Total	$2,329	$11,101	$42,915	$12,069	$15,422	$53	$83,889

On May 5, 2014, we entered into a Credit Agreement with Wells Fargo, the financial institutions named as lenders party therein, and Wells Fargo as administrative agent for the lenders. In connection with the execution of the Credit Agreement, we terminated and repaid all outstanding obligations under the Term Loan Facility and Revolving Credit Facility under the Loan Agreement described above. Please see Part 1, Item 1, Note 14 of the Notes to Condensed Consolidated Financial Statements for a full description of the Credit Agreement.

We subcontract with other companies to manufacture our products. During the normal course of business, our contract manufacturers procure components based upon orders placed by us. If we cancel all or part of the orders, we may still be liable to the contract manufacturers for the cost of the components purchased by the subcontractors to manufacture our products. We periodically review the potential liability and to date no significant liabilities for cancellations have been recorded. Our consolidated financial position and results of operations could be negatively impacted if we were required to compensate the contract manufacturers for any unrecorded liabilities incurred. We had $20.9 million in non-cancelable purchase commitments as of March 31, 2014, the related expenses of which are expected to be incurred in future periods.

As of March 31, 2014, we had $13.8 million of unrecognized tax benefits, substantially all of which would, if recognized, affect our tax expense. We have elected to include interest and penalties related to uncertain tax positions as a component of tax expense. We do not expect any significant increases or decreases to our unrecognized tax benefits in the next twelve months.

Recent Accounting Pronouncements

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

Non-GAAP Financial Measures

Regulation G, conditions for use of Non-Generally Accepted Accounting Principles (“Non-GAAP”) financial measures, and other SEC regulations define and prescribe the conditions for use of certain Non-GAAP financial information. To supplement

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our condensed consolidated financial results presented in accordance with GAAP, we use Non-GAAP financial measures which are adjusted from the most directly comparable GAAP financial measures to exclude certain items, as described below. Management believes that these Non-GAAP financial measures reflect an additional and useful way of viewing aspects of our operations that, when viewed in conjunction with our GAAP results, provide a more comprehensive understanding of the various factors and trends affecting our business and operations. Non-GAAP financial measures used by us include net income and diluted net income per share.
Our Non-GAAP measures primarily exclude stock-based compensation, net of taxes and other special charges and credits. Management believes these Non-GAAP financial measures provide meaningful supplemental information regarding our strategic and business decision making, internal budgeting, forecasting and resource allocation processes. In addition, these Non-GAAP financial measures facilitate management’s internal comparisons to our historical operating results and comparisons to competitors’ operating results.

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

The following table shows our Non-GAAP financial measures:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Non-GAAP net income and comprehensive income	$45,151	$21,087	$129,024	$52,998
Non-GAAP diluted net income per share of common stock	$0.50	$0.24	$1.44	$0.58

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Net income and comprehensive income	$45,199	$20,667	$127,519	$51,649
Stock-based compensation:				
Cost of revenues	153	124	445	309
Research and development	630	324	1,679	991
Sales, general and administrative	258	252	1,506	949
Gain on reversal of charge for an export compliance matter	(1,121)	—	(1,121)	—
Tax effect of non-GAAP adjustments	32	(280)	(1,004)	(900)
	$45,151	$21,087	$129,024	$52,998

Non-GAAP net income and comprehensive income				
Non-GAAP diluted net income per share of common stock	$0.50	$0.24	$1.44	$0.58
Weighted-average shares used in computing non-GAAP diluted net income per share of common stock	89,775	88,953	89,667	90,656

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity

At March 31, 2014, we had interest rate risk from the LIBOR index that was used to determine the interest rates on our Loan Agreement. Interest accrued on the outstanding principal amount of the term loan at a rate per annum equal to an adjusted LIBOR rate (based on one, two or three month interest periods) plus a spread of either 2.50% or 3.00%, which spread was determined based on the debt service ratio for the preceding four fiscal quarter period. The loans bore interest, at our option, at the base rate plus a spread of 1.25% to 1.75% or an adjusted LIBOR rate (at our election for a period of 30, 60, or 90 days) plus a spread of 2.25% to 2.75%, in each case with such spread being determined based on our debt service coverage ratio for the most recently ended fiscal quarter. The base rate was the highest of (i) East West Bank's prime rate, (ii) the federal funds rate plus a margin equal to 0.50%, or (iii) the LIBOR rate plus a margin equal to 1.00%. Based on a sensitivity analysis, as of March 31, 2014, an instantaneous and sustained 200-basis-point increase in interest rates affecting our floating rate debt obligations, and assuming that we would take no counteractive measures, would have resulted in a charge to our net income before income taxes in excess of $1.0 million over the next 12 months. On May 5, 2014, we entered into a Credit Agreement with Wells Fargo, the financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders. In connection with the execution of the Credit Agreement, the Company terminated and repaid all outstanding obligations under the Term Loan Facility and Revolving Credit Facility under the Loan Agreement described above. Please see Part 1, Item 1, Note 14 of the Notes to Condensed Consolidated Financial Statements for a full description of the Credit Agreement.
We had cash and cash equivalents of $291.7 million and $227.8 million as of March 31, 2014 and June 30, 2013, respectively. These amounts were held primarily in cash deposit accounts. The fair value of our cash and cash equivalents would not be significantly affected by either a 10% increase or decrease in interest rates due mainly to the short-term nature of these instruments.

Foreign Currency Risk

Most of our sales are denominated in U.S. dollars, and therefore, our revenues are not currently subject to significant foreign currency risk. Our operating expenses are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Chinese Yuan, Lithuanian Lita and Taiwan Dollar. During the three months ended March 31, 2014, a 10% appreciation or depreciation in the value of the U.S. dollar relative to the other currencies in which our expenses are denominated would not have had a material impact on our financial position or results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2014. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.
Limitations on the Effectiveness of Controls
Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent

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limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

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PART II: OTHER INFORMATION
Item 1. Legal Proceedings

Please see Part I, Item 1, Note 8 of the Notes to Condensed Consolidated Financial Statements for a discussion of our legal proceedings.
Item 1A. Risk Factors
This Report contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risk factors set forth below. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also affect our business. If any event related to these known or unknown risks or uncertainties actually occurs our financial condition and results of operations could be adversely affected.
We have limited visibility into future sales, which makes it difficult to forecast our future operating results.
Because of our limited visibility into demand and channel inventory levels, our ability to accurately forecast our future revenues is limited. We sell our products and solutions globally to network operators, service providers and others, primarily through our network of distributors, resellers and OEMs. We do not employ a direct sales force. Sales to distributors accounted for 98%, and 97% of our revenues in the nine months ended March 31, 2014 and 2013, respectively. Generally, our distributors are not obligated to promote our products and solutions and are free to promote and sell the products and solutions of our competitors. We sell our products to our distributors on a purchase order basis. Our distributors do not typically provide us with information about market demand for our products. While we have recently begun efforts to obtain inventory level and sales data from our distributors, this information has been difficult to obtain in a timely manner. Since we have only recently begun gathering this data, we cannot be certain that the information is reliable. Our operating expenses are relatively fixed in the short-term, and we may not be able to decrease our expenses to offset any shortfall in revenues. If we under forecast demand, our ability to fulfill sales orders will be compromised and sales may be deferred or lost altogether as potential purchasers seek alternative solutions.
We are subject to risks associated with our distributors' inventory management practices. Should any of our distributors fail to resell our products in the period of time they anticipate or overstock inventories to address anticipated supply interruptions that do not occur, our revenues and operating results would suffer in future periods.
Our distributors purchase and maintain their own inventories of our products and have no right to return the products they have purchased. We receive limited information from the distributors regarding their inventory levels and their sales of our products. If our distributors are unable to sell an adequate amount of their inventories of our products, their financial condition may be adversely affected, which could result in a decline in our sales to these distributors. Distributors with whom we do business may face issues maintaining sufficient working capital and liquidity or obtaining credit, which could impair their ability to make timely payments to us. In addition, in the past we have experienced shortages of our products and our distributors have ordered quantities in excess of their anticipated near term demand to insulate themselves from supply interruptions. If, in the future, some distributors decide to purchase more of our products than are required to satisfy customer demand in any particular quarter, inventories at these distributors would grow. These distributors likely would reduce future orders until inventory levels realign with customer demand, which could adversely affect our financial condition and results of operations.
We rely on a limited number of distributors, which we consider to be our customers, and the loss of existing distributors, or a need to add new distributors may cause disruptions in our shipments, which may materially adversely affect our ability to sell our products and achieve our revenue forecasts and we may be unable to sell inventory we have manufactured to meet expected demand in a timely manner, if at all.
Although we have a large number of distributors who sell our products, we sell a substantial majority of our products through a limited number of these distributors. In the three months ended March 31, 2014, revenues from Customer A and Customer B represented 11% and 10% of our revenues, respectively. In the nine months ended months ended March 31, 2014, revenues from Customer A represented 13% of our revenues. In the three and months nine months ended March 31, 2013, revenues from Customer A represented 15% and 13%, respectively. We anticipate that we will

continue to be dependent upon a limited number of distributors for a significant portion of our revenues for the foreseeable future. The portion of our revenues attributable to a given distributor may also fluctuate in the future. Termination of a relationship with a major distributor, either by us or by the distributor, could result in a temporary or permanent loss of revenues. We may not be successful in finding other

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suitable distributors on satisfactory terms, or at all, and this could adversely affect our ability to sell in certain geographic markets or to certain network operators and service providers.

We have experienced, and may in the future experience, reduced sales levels and damage to our brand due to production of counterfeit versions of our products.

In the past we have identified parties that are manufacturing and selling counterfeit products that we believe infringe our intellectual property rights. Sales of these counterfeit products were so substantial that our revenues were adversely affected while these products were in the market. Given the popularity of our products, we believe there is a high likelihood that counterfeit products or other products infringing on our intellectual property rights will continue to emerge. In order to combat counterfeit goods, we have and may continue to be required to spend significant resources to monitor and protect our intellectual property rights. Although we have taken steps to prevent further counterfeiting, we may not be able to detect or prevent all instances of infringement and may lose our competitive position in the market before we are able to do so. If the quality of counterfeit products is not representative of the quality of our products, further damage could be done to our brand. In addition, enforcing rights to our intellectual property may be difficult and expensive, and we may not be successful in combating counterfeit products and stopping infringement of our intellectual property rights, particularly in some foreign countries, where we could lose sales.

Our operating results will vary over time and such fluctuations could cause the market price of our common stock to decline.

Our quarterly operating results fluctuate significantly due to a variety of factors, many of which are outside of our control, and we expect them to continue to do so. Our revenues were $148.3 million, $138.4 million, $129.7 million, $101.2 million and $83.2 million and our net income was $45.2 million, $41.8 million, $40.5 million, $28.8 million and $20.7 million in the three months ended March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013 and March 31, 2013, respectively. Because revenues for any future period are not predictable with any significant degree of certainty, you should not rely on our past results as an indication of our future performance. If our revenues or operating results fall below the expectations of investors or securities analysts or below any estimates we may provide to the market, the price of our common shares would likely decline substantially, which could have a material adverse impact on investor confidence and employee retention. Our common stock has recently experienced substantial price volatility. For example, from our initial public offering through March 31, 2014, the price of our common stock ranged from $7.80 to $56.85 per share. Additionally, the stock market as a whole has experienced extreme price and volume fluctuations that have affected the stock price of many technology companies in ways that may have been unrelated to these companies' operating performance.

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

- varying demand for our products due to the financial and operating condition of our distributors and their customers, distributor inventory management practices and general economic conditions;
- shifts in our fulfillment practices including increasing inventory levels in attempt to decrease customer lead times;
- inability of our contract manufacturers and suppliers to meet our demand;
- success and timing of new product introductions by us and the performance of our products;
- announcements by us or our competitors regarding products, promotions or other transactions;
- lost sales due to the proliferation of counterfeit versions of our products;
- costs related to the protection of our intellectual property rights, including defense against counterfeiting efforts;
- costs related to responding to government inquiries related to regulatory compliance;
- our ability to control and reduce product costs;
- expenses of our entry into new markets, such as video surveillance, microwave backhaul and machine-to-machine communications;
- commencement of litigation or adverse results in litigation;
- changes in the manner in which we sell products;
- increased warranty costs;
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volatility in foreign exchange rates, changes in interest rates and/or the availability and cost of financing or other working capital to our distributors and their customers;

- the impact of write downs of excess and obsolete inventory; and
- the impact of any provisions for doubtful accounts.

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

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We could be adversely affected by unfavorable results in litigation.

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 and otherwise. It can be difficult or impossible to predict the outcome of legal proceedings with any degree of certainty, particularly given that laws may be ambiguous and factual findings can often be the result of incomplete evidence, opinions, varying standards or proof, and extraneous factors. If one or more of the legal proceedings to which we may be or become a party are resolved against us, our financial condition and results of operations could adversely affected.

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

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

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

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

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

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

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

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

Our contract manufacturers operate in China, where 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. Although we attempt to enter into agreements with our contract manufacturers to preclude them from misusing our intellectual property and trade secrets, we may be unsuccessful in monitoring and enforcing our intellectual property rights. We have in the past found and expect in the future to find counterfeit goods in the market being sold as Ubiquiti products. Although we take steps to stop counterfeits, we may not be successful
and network operators and service providers who purchase these counterfeit goods may have a bad experience, our brand may be harmed, and our business, operating results and financial condition could be materially and adversely affected.

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

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

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

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

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

- ability to allow centralized management of the solutions; and
- ability to provide quality product support.

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

A number of our current or potential competitors have longer operating histories, greater brand recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we do.
As we move into new markets for different types of equipment, our brand may not be as well known as incumbents in those markets. Potential customers may prefer to purchase from their existing suppliers rather than a new supplier, regardless of product performance or features. We expect increased competition from other established and emerging companies if our market continues to develop and expand. As we enter new markets, we expect to face competition from incumbent and new market participants.
In addition, some of our competitors have made acquisitions or have entered into partnerships or other strategic relationships with one another, and can be expected to continue to do so. Many of these companies have significantly greater financial, technical and other resources than we do and are better positioned to acquire and offer complementary products and technologies. The competitors resulting from these arrangements may create more compelling product offerings and be able to offer greater pricing flexibility, making it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or product functionality. Industry consolidation and other arrangements may adversely impact perceptions of the viability of smaller and even medium-sized technology companies and, consequently, the willingness to purchase from such companies. These competitive pressures could impact our ability to sell our products profitably, if at all, which could negatively affect our results of operations and financial condition.
New entrants and the introduction of other distribution models in our markets may harm our competitive position.
The markets for development, distribution and sale of our products are rapidly evolving. New entrants seeking to gain market share by introducing new technology and new products may make it more difficult for us to sell our products, and could create increased pricing pressure, reduced profit margins, increased sales and marketing expenses or the loss of market share or expected market share, any of which may significantly harm our business, operating results and financial condition.
Historically, large, integrated telecommunications equipment suppliers controlled access to the wireless broadband infrastructure equipment and network management software that could be used to extend the geographic reach of wireless internet networks. However, in recent years, network operators and service providers have been able to purchase wireless broadband infrastructure equipment and purchase and implement network management applications from distributors, resellers and OEMs. In addition, increased competition from providers of wireless broadband equipment may result in fewer vendors providing complementary equipment to our products, which could harm our business and revenues. Broadband equipment providers or system integrators may also offer wireless broadband infrastructure equipment for free or as part of a bundled offering, which could force us to reduce our prices or change our selling model to remain competitive. If there is a major shift in the market such that network operators and service providers begin to use closed network solutions that only operate with other equipment from the same vendor, we could experience a significant decline in sales because our products would not be interoperable with these proprietary standards.
We may not be able to enhance our products to keep pace with technological and market developments, or develop new products in a timely manner or at competitive prices.
The market for our wireless broadband networking equipment is emerging and is characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. Our ability to keep pace with technological developments, satisfy increasing network operator and service provider requirements and achieve product acceptance depends upon our ability to enhance our current products and continue to develop and introduce new product offerings and enhanced performance features and functionality on a timely basis at competitive prices. Our inability, for technological or other reasons, to enhance, develop, introduce or deliver compelling products in a timely manner, or at all, in response to changing market conditions, technologies or network operator and service provider expectations could have a material adverse effect on our operating results if end users fail to purchase our products. For example, if we are unable to achieve in a timely manner and keep pace the same level of integration and plug and play functionality for our enterprise products that characterizes our airMAX product line, our ability to grow our end user base and achieve broad acceptance of our enterprise products could be adversely affected. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and

engineering staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of our products with evolving industry standards and protocols and competitive network management environments. Development and delivery schedules for our products are difficult to predict. We may fail to introduce new versions of our products in a timely fashion. If new releases of our products are delayed, our distributors may curtail their efforts to market and promote our products and network operators and service providers may switch to competing products, any of which would result in a delay or loss of revenues and could harm our business. In

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addition, we cannot assure you that the technologies and related products that we develop will be brought to market by us as quickly as anticipated or that they will achieve broad acceptance among network operators and service providers.

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

From time to time, we may become subject to warranty or product liability claims that may require us to make significant expenditures to defend these claims or pay damage awards. In the event of a warranty claim, we may also incur costs if we compensate the affected network operator or service provider. We may also be the subject of product liability claims. Such claims could 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. For example, during the three months ended March 31, 2013 we recalled our Rocket Titanium products due to an identified manufacturing issue which was subsequently rectified. The process of identifying recalled products that have been widely distributed may be lengthy and require significant resources and we may incur significant replacement costs, contract damage claims from our network operators or service providers and harm to our reputation. Costs or payments made in connection with warranty and product liability claims and product recalls could cause our operating results to decline and harm our brand.

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

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

If we lose the services of our founder and chief executive officer, Robert J. Pera, other key members of our management team or key research and development employees, we would be required to replace these individuals. We may not be able to smoothly transition and may incur additional expense to recruit and employ replacements.

Our success and future growth depend on the skills, working relationships and continued services of our management team and in particular, our founder and chief executive officer, Robert J. Pera. Our future performance will also depend on our ability to continue to retain our other senior management. We do not maintain key person insurance for any of our personnel, except for a minor policy with respect to Mr. Pera.

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

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

Our commercial success depends in part upon us and our component suppliers not infringing, misappropriating or otherwise violating intellectual property rights owned by others and being able to resolve intellectual property claims without major financial expenditures. We operate in an industry with extensive intellectual property litigation and it is not uncommon for suppliers of certain components of our products, such as chipsets, to be involved in intellectual property-related lawsuits by or against third parties. Many industry participants that own, or claim to own, intellectual property aggressively assert their rights. Our key component suppliers are often targets of such assertions, and we may become a target as well. In addition, the network operators and service providers, whom we agree in certain circumstances to indemnify for intellectual property infringement claims related to our products, may be targets of such assertions. We cannot determine with certainty whether any existing or future third party intellectual property rights would require us to alter our technologies, obtain licenses or cease certain activities.

There are numerous patents and patent applications in the United States and other countries relating to communications technologies, and many of our competitors and other parties have substantial patent portfolios in this area. We do not generally conduct searches for patents relating to our technologies or approach third parties to seek a license to their patents. Even if we were to conduct such searches we may not uncover all relevant patents and patent applications. We therefore cannot assure that our products, technologies and operations do not, and will not, infringe third party patents. We have received, and may in the future receive, claims from third parties asserting intellectual property infringement and other related claims. In addition, if our revenues grow and our profile increases, the frequency and severity of these claims may increase. Future litigation may be necessary to defend ourselves and demand indemnification from our suppliers, if appropriate, by determining the scope, enforceability and validity of third party proprietary rights or to establish our own proprietary rights. Some of our competitors may have substantially greater resources than we do and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, patent holding companies 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. For example, we have received correspondence from certain patent holding companies who assert that we infringe certain patents related to wireless communication technologies. We believe that these patents are either invalid or not infringed by us. However, we cannot assure you that a court adjudicating a claim that we infringe these patents would rule in our favor should these patent holding companies file suit against us. We believe that in the event of a claim we may be entitled to seek indemnification from our suppliers. However, we cannot provide any assurances that if we seek such indemnification, we will receive it. At any time, any of these third parties could initiate litigation against us, or we may be forced to initiate litigation against them. Regardless of whether claims that we are infringing patents, trademarks or other intellectual property rights have any merit, these claims can be time consuming and costly to evaluate and defend and could:

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

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

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

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

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

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

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

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

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

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

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

- assure the quality of our products;

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

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

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

We have retained the services of third party logistics and warehousing providers in China. The failure or inability of these service providers to safeguard and to accurately segregate, record and report our inventory could disrupt our business and harm our reputation and operating results.

Beginning in the quarter ended December 31, 2012, we began using third party logistics and warehousing providers in China to fulfill the majority of our worldwide sales. Prior to that, our shipments were mainly fulfilled by our contract manufacturers. Depending on the terms of our arrangements with the contract manufacturers, legal title to this inventory may belong to them or to us. We rely on our third party logistics and warehousing providers to accurately segregate and record our inventory for us and to report to us the receipt and shipments of our products. We also rely on our third party logistics and warehousing providers to efficiently manage and track the delivery of products from the warehouse. Further, we rely on our third party logistics provider to safeguard our inventory, which accounts for a vast majority of our inventory balance. If these service providers fail to safeguard and to accurately segregate and record our inventory or manage and track the delivery of products, the resulting product loss and/or administrative burden could have a material adverse effect on our business, operating results and financial condition.

Our third party logistics and warehousing providers in China may fail to deliver products to our customers in an accurate and timely manner, which could harm our reputation and operating results.

We rely on third party logistics and warehousing providers in China to accurately deliver on a timely basis our products to our customers. However, due to factors out of our control, these third party logistics providers could fail to deliver the correct product or to deliver products in a timely manner. Any delay in delivery of our products or inaccurate delivery of our products to our customers could create dissatisfaction among our customers and harm our reputation. Such failure to deliver products to our customers in an accurate and timely manner could also have a material adverse effect on our business, operating results and financial condition.

We have recently increased our levels of inventory of finished products and are exposed to the risk of carrying excess or obsolete products.

With the use of third party logistics and warehousing providers, we have increased our levels of inventory of finished products and are exposed to the risk of carrying excess or obsolete products. In particular, our inventory balance increased 316% from June 30, 2013 to March 31, 2014. We are also faced with the same risk with respect to the Qualcomm Atheros chipsets and other components necessary to ensure a continuous supply of finished products. If demand for competing or newer versions of our products accelerates more rapidly than we expect, we could be required to write-off excess products for which demand has eroded which could have a material adverse effect on our business, operating results and financial condition.

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

Substantially all of our products currently include chipsets from Qualcomm Atheros. To the extent we are unable to secure an adequate supply of chipsets from Qualcomm Atheros, we would be required to redesign our products to incorporate components from alternative sources, a process which would cause significant delays and would adversely impact our revenues. We maintain a stockpile chipsets, however it may not be sufficient to cover the time it would take to re-engineer our products to replace the Qualcomm Atheros chipsets. Furthermore, if we sought a suitable second source for Qualcomm Atheros chipsets in our products, there can be no assurances that we would be able to successfully second source our chipsets on acceptable terms, if at all. In any event, our use of chipsets from multiple sources may require us to significantly modify our product designs to accommodate these different chipsets.

We are subject to numerous U.S. export control and economic sanctions laws and a substantial majority of our sales are into countries outside of the United States. Sales outside of the United States represented 77% of our revenues in both the nine months ended March 31, 2014 and 2013, respectively. We appear to have violated certain of these laws in the past, and we may violate these laws in the future despite all of our efforts to comply.

Sale of our products into certain countries is 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. Until early 2010, we lacked sufficient familiarity with the export control and sanctions laws and their applicability to our products. Our lack of sufficient familiarity was largely due to our lean corporate infrastructure, the inexperience of our management team in these matters and the fact that our products are manufactured outside the United States and most of our products never enter the United States. In 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. In August 2011, we received a warning letter from OEE stating that OEE had not referred the findings of our review for criminal or administrative prosecution and closed the investigation of us without penalty. Based upon its review of the matter, OFAC identified certain apparent violations ("Apparent Violations") of the ITSR by us during the period of in or about March 2008 through in or about February 2011, and on March 4, 2014, we entered into a settlement agreement with OFAC resolving this administrative matter. Although we have taken significant steps towards ensuring continued compliance with export control regulations and embargoes, it is possible that violations may occur which could have a material adverse effect upon our business, financial results or financial condition.

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

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

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

We rely on our contract manufacturers to produce and test all of our products. We also rely on our contract manufacturers to obtain the components, subassemblies and products necessary for the manufacture of our products. We have limited experience and personnel to manage our relationships with our contract manufacturers and our supply chain. Inaccurately forecasting our demand for key components, including the Qualcomm Atheros chipsets, could materially adversely affect our ability to build our products in a timely manner and our margins could decline. Any failure by us to effectively and proactively manage these relationships and activities could result in material adverse effects on our business, operating results and financial condition. If

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we were required or choose to transition some of our supply chain activities from our contract manufacturers to within our organization, we would be required to hire more experienced personnel and develop more supply chain policies and procedures. This transition could be lengthy and could cause significant delays in the production, testing and shipment of our products, any of which may result in material adverse effects, including an increase in our costs and our ability to ship our products and solutions. We cannot assure you that we would ever be able to effectively complete any such transition.

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

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

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

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

We rely on the Ubiquiti Community to provide network operators and service providers with support to install, operate and maintain our products. Any inaccurate information regarding our products that is spread by the Ubiquiti Community or lack of member participation with respect to particular products could lead to a poor user experience or dissatisfaction with our products.

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

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

We rely on the Ubiquiti Community to provide rapid and substantive feedback on the functionality and effectiveness of our products. The insights, problems and suggestions raised by the Ubiquiti Community enable our engineers to quickly resolve issues with our existing products and improve functionality in subsequent product releases. For example, we developed airSync (part of the airMAX platform) in response to collocation interference issues that were described in forum postings by members of the Ubiquiti Community. If the members of the Ubiquiti Community were to become less engaged or otherwise stopped providing valuable, timely feedback, our internal research and development costs and our time to market would increase, which could cause us to incur additional expenses or make our products less attractive to network operators and service providers.

Our profitability may decline as we expand into new product areas.
We receive a substantial majority of our revenues from the sale of outdoor wireless networking equipment. We have limited experience in selling our products outside of our distribution model. As we expand into new product areas, such as enterprise WLAN, video surveillance equipment, wireless backhaul and machine-to-machine communications, we may not be able to compete effectively with existing market participants and may not be able to realize a positive return on the investment we have made in these products or services. Entering these markets may result in increased product development costs and our new products may have extended time to market relative to our current products. If our introduction of a new product is not successful or we are not able to achieve the revenues or margins we expect, our operating results may be harmed and we may not recover our product development and marketing expenditures. We may also be required to add a direct sales force and customer support personnel to market and support new or existing products, which would require us to accept substantially lower product margins or increase our operating expenses. Adding a direct sales force or customer support personnel could reduce our operating income and may not be successful.

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 which may adversely affect investor confidence in our company and, as a result, the value of our common stock.
Section 404 of the Sarbanes-Oxley Act ("Section 404") requires our management to furnish a report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. We have implemented an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. We have incurred and expect to continue to incur significant expense and to devote significant resources to Section 404 compliance. This assessment must include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual and interim financial statements will not be prevented or detected on a timely basis. Although no material weaknesses have been identified in our internal control over financial reporting, in the event that our management or our independent registered public accounting firm determine that our internal control over financial reporting contains a material weakness as defined under Section 404, investor perceptions of our company may be adversely affected and could cause a decline in the market price of our stock.
Unfavorable tax law changes, an unfavorable government review of our tax returns, changes in our geographic earnings mix, or imposition of withholding taxes on repatriated earnings could adversely affect our effective tax rate and our operating results.
We conduct operations in multiple jurisdictions and therefore our effective tax rate is influenced by the amounts of income and expense attributed to each such jurisdiction. If such amounts were to change so as to increase the amounts of our net income subject to taxation in higher tax jurisdictions, or if we were to commence operations in jurisdictions assessing relatively higher tax rates, our effective tax rate could be adversely affected. Historically, we have earned a significant amount of our operating income from outside the United States in low tax rate jurisdictions. The continued availability of these rates is dependent on how we conduct our business operation across all tax jurisdictions. We are subject to periodic audits or other reviews by tax authorities in the jurisdictions in which we conduct our activities and there is a risk that tax authorities could challenge our assertion that we have conducted our business operations appropriately in order to benefit in these lower tax rate jurisdictions. In addition, there are possible tax proposals that are being considered by the U.S. Congress or the legislative bodies in foreign jurisdictions that could affect our tax rate, the carrying value of deferred tax assets or our other tax liabilities. We cannot predict the form or timing of potential legislative changes, but any newly enacted tax law could have a material adverse impact on our tax provision, net income and cash flows. In the event of an unfavorable outcome, this may result in additional tax liabilities or other adjustments to our historical results. In addition, we may determine that it is advisable from time to time to repatriate earnings from non-U.S. subsidiaries under circumstances that could give rise to imposition of potentially significant withholding taxes by the jurisdictions in which such amounts were earned and substantial tax

liabilities in the United States. In addition, we may not receive the benefit of any offsetting tax credits, which also could adversely impact our effective tax rate. As of March 31, 2014, we held $274.9 million of our $291.7 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States and we will incur significant tax liabilities if we were to repatriate those amounts.

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

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The final determination of our income tax liability may be materially different from our income tax provision.
The final determination of our income tax liability may be materially different from our income tax provision. We are subject to income taxes in both the United States and international jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions where the ultimate tax determination is uncertain. Additionally our calculations of income taxes are based on our interpretations of applicable tax laws in the jurisdictions in which we file. Although we believe our tax estimates are appropriate, there is no assurance that the final determination of our income tax liability will not be materially different than what is reflected in our income tax provisions and accruals.
We are also subject to the periodic examination of our income tax returns by the Internal Revenue Service in the United States and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. The outcomes from these examinations may have an adverse effect on our operating results and financial condition.
Should additional taxes be assessed as a result of new legislation, an audit or litigation; if our effective tax rate should change as a result of changes in federal, international or state and local tax laws; if we are found to not be in compliance with tax regulations; or if we were to change the locations where we operate, there could be a material effect on our income tax provision and results of operations in the period or periods in which that determination is made, and potentially to future periods as well.
Furthermore, our provision for income tax could increase as we expand our international operations, adopt new products, implement changes to our operating structure or undertake intercompany transactions in light of acquisitions, changing tax laws, expiring rulings, and our current and anticipated business and operational requirements.
Our operating expenses are increasing as we make expenditures to enhance and expand our operations in order to support additional growth in our business and public company reporting and compliance obligations.
Over the past several years, we have increased our expenditure on infrastructure to support our anticipated growth and as a result of our becoming 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. In addition, we may determine the need in the future to build a direct sales force to market and sell our products or provide additional resources or cooperative funds to our distributors. Such changes to our existing sales model would likely result in higher selling, general and administrative expenses as a percentage of our revenues. We expect our increased investments to adversely affect operating income. As a result of these factors, we expect our operating expenses to increase.
We have experienced rapid growth in recent periods. If we fail to manage our growth effectively and develop and implement appropriate control systems, our business and financial performance may suffer.
We have substantially expanded our overall business, number of distributors and contract manufacturers, headcount and operations in recent periods. We have made investments in our information systems and significantly expanded our operations outside the United States, including an expansion of our research and development activities in Lithuania and Taiwan. Our expansion has placed, and our expected future growth will continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. Our business model reflects our decision to operate with minimal infrastructure and low support and administrative headcount, so risks related to managing our growth are particularly salient and we may not have sufficient internal resources to adapt or respond to unexpected challenges. As a result of our focus on managing our rapid growth, we may have not allocated sufficient resources to complying with applicable regulatory and other requirements, such as spectrum operating regulations, export and embargoed countries regulations and the United States Foreign Corrupt Practices Act ("FCPA"), and our development of infrastructure designed to identify and monitor our compliance with these regulatory and other compliance obligations is at an early stage. Although we have added personnel and have put certain policies and procedures in place, we have limited staff responsible for their implementation and enforcement. For example, we have put in place procedures to verify foreign buyers against U.S. disqualified persons lists and to identify the need for export licenses based on proposed bills of material for new products. Furthermore, our employees who have the most

contact with our distributors or who are involved with order entry have attended training regarding export controls sponsored by the BIS. If we are unable to manage our growth successfully, or if our control systems do not operate effectively, our business and operating results will suffer.

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A large percentage of our research and development operations are conducted in Taiwan, Lithuania, Illinois, New York, Los Angeles, Russia and Poland, and our ability to introduce new products and support our existing products cost effectively depends on our ability to manage these disparate development sites successfully.
Our success depends on our ability to enhance current products and develop new products rapidly and cost effectively. We currently have a number of our research and development personnel in Taiwan, Lithuania, Illinois, New York, Los Angeles, Russia and Poland. In addition to our corporate headquarters in California, we must successfully allocate product development activities across the various development centers and manage them in such a manner as to meet our time to market windows while maintaining product consistency and quality. We could incur unexpected costs or delays in product development at these remote facilities that could impair our ability to meet market windows or cause us to forego certain new product opportunities.
We rely on third parties for financial and operational services essential to our ability to manage our business. A failure or disruption in these services would materially and adversely affect our ability to manage our business effectively.
We currently use NetSuite to conduct our order management and financial processes. The availability of this service is essential to the management of our business. As we expand our operations, we expect to utilize additional systems and service providers that may also be essential to managing our business. Although the systems and services that we require are typically available from a number of providers, it is time consuming and costly to qualify and implement these relationships. Therefore, our ability to manage our business would suffer if one or more of our providers suffer an interruption in their business, or experience delays, disruptions or quality control problems in their operations, or we have to change or add additional systems and services. We may not be able to control the quality of the systems and services we receive from third party service providers, which could impair our ability to implement appropriate internal controls over financial reporting and may impact our business, operating results and financial condition.
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 the economy or our industry.
As of June 30, 2012 we had $29.6 million of debt related to a term loan with East West Bank. Additionally, in August 2012 we increased the term loan facility to $50.0 million and entered into a revolving line of credit for up to another $50.0 million from East West Bank and U.S. Bank under a new loan agreement which replaced our prior loan agreement with East West Bank. As of March 31, 2014, our balance outstanding under these facilities were $72.5 million. On May 5, 2014, we entered into a Credit Agreement with Wells Fargo, the financial institutions named as lenders therein, and Wells Fargo as administrative agent for the lenders. In connection with the execution of the Credit Agreement, the Company terminated and repaid all outstanding obligations under the Term Loan Facility and Revolving Credit Facility under the Loan Agreement described above. Please see Part 1, Item 1, Note 14 of the Notes to Condensed Consolidated Financial Statements for a full description of the Credit Agreement.
Our increased debt level could have important consequences, including:

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

We also may be able to incur substantial additional indebtedness in the future. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.
A significant amount of our cash and cash equivalents are held in accounts of our subsidiaries outside the United States. If we are required to bring cash into the United States to meet our future funding obligations, we would have to pay the attendant high tax rates or seek other available funds.

We have significant operations outside the United States. As of March 31, 2014, we held $274.9 million of our $291.7 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States. Although we believe that the combination of our existing United States cash balances and future United States operating cash flows are sufficient to meet our ongoing United States operating expenses and debt repayment obligations, our expenses in the United States could increase faster than expected. If these sources of cash were insufficient to meet our future funding obligations in the United States, we could be required to bring cash into the United States and pay the attendant high tax rates or seek other available funding sources which could negatively impact our operating results, financial condition or stock price.

Failure to comply with the FCPA, and similar laws associated with our activities outside the United States could subject us to penalties and other adverse consequences.

As a substantial majority of our revenues is and will be from jurisdictions outside of the United States, we face significant risks if we fail to comply with the FCPA and other laws that prohibit improper payments or offers of payment to foreign governments and their officials and political parties by us and other business entities for the purpose of obtaining or retaining business, such as the UK Bribery Act. In many foreign countries, particularly in countries with developing economies, which represent our principal markets, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other laws and regulations. Although we have implemented a company policy requiring our employees and consultants to comply with the FCPA and similar laws, we have a limited number of employees engaged in sales so we have not conducted formal FCPA compliance training. We have not engaged in training of our distributors and resellers and are in the process of amending our distributor agreements to provide clear requirements for our distributors' and resellers' compliance with U.S. laws, including the FCPA, therefore there can be no assurance that all of our employees, and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies, for which we may be ultimately held responsible. Any violation of FCPA and related policies could result in severe criminal or civil sanctions and suspension or debarment from U.S. government contracting, which could have a material and adverse effect on our reputation, business, operating results and financial condition.

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

Our products operate in unlicensed RF spectrum, which is used by a wide range of consumer devices such as cordless phones, baby monitors, and microwave ovens, and is becoming increasingly crowded. If such spectrum usage continues to increase through the proliferation of consumer electronics and products competitive with ours, the resultant higher levels of clutter and interference in the bands of operation our products use could decrease the effectiveness of our products, which could adversely affect our ability to sell our products and our business could be further harmed if currently unlicensed RF spectrum becomes licensed in the United States or elsewhere. Network operators and service providers that use our products may be unable to obtain licenses for RF spectrum at reasonable prices or at all. Even if the unlicensed spectrum remains unlicensed, existing and new government regulations may require we make changes in our products. For example, to provide products for network operators and service providers who utilize unlicensed RF spectrum, we may be required to limit their ability to use our products in licensed RF spectrum. The operation of our products by network operators or service providers in the United States or elsewhere in a manner not in compliance with local law could result in fines, operational disruption, or harm to our reputation.

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

Our products may contain defects and bugs when they are first introduced or as new versions are released. We have focused, and intend to focus in the future, on getting our new products to market quickly. Due to our rapid product introductions, defects and bugs that may be contained in our products may not yet have manifested. We have in the past experienced, and may in the future experience, defects and bugs. For example we announced a recall of our Titanium Rocket products in the quarter ended March 31, 2013. If any of our products contains material defects or bugs, or has reliability, quality or compatibility problems, we may not be able to successfully correct these problems. Consequently, our reputation may be damaged and network operators or service providers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing network operators or service providers and attract new network operators or service providers. In addition, these defects or bugs could interrupt or delay sales to our distributors. If any of these problems is not found until after we have commenced commercial production and distribution of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our network operators, service providers or others. As a result, our operating costs could be adversely affected.

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

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

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

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

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

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

As of March 31, 2014, we had international operations in Hong Kong, Taiwan, China, Lithuania, Russia and Poland. We also sell to distributors outside the United States and for both the nine months ended March 31, 2014 and 2013, our revenues from sales outside the United States were 77%. Our operations outside the United States subject us to risks that we have not generally faced in the United States. These include:

- the burdens of complying with a wide variety of U.S. laws applicable to export controls, foreign operations, foreign laws and different legal standards;
- fluctuations in currency exchange rates;

- unexpected changes in foreign regulatory requirements;
- counterfeiting of our products or infringement on our intellectual property rights by third parties;
- difficulties in managing the staffing of remote operations;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems, restrictions on the repatriation of earnings and changes in tax rates;

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- dependence on distributors in various countries with different pricing policies, inventory management and forecasting practices;
- reduced or varied protection for intellectual property rights in some countries;
- demand for reliable wireless broadband networks in those countries;
- requirements that we comply with local telecommunication regulations in those countries;
- increased financial accounting and reporting burdens and complexity;
- political, social and economic instability in some jurisdictions; and
- terrorist attacks and security concerns in general.

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

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

Geopolitical uncertainties and events could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on us, our suppliers, logistics providers, manufacturing vendors and customers, including our channel partners. The foreign policies of governments may be volatile, and may result in rapid changes to import and export requirements, customs classifications, tariffs, trade sanctions and embargoes that may prevent us from offering products or providing services to particular entities or markets or may create delays and inefficiencies in the our supply chain.

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 that could have an adverse effect on our business. 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 cyber threats or other security problems, bugs, viruses, worms, malicious software programs and 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. Any such event could have a material adverse effect on our business, operating results, and financial condition.

Our contract manufacturers, shipping points and certain administrative and research and development operations are located in areas likely to be subject to natural disasters or other events that could stop us from having our products

made or shipped or could result in a substantial delay in our production or development activities.
Our manufacturing capacity may be reduced or eliminated at one or more facilities because our manufacturing, assembly, testing and shipping contractors are all located in southern China, the majority of our products are shipped from China and we have research and development offices in Taiwan, China, Lithuania, Russia, New York, Illinois and California. Our principal executive offices are also located in California. The risk of earthquakes, typhoons and other natural disasters in these geographic areas is significant due to the proximity of major earthquake fault lines. Southern China and Taiwan are also subject to typhoons and other Pacific storms. Earthquakes, fire, flooding or other natural disasters in California, southern China or

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Taiwan, or political unrest, war, labor strikes, work stoppages or public health crises, in countries where our or our contractors' facilities are located could result in the disruption of our development, manufacturing, assembly, testing or shipping capacity. Any disruption resulting from these events could cause significant delays in product development or shipments of our products until we are able to shift our development, manufacturing, assembly or testing from the affected contractor to another third party vendor or our research and development activities to another location. We cannot assure you that alternative capacity could be obtained on favorable terms, if at all.

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

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

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

Our products may transmit and store personal information. This information is increasingly subject to legislation and regulations in numerous jurisdictions around the world. This government action is typically intended to protect the privacy and security of personal information that is collected, stored and transmitted in or from the governing jurisdiction. In addition, because various foreign jurisdictions have different laws and regulations concerning the storage and transmission of personal information, we may face unknown requirements that pose compliance challenges in new geographic markets that we seek to enter. Such variation could subject us to costs, delayed product launches, liabilities or negative publicity that could impair our ability to expand our operations into some countries and therefore limit our future growth.

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

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

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

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

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

We have not made any acquisitions to date. In the future, we may make acquisitions to improve or expand our product offerings. Our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions. Mergers and acquisitions are inherently risky and any mergers and acquisitions we complete may not be successful. Any mergers and acquisitions we may pursue would involve numerous risks, including the following:

- difficulties in integrating and managing the operations, technologies and products of the companies we acquire, particularly in light of our lean organizational structure;

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

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

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference from Form	Incorporated by Reference from Exhibit Number	Date Filed
10.1	Credit Agreement, dated as of May 3, 2014, by and among Ubiquiti Networks, Inc. and Ubiquiti International Holding Company Limited, as Borrowers, the Lenders referred to therein, as Lenders, and Wells Fargo Bank, National Association, as Administrative Agent.			Filed herewith
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.			
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.			
32.1	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.			
101.INS(1)	XBRL Instance Document			
101.SCH(1)	XBRL Taxonomy Schema Linkbase Document			
101.CAL(1)	XBRL Taxonomy Calculation Linkbase Document			
101.DEF(1)	XBRL Taxonomy Definition Linkbase Document			
101.LAB(1)	XBRL Taxonomy Labels Linkbase Document			
101.PRE(1)	XBRL Taxonomy Presentation Linkbase Document			

(1) In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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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: May 8, 2014	By:	/s/ Robert J. Pera Robert J. Pera
		Chief Executive Officer and Director (Principal Executive Officer)
Dated: May 8, 2014	By:	/s/ Craig L. Foster Craig L. Foster
		Chief Financial Officer (Principal Financial Officer)

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