
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

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 Number: 001-37582

ADESTO TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

16-1755067
(I.R.S. Employer
Identification No.)

Adesto Technologies Corporation
3600 Peterson Way
Santa Clara, CA 95054

(408) 400-0578
(Address and telephone number of Registrant's executive offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at November 7, 2016</u>
Common Stock, \$0.0001 par value per share	15,489,951 shares

ADESTO TECHNOLOGIES CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Adesto Technologies Corporation
 Condensed Consolidated Balance Sheets
 (in thousands, except share and per share data)

	September 30, 2016 (unaudited)	December 31, 2015 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,377	\$ 23,089
Accounts receivable, net	5,008	6,536
Inventories	7,907	7,368
Prepaid expenses	436	1,155
Other current assets	1,216	1,186
Total current assets	35,944	39,334
Property and equipment, net	6,218	909
Intangible assets, net	8,632	9,559
Other non-current assets	218	114
Goodwill	22	22
Total assets	<u>\$ 51,034</u>	<u>\$ 49,938</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,804	\$ 9,680
Income taxes payable	95	52
Accrued compensation and benefits	1,341	893
Accrued expenses and other current liabilities	1,718	1,413
Term loan, current	6,456	5,606
Total current liabilities	17,414	17,644
Line of credit	2,000	-
Term loan	11,395	7,814
Deferred rent, non-current	2,924	-
Deferred tax liability, non-current	2	1
Total liabilities	33,735	25,459
Commitments and contingencies (See Note 7)		
Stockholders' equity:		
Common stock, \$0.0001 par value, 100,000,000 shares authorized; 15,056,034 and 14,974,718 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	2	2
Additional paid-in capital	109,913	107,167
Accumulated other comprehensive loss	(182)	(146)
Accumulated deficit	(92,434)	(82,544)
Total stockholders' equity	17,299	24,479
Total liabilities and stockholders' equity	<u>\$ 51,034</u>	<u>\$ 49,938</u>

(1) The condensed consolidated balance sheet as of December 31, 2015 was derived from the audited consolidated financial statements as of that date.

See accompanying Notes to Condensed Consolidated Financial Statements.

Adesto Technologies Corporation

Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 11,180	11,143	\$ 31,638	31,433
Cost of revenue	5,803	6,110	16,531	18,346
Gross profit	5,377	5,033	15,107	13,087
Operating expenses:				
Research and development	4,390	3,217	12,527	9,313
Sales and marketing	2,870	2,126	8,315	6,189
General and administrative	1,586	919	4,984	2,589
Gain from settlement with former foundry supplier	-	-	(1,962)	-
Total operating expenses	8,846	6,262	23,864	18,091
Loss from operations	(3,469)	(1,229)	(8,757)	(5,004)
Other income (expense):				
Interest expense, net	(576)	(336)	(1,058)	(822)
Other income (expense), net	(18)	494	(29)	783
Total other income (expense), net	(594)	158	(1,087)	(39)
Loss before provision for income taxes	(4,063)	(1,071)	(9,844)	(5,043)
Provision for income taxes	15	5	46	76
Net loss	\$ (4,078)	(1,076)	\$ (9,890)	(5,119)
Net loss per share				
Basic and diluted	\$ (0.27)	(1.90)	\$ (0.66)	(9.11)
Weighted average number of shares used in computing net loss per share				
Basic and diluted	15,034,475	564,896	14,997,417	562,110

See accompanying Notes to Condensed Consolidated Financial Statements.

Adesto Technologies Corporation

Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net loss	\$ (4,078)	\$ (1,076)	\$ (9,890)	\$ (5,119)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(19)	45	(36)	(143)
Comprehensive loss, net of tax	<u>\$ (4,097)</u>	<u>\$ (1,031)</u>	<u>\$ (9,926)</u>	<u>\$ (5,262)</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

Adesto Technologies Corporation

Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (9,890)	\$ (5,119)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	2,508	197
Depreciation and amortization	684	1,173
Amortization of intangible assets	927	927
Amortization of debt discount	606	355
Deferred income taxes	1	9
Gain from settlement with former foundry supplier	(1,962)	—
Changes in fair value of preferred stock warrant liability	—	(522)
Changes in assets and liabilities:		
Accounts receivable	1,528	(2,516)
Inventories	(539)	472
Prepaid expenses and other assets	619	(1,521)
Accounts payable	(1,037)	1,644
Income taxes payable	43	—
Accrued compensation and benefits	448	102
Accrued expenses, other liabilities, and deferred rent	703	633
Net cash used in operating activities	<u>(5,361)</u>	<u>(4,166)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(2,358)	(388)
Net cash used in investing activities	<u>(2,358)</u>	<u>(388)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	238	10
Proceeds from term loan, net of fees	17,825	14,903
Proceeds (payments) on revolving line of credit	2,000	(4,273)
Payments on term loan	(14,000)	(6,600)
Net cash provided by financing activities	<u>6,063</u>	<u>4,040</u>
Effect of exchange rates on cash and equivalents	(56)	(121)
Net decrease in cash and cash equivalents	(1,712)	(635)
Cash and cash equivalents - beginning of period	23,089	5,972
Cash and cash equivalents - end of period	<u>\$ 21,377</u>	<u>\$ 5,337</u>
Supplemental disclosures of other cash flow information:		
Cash paid for interest expense	\$ 494	\$ 521
Supplemental disclosures of non-cash investing information:		
Purchase of property and equipment included in accounts payable	\$ 1,123	\$ 863

See accompanying Notes to Condensed Consolidated Financial Statements.

Adesto Technologies Corporation
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1. Organization and Summary of Significant Accounting Policies.

Organization and Nature of Operations.

Adesto Technologies Corporation (together with its subsidiaries; “Adesto”, “we”, “our”, “us” or the “Company”) was incorporated in the state of California in January 2006 and reincorporated in Delaware in October 2015. We are a leading provider of application-specific and ultra-low power non-volatile memory (“NVM”) products. Our corporate headquarters are located in Santa Clara, California.

On September 28, 2012, we purchased certain flash memory product assets from Atmel Corporation and our financial results include the operating results of those assets from the date of acquisition.

The Company completed its initial public offering (“IPO”) of common stock on October 30, 2015. The Company sold 5,192,184 shares, including 192,184 shares for the underwriters’ option to purchase additional shares. The shares were sold at an initial public offering price of \$5.00 per share for net proceeds of \$22.1 million to the Company, after deducting underwriting discounts and commissions and offering expenses.

Basis of Presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP to complete annual financial statements. In the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly the financial position of the Company and its results of operations and cash flows for the interim periods presented have been included. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016, for any other interim period or for any other future year.

The condensed consolidated balance sheet as of December 31, 2015 was derived from the audited consolidated financial statements as of that date, but does not include all of the disclosures required by U.S. GAAP. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 30, 2016.

The condensed consolidated financial statements include the results of our operations, and the operations of our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

There have been no material changes to our significant accounting policies described in Note 1, *Organization and Summary of Significant Accounting Policies*, in Notes to Consolidated Financial Statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2015 that have had a material impact on our condensed consolidated financial statements and related notes, except as described below.

Reverse Stock Split.

On October 1, 2015, we effected a 1-for-33 reverse stock split of our common stock and convertible preferred stock (collectively, “Capital Stock”). On the effective date of the reverse stock split, (i) each 33 shares of outstanding Capital Stock were reduced to one share of Capital Stock; (ii) the number of shares of Capital Stock into which each outstanding warrant or option to purchase Capital Stock is exercisable were proportionately reduced on a 33-to-1 basis; (iii) the exercise price of each outstanding warrant or option to purchase Capital Stock were proportionately increased on a 1-to-33 basis; and (iv) each 33 shares of authorized Capital Stock were reduced to one share of Capital Stock. All of the share numbers, share prices, and exercise prices have been adjusted, on a retroactive basis, to reflect this 1-for-33 reverse stock split. The par value of the common stock and convertible preferred stock were not adjusted as a result of the reverse stock split.

Use of Estimates.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amount of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate those estimates, including those related to allowances for doubtful

Adesto Technologies Corporation
Notes to Condensed Consolidated Financial Statements
(unaudited)

accounts, reserves for sales, warranty accrual, inventory write-downs, valuation of long-lived assets, including property and equipment and identifiable intangible assets and goodwill, loss on purchase commitments, valuation of deferred taxes and contingencies. In addition, we use assumptions when employing the Black-Scholes option-pricing model to calculate the fair value of stock options granted. We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, when these carrying values are not readily available from other sources. Actual results could differ from these estimates.

Revenue Recognition and Accounts Receivable Allowances.

We recognize revenue from product sales when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, transfer of title occurs, and the collectibility of the resulting receivable is reasonably assured. Due to the historical immaterial level of product returns under warranty, we do not record a reserve for estimated returns under warranty at the time of revenue recognition.

Generally, we meet product sale revenue recognition conditions upon shipment because, in most cases, title and risk of loss passes to the customer at that time. In addition, we estimate and record provisions for future returns and other charges against revenue at the time of shipment, consistent with the terms of sale. We sell products to distributors at the price listed in our distributor price book. At the time of sale, we record a sales reserve for ship from stock and debits ("SSDs"), stock rotation rights and any special programs approved by management. We offset the sales reserve against recorded revenues, producing the revenue amount reported in our consolidated statements of operations.

The market price for our products can differ significantly from the book price at which we sold the product to the distributor. When the market price of a particular distributor's sales opportunity to their customers would result in low or negative margins for the distributor, as compared to our original book price, we negotiate SSDs with the distributor. Management analyzes our SSD history to develop current SSD rates that form the basis of the SSD revenue reserve recorded each period. We obtain the historical SSD rates from the distributor's records and our internal records.

We typically grant payment terms of between 30 and 60 days to our customers. Our customers generally pay within those terms. Distributors are invoiced for shipments at listed book price. When the distributors pay the invoice, they may claim debits for SSDs previously authorized by us when appropriate. Once claimed, we process the requests against prior authorizations and adjust reserves previously established for that customer.

The revenue we record for sales to our distributors is net of estimated provisions for these programs. Determining net revenue requires significant judgments and estimates on our part. We base our estimates on historical experience rates, the levels of inventory held by our distributors, current trends and other related factors. Because of the inherent nature of estimates, there is a risk actual amounts may differ materially from our estimates. Our consolidated financial condition and operating results depend on our ability to make reliable estimates. We believe that such estimates are reasonable.

We also monitor collectibility of accounts receivable primarily through review of our accounts receivable aging. When facts and circumstances indicate the collection of specific amounts or from specific customers is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, record a charge in the period such determination is made. As of September 30, 2016 and December 31, 2015, there was no allowance for doubtful accounts.

Shipping Costs.

We charge shipping costs to cost of revenue as incurred.

Product Warranty.

Our products are sold with a limited warranty for a period of one year, warranting that the product conforms to specifications and is free from material defects in design, materials and workmanship. To date, we have had insignificant returns of any defective production parts. During the year ended December 31, 2015, we recorded \$250,000 for a specific potential warranty claim. During the nine months ended September 30, 2016, approximately \$41,000 has been incurred relating to this potential warranty claim. As of September 30, 2016, the warranty accrual was \$209,000.

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Notes to Condensed Consolidated Financial Statements
(unaudited)

Income Taxes.

We account for income taxes using an asset and liability approach, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements, but have not been reflected in our taxable income. Valuation allowances are established to reduce deferred tax assets as necessary when in management's estimate, based on available objective evidence, it is more likely than not that we will not generate sufficient taxable income in future periods to realize the benefit of our deferred tax assets. We include interest and penalties related to unrecognized tax benefits in income tax expense. We recognize in our consolidated financial statements the impact of a tax position that based on its technical merits is more likely than not to be sustained upon examination.

Foreign Currency Translation.

The functional currency of our foreign subsidiaries is the local currency. In consolidation, we translate assets and liabilities at exchange rates in effect at the consolidated balance sheet date. We translate revenue and expense accounts at the average exchange rates during the period in which the transaction takes place. Net gains or losses from foreign currency translation of assets and liabilities were a loss of \$19,000 and a gain of \$45,000 for the three months ended September 30, 2016 and 2015, respectively. Net gains or losses from foreign currency translation of assets and liabilities were a loss of \$36,000 and a loss of \$0.1 million for the nine months ended September 30, 2016 and 2015, respectively, and are included in the cumulative translation adjustment component of accumulated other comprehensive loss, net of tax, a component of stockholders' equity. Net gains and losses arising from transactions denominated in currencies other than the functional currency were a loss of \$18,000 and a loss of \$20,000 for the three months ended September 30, 2016 and 2015, respectively. Net gains and losses arising from transactions denominated in currencies other than the functional currency were a loss of \$29,000 and a loss of \$20,000 for the nine months ended September 30, 2016 and 2015, respectively, and are included in other income (expense), net in the condensed consolidated statements of operations.

Cash and Cash Equivalents.

We consider all highly liquid investments with an initial maturity of 90 days or less at the date of purchase to be cash equivalents. We maintain such funds in overnight cash deposits.

Property and Equipment.

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or the term of the related lease, whichever is shorter. Estimates of useful lives are as follows:

	Estimated useful lives
Machinery and equipment	2-5 years
Furniture and fixtures	3 years
Leasehold improvements	Shorter of lease term or 5 years
Computer software	3 years

Inventories.

We record inventories at the lower of standard cost (which generally approximates actual cost on a first-in, first-out basis) or market value. On a quarterly basis, we analyze inventories on a part-by-part basis. The carrying value of inventory is adjusted for excess and obsolete inventory based on inventory age, shipment history and the forecast of demand over a specific future period. At the point of loss recognition, a new lower cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that new cost basis. The semiconductor markets that we serve are volatile and actual results may vary from forecast or other assumptions, potentially affecting our assessment of excess and obsolete inventory which could have a material effect on our results of operations.

Long-Lived Assets.

We evaluate our long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We recognize an impairment loss when the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to the asset. If impairment is indicated, we write the

Adesto Technologies Corporation
Notes to Condensed Consolidated Financial Statements
(unaudited)

asset down to its estimated fair value. For all periods presented, we have not recognized any impairment losses on our long-lived assets.

Purchased Intangible Assets.

Purchased intangible assets are amortized over their useful lives unless these lives are determined to be indefinite. Purchased intangible assets with definite lives are carried at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets as follows:

	<u>Years</u>
Developed technology	10
Customer relationships	12
Customer backlog	1
Non-compete agreement	5

Goodwill.

Goodwill represents the excess of the cost of an acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed.

We evaluate our goodwill, at a minimum, on an annual basis and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We perform our annual goodwill impairment test as of November 1 of each year. We last conducted our annual goodwill impairment analysis in the fourth quarter of 2015 and no goodwill impairment was indicated.

When evaluating goodwill for impairment, we may initially perform a qualitative assessment which includes a review and analysis of certain quantitative factors to estimate if a reporting unit's fair value significantly exceeds its carrying value. When the estimate of a reporting unit's fair value appears more likely than not to be less than its carrying value based on this qualitative assessment, we continue to the first step of two steps impairment test. The first step requires a comparison of the fair value of the reporting unit to its net book value, including goodwill. The fair value of the reporting unit is determined based on a weighting of income and market approaches. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we estimate the fair value based on market multiples of revenue or earnings for comparable companies. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, and future economic and market conditions and determination of appropriate market comparables. We base these fair value estimates on reasonable assumptions that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. A potential impairment exists if the fair value of the reporting unit is lower than its net book value. The second step of the process is only performed if a potential impairment exists, and it involves determining the difference between the fair values of the reporting unit's net assets, other than goodwill, and the fair value of the reporting unit, and, if the difference is less than the net book value of goodwill, an impairment charge is recorded. In the event that we determine that the value of goodwill has become impaired, we record a charge for the amount of impairment during the fiscal quarter in which the determination is made. We operate in one reporting unit.

Research and Development Expenses.

Research and development expenditures are expensed as incurred.

Stock-based Compensation.

We account for stock-based compensation using the fair value method. We determine fair value for stock options awarded to employees at the grant date using the Black-Scholes option-pricing model, which requires us to make various assumptions, including the fair value of the underlying common stock, expected future share price volatility and expected term. We determine the fair value of stock options awarded to non-employees at each vesting date using the Black-Scholes option-pricing model, and re-measure fair value at each reporting period until the services required under the arrangement are completed. Fair value is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. We are required to estimate the expected forfeiture rate and only recognize expense for those stock-based awards expected to vest. We estimate the forfeiture rate

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(unaudited)

based on historical experience of our stock-based awards that are granted, exercised and cancelled. If the actual forfeiture rate is materially different from our estimate, stock-based compensation expense in future periods could be significantly different from what was recorded in the current period.

Concentration of Risk.

Our products are primarily manufactured, assembled and tested by third-party foundries and other contractors in Asia and we are heavily dependent on a single foundry in Taiwan for the manufacture of wafers and a single contractor in the Philippines for assembly and testing of our products. We do not have long-term agreements with either of these suppliers. A significant disruption in the operations of these parties would adversely impact the production of our products for a substantial period of time, which could have a material adverse effect on our business, financial condition, operating results and cash flows.

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivables. We place substantially all of our cash and cash equivalents on deposit with a reputable, high credit quality financial institution in the United States of America. We believe that the bank that holds substantially all of our cash and cash equivalents is financially sound and, accordingly, subject to minimal credit risk. Deposits held with the bank may exceed the amount of insurance provided on such deposits.

We generally do not require collateral or other security in support of accounts receivable. We periodically review the need for an allowance for doubtful accounts by considering factors such as historical experience, credit quality, the age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay. As a result of our favorable collection experience and customer concentration, there was no allowance for doubtful accounts as of September 30, 2016 and December 31, 2015.

Customer concentrations as a percentage of revenue were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Customer A	12%	13%	14%	14%
Customer B	*	11%	11%	*
Customer C	*	12%	*	*
Customer D	10%	12%	10%	10%

* less than 10%

Customer concentrations as a percentage of gross accounts receivable were as follows:

	September 30,	December
	2016	31,
	2016	2015
Customer A	16%	16%
Customer B	13%	13%
Customer C	12%	*
Customer D	*	14%
Customer E	*	10%

* less than 10%

Net Loss per Share.

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period, without consideration for potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common shares and potentially dilutive common stock equivalents outstanding for the period

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(unaudited)

determined using the treasury-stock and if-converted methods. For purposes of the diluted net loss per share calculation, common stock options, restricted stock units, and warrants are considered to be potentially dilutive securities.

Loss Contingencies.

We are or have been subject to claims arising in the ordinary course of business. We evaluate contingent liabilities, including threatened or pending litigation, for potential losses. If the potential loss from any claim or legal proceedings is considered probable and the amount can be estimated, we accrue a liability for the estimated loss. Because of uncertainties related to these matters, accruals are based upon the best information available. For potential losses for which there is a reasonable possibility (meaning the likelihood is more than remote but less than probable) that a loss exists, we will disclose an estimate of the potential loss or range of such potential loss or include a statement that an estimate of the potential loss cannot be made. As additional information becomes available, we reassess the potential liability related to pending claims and litigation and may revise our estimates, which could materially impact our consolidated financial statements.

Recent Accounting Pronouncements.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09, Revenue from Contracts with Customers, creating ASC Topic 606. Upon adoption, this topic supersedes the existing guidance under ASC 605 and aims to simplify the number of requirements to follow for revenue recognition and make revenue recognition more comparable across various entities, industries, jurisdictions and capital markets. There are five core principles: 1. Identify the contract(s) with a customer. 2. Identify the performance obligations in the contract. 3. Determine the transaction price. 4. Allocate the transaction price to performance obligations in the contract. 5. Recognize revenue when (or as) the entity satisfies a performance obligation. Additional considerations under this update include: accounting for costs to obtain or fulfill a contract with a customer and additional quantitative and qualitative disclosures. We plan to adopt this guidance effective for periods beginning after December 15, 2017 (including interim reporting periods within those periods), or the first quarter of 2018, and are currently evaluating the impact on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern. The amendments require management to perform interim and annual assessments of an entity’s ability to continue as a going concern and provide guidance on determining when and how to disclose going concern uncertainties in the financial statements. ASU 2014-15 applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. We are currently evaluating the impact that this new guidance will have on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which simplifies the presentation of debt issuance costs. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, with early adoption permitted. We adopted this guidance on our consolidated financial statements with no effect in the first quarter of 2016.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, amending ASC 330. Upon adoption, this topic supersedes the existing guidance under ASC 330 and aims to simplify the subsequent measurement of inventory. Currently, inventory can be measured at the lower of cost or market, which could result in several potential outcomes, as market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. The major amendments would be as follows: 1. Inventory should be measured at the lower of cost or net realizable value. 2. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. 3. The amendment does not apply to inventory measured under LIFO or the retail inventory method. 4. The amendment does apply to all other inventory, which includes inventory measured via FIFO or average cost. We plan to adopt this guidance effective for periods beginning after December 15, 2016 (including interim reporting periods within those fiscal years), or the first quarter of 2017, and do not expect it to have a material effect on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, Topic 842. This ASU requires lease assets and lease liabilities arising from leases, including operating leases, to be recognized on the balance sheet. ASU 2016-02 will become effective for us on January 1, 2019. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation, ASC Topic 718: Improvements to Employee Share-Based Payment Accounting. Under this ASU, several aspects of the accounting for share-based payment award transactions are

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simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. We plan to adopt this guidance effective for periods beginning after December 15, 2016 (including interim reporting periods within those periods), or the first quarter of 2017, and are currently evaluating the impact on our consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers, Topic 606. The ASU, among other things: (1) clarifies the objective of the collectability criterion for applying paragraph 606-10-25-7; (2) permits an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specifies that the measurement date for noncash consideration is contract inception; (4) provides a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarifies that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarifies that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. We plan to adopt this guidance effective for periods beginning after December 15, 2017 (including interim reporting periods within those periods), or the first quarter of 2018, and are currently evaluating the impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, ASC Topic 230. This ASU is a clarification of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update provides guidance on eight identified issues: 1) debt prepayment or extinguishment costs, 2) settlement of zero-coupon debt, 3) contingent consideration for payments, 4) proceeds from settlement of insurance claims, 5) proceeds from settlement of corporate-owned life insurance policies, 6) distributions from equity method investees, 7) beneficial interests in securitization transactions, and 8) separately identifiable cash flows. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period.

Note 2. Balance Sheet Components.

Accounts Receivable, Net.

Accounts receivable, net consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Accounts receivable	\$ 7,844	\$ 10,936
Allowance for SSDs, price protection, rights of return and other activities	(2,836)	(4,400)
Total accounts receivable, net	<u>\$ 5,008</u>	<u>\$ 6,536</u>

Inventories.

Inventories consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Raw materials	\$ 330	\$ 1,149
Work-in-process	6,388	4,844
Finished goods	1,189	1,375
Total inventories	<u>\$ 7,907</u>	<u>\$ 7,368</u>

For the three months ended September 30, 2016 and 2015, we realized a benefit of \$0.1 million and \$0.3 million, respectively, from the sales of previously reserved products.

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For the nine months ended September 30, 2016 and 2015, we realized benefits of \$0.8 million and \$1.0 million, respectively, from the sales of previously reserved products.

Other current assets.

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

	September 30, 2016	December 31, 2015
Foreign research credit receivable	\$ 1,097	\$ 1,063
Other current assets	119	123
Total other current assets	<u>\$ 1,216</u>	<u>\$ 1,186</u>

Property and Equipment, Net.

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

	September 30, 2016	December 31, 2015
Machinery and equipment	\$ 7,238	\$ 6,627
Furniture and fixtures	77	77
Leasehold improvements	4,200	141
Computer software	668	668
Construction in progress	1,247	52
Property and equipment, at cost	13,430	7,565
Accumulated depreciation and amortization	(7,212)	(6,656)
Property and equipment, net	<u>\$ 6,218</u>	<u>\$ 909</u>

Depreciation and amortization expense of property and equipment for the three and nine months ended September 30, 2016 was \$0.3 million and \$0.7 million, respectively.

Depreciation and amortization expense of property and equipment for the three and nine months ended September 30, 2015 was \$0.3 million and \$1.2 million, respectively.

Accrued Expenses and Other Current Liabilities.

Accrued expenses and other current liabilities consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Accrued sales commission payable	\$ 393	\$ 300
Accrued manufacturing expenses	64	271
Deferred rent	379	196
Other accrued liabilities	882	646
Total accrued expenses and other current liabilities	<u>\$ 1,718</u>	<u>\$ 1,413</u>

Note 3. Fair Value Measurements.

Fair value is defined as the exchange price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We

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measure financial assets and liabilities at fair value at each reporting period using a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

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

Level 2. Quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices which are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.

Level 3. Unobservable inputs which are supported by little or no market activity and which are significant to the fair value of the assets or liabilities.

Financial assets measured at fair value on a recurring basis were as follows:

	Fair Value Measurement at Reporting Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
As of September 30, 2016				
Assets:				
Money market funds	\$ —	\$ 18,005	\$ —	\$ 18,005
As of December 31, 2015				
Assets:				
Money market funds	\$ —	\$ 20,007	\$ —	\$ 20,007

As of September 30, 2016 and December 31, 2015, we had no financial liabilities measured at fair value on a recurring basis.

Note 4. Purchased Intangible Assets.

In 2012, in connection with our purchase of the serial flash memory product line assets from Atmel Corporation, we recorded \$16.4 million of intangible assets.

Intangible assets were as follows (in thousands):

	September 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	\$ 4,282	\$ 1,713	\$ 2,569
Customer relationships	9,011	3,003	6,008
Customer backlog	2,779	2,779	—
Non-compete agreement	282	227	55
Total intangible assets subject to amortization	\$ 16,354	\$ 7,722	\$ 8,632

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	December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	\$ 4,282	\$ 1,392	\$ 2,890
Customer relationships	9,011	2,440	6,571
Customer backlog	2,779	2,779	—
Non-compete agreement	282	184	98
Total intangible assets subject to amortization	\$ 16,354	\$ 6,795	\$ 9,559

We recorded amortization expense related to the acquisition-related intangible assets as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Operating expense category:				
Research and development	\$ 121	\$ 121	\$ 363	\$ 363
Sales and marketing	188	188	564	564
Total	<u>\$ 309</u>	<u>\$ 309</u>	<u>\$ 927</u>	<u>\$ 927</u>

The estimated future amortization expense of acquisition-related intangible assets subject to amortization after September 30, 2016 is as follows (in thousands):

<u>Year Ended December 31,</u>	
2016 (remaining 3 months)	\$ 309
2017	1,221
2018	1,179
2019	1,179
2020	1,179
Thereafter	3,565
Total	<u>\$ 8,632</u>

Note 5. Borrowings.

Bridge Bank Loan.

In October 2013, we entered into the Business Financing Agreement (the "BFA") with Bridge Bank N.A. The BFA consisted of both a revolving credit facility under which we were permitted to borrow up to 80% of eligible accounts receivable but not to exceed \$7.5 million and a term loan in the amount of \$9.0 million. Interest on the revolving credit facility accrued at the bank's prime rate, which under the BFA could not have been less than 3.25%, plus 1.25% while interest on the term loan accrues at the bank's prime rate plus 3%. Under the term loan, we were required to make interest only payments through April 2014 and principal payments of \$300,000 monthly thereafter plus interest. Borrowings under the BFA were collateralized by all of our assets and were subject to certain financial covenants, including maintaining minimum levels of EBITDA on a quarterly basis and a certain minimum asset coverage ratio based on the ratio of unrestricted cash plus certain accounts receivable to total outstanding under the agreement.

In October 2014, we were not in compliance with certain financial covenants. As a result, in October 2014, we entered into the First Business Financing Modification Agreement (the "BFA Modification") under which the covenant defaults were waived. The BFA Modification (i) increased the interest rate charged on the term loan from the bank's prime rate plus 3% to the bank's prime rate plus 4% and would have declined to the bank's prime rate plus 3% upon the raising of additional equity of not less than \$2.5 million, (ii) required us to continue to maintain certain minimum levels of EBITDA and asset coverage ratios, (iii) required us to maintain unrestricted cash of not less than \$4.25 million until that point at which we either receive additional equity of not less than \$5.0 million or maintain a debt service coverage ratio of not less than 1.00 to 1.00 (based on the ratio of EBITDA to current portion of total amounts outstanding under the BFA Modification plus period-to-date interest expense payments) for two consecutive quarters.

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In addition, under the BFA the bank was paid a facility fee of \$82,500 at closing. Under the BFA Modification, the bank was paid an additional facility fee of \$50,000 and received a warrant to purchase 1,488 shares of our Series E convertible preferred stock. The facility fees and the value of the warrant, \$0.1 million, were recorded as a debt discount and have been amortized over the life of the agreement. Amortization of debt discount was \$0.1 million in 2015.

Borrowings of \$10.9 million under this facility were repaid in full in April 2015.

Opus Bank Term Loan.

In April 2015, we entered into a three-year \$15.0 million credit agreement, or the term loan facility. The agreement provided for a senior secured term loan facility, in an aggregate principal amount of up to \$15.0 million to be used for general corporate purposes including working capital, to repay certain indebtedness and for capital expenditures and other expenses. Interest accrued on outstanding borrowings at a rate equal to (a) the higher of (i) the prime rate (as publicly announced from time to time by the Wall Street Journal) and (ii) 3.25% plus (b) (i) 1.00% if our cash equivalents are greater than 125% of the outstanding principal of our borrowings under the term loan facility, or (ii) 2.00% if our cash and cash equivalents are less than or equal to 125% of such borrowings. Indebtedness we incurred under this agreement was collateralized by substantially all of our assets and the agreement contained financial covenants requiring us to maintain a monthly asset coverage ratio after September 30, 2015 of not less than 1.10 to 1.00, and quarterly adjusted EBITDA (measured on a trailing three-month basis) of \$1 through September 30, 2016 and increasing to higher levels thereafter. Under the agreement, the quarterly EBITDA covenant was not applicable if the asset coverage ratio is met at all times during any particular quarter. The agreement contained customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets, merge or consolidate and make acquisitions. Upon an occurrence of an event of default, we could be required to pay interest on all outstanding obligations under the agreement at a rate of 5% above the otherwise applicable interest rate, and the lender may accelerate our obligations under the agreement.

Borrowings of \$14.0 million under this facility were repaid in full in July, 2016.

In connection with the term loan facility, Opus Bank received a warrant to purchase 31,897 shares of Series E convertible preferred stock. Upon the completion of our IPO on October 30, 2015 the preferred stock warrants were converted into 315,282 of our common stock warrants. In addition, we paid financing costs of \$0.1 million. The financing costs and the value of the warrant, \$0.9 million, were recorded as a debt discount and were being amortized over the life of the agreement. Amortization of debt discount was \$0.2 million for the six months ended in June 30, 2016. In connection with the repayment of this facility, the remaining unamortized debt discount of \$0.4 million was recorded as interest expense in the condensed consolidated statements of operations.

Bridge Bank Term Loan

On July 7, 2016, the Company entered into a business financing agreement (“Credit Facility”) with Bridge Bank N.A. The Credit Facility provides for (i) a term loan of up to \$18.0 million and (ii) a revolving credit line advance in the aggregate amount of the lower of (x) \$2.0 million and (y) 80% of certain of the Company’s receivables. The term loan made pursuant to the Credit Facility bears interest at a rate per annum equal to the greater of the prime rate or 3.5%, plus 0.75%, and matures in June 2019. The line of credit bears interest at a rate per annual equal to the greater of the prime rate or 3.5% plus 0.50%, and matures in July 2018. The Company will make interest-only payments on the term loan from July 2016 through September 2016 and will make interest payments and principal payments in 33 equal monthly installments starting October 2016. Indebtedness we incur under this agreement is collateralized by substantially all assets of the Company and any domestic subsidiaries, subject to certain customary exceptions. The Company paid a facility fee of \$150,000 upon entry into the Credit Facility and an additional \$10,000 is due on July 7, 2017 as well as \$25,000 diligence fee. These fees have been recorded as a debt discount and are being amortized over the life of the agreement. During the three and nine months ended September 30, 2016, amortization of debt discount was \$26,000 and the unamortized debt discount was \$149,000 as of September 30, 2016.

The Credit Facility contains customary representations and warranties and affirmative and negative covenants. Among other negative covenants, the Company may not permit the ratio of the balance of unrestricted cash deposited at the financial institution to the total amounts owed with respect to the term loan to be less than 1.15 to 1.00. Upon an occurrence of an event of default, we could be required to pay interest on all outstanding obligations under the agreement at a rate of 5% above the otherwise applicable interest rate, and the lender may accelerate our obligations under the agreement. As of September 30, 2016, we were in compliance with all financial covenants and restrictions.

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Outstanding borrowings consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Term loan, current	\$ 6,456	\$ 5,606
Term loan, non-current	11,395	7,814
Line of credit	2,000	—
Total	<u>\$ 19,851</u>	<u>\$ 13,420</u>

Future repayments on outstanding borrowings (excluding unamortized discount of \$149,000 as of September 30, 2016) are as follows (in thousands):

<u>Year ending December 31,</u>	
2016 (remaining 3 months)	\$ 1,636
2017	6,545
2018	8,545
2019	3,274
	<u>\$ 20,000</u>

Interest expense incurred under our borrowings was \$0.6 million and \$1.1 million for the three and nine months ended September 30, 2016, respectively.

Interest expense incurred under our borrowings was \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2015, respectively.

Note 6. Segment Information.

We operate in one business segment, application-specific and feature-rich, ultra-low power NVM products. Our chief decision-maker, the President and Chief Executive Officer, evaluates our performance based on company-wide consolidated results. Revenue is evaluated based on product category and by geographic region.

Product revenue from customers is designated based on the geographic region to which the product is delivered. Revenue by geographic region was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
United States	\$ 1,873	\$ 2,332	\$ 4,780	\$ 6,313
Rest of Americas	64	178	335	512
Europe	1,466	1,321	4,313	3,846
Asia Pacific	7,730	7,251	21,979	20,512
Rest of world	47	61	231	250
Total	<u>\$ 11,180</u>	<u>\$ 11,143</u>	<u>\$ 31,638</u>	<u>\$ 31,433</u>

Long-lived assets are attributed to the geographic region where they are located. Long-lived assets by geographic region were as follows (in thousands):

	September 30, 2016	December 31, 2015
United States	\$ 5,661	\$ 369
Asia Pacific	555	538
Europe	2	2
Total property and equipment, net	<u>\$ 6,218</u>	<u>\$ 909</u>

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Note 7. Commitments and Contingencies.

Operating Leases.

On November 2, 2015, the Company extended the lease for its former headquarters by six months to July 2016 by entering into that certain Amendment to Commercial Sublease, (“Amendment”) dated November 2, 2015, between the Company and eGain Corporation. The Amendment provides for a base rent during the extension period of \$47,087 per month. Subsequently, we extended the lease to August 31, 2016.

Additionally, on November 2, 2015, the Company entered into a lease with Peterson Ridge LLC pursuant to which the Company has leased a new headquarters facility, consisting of an aggregate of approximately 34,000 square feet of space in Santa Clara, California. The initial term of the lease commenced on November 2, 2015 and is scheduled to end on July 31, 2023 and may be extended, at the Company’s option, for an additional five-year period following the initial lease term.

Pursuant to the lease, monthly base rental payments due under the lease are approximately \$93,000 per month between August 1, 2016 and February 27, 2017, with annual increases of approximately 3% thereafter. The Company must also pay for certain other operating costs under the lease, including operating expenses, taxes, assessments, insurance, utilities, securities and property management fees. Peterson Ridge LLC is obligated to reimburse the Company for up to \$2,521,051 of the Company’s out-of-pocket costs associated with any tenant improvements, as defined in the lease. The Company was reimbursed for this amount during the three months ended September 30, 2016.

Rent expense under operating leases was \$0.4 million and \$1.5 million for three and nine months ended September 30, 2016, respectively.

Rent expense under operating leases was \$0.2 million and \$0.6 million for three and nine months ended September 30, 2015, respectively.

	Total	Remaining 2016	2017	2018	2019	2020	Thereafter
	(in thousands)						
Operating leases	\$ 8,512	\$ 298	\$ 1,170	\$ 1,177	\$ 1,213	\$ 1,249	\$ 3,405

Capital Leases.

We have entered into various lease agreements for equipment and software under capital leases with terms of between 24 to 48 months. The equipment and software under the leases are collateral for the lease obligations and are included within property and equipment, net, on the condensed consolidated balance sheets. There is no future minimum commitments for capital leases as of September 30, 2016.

Obligations under capital leases are included in accrued expenses and other current liabilities on the condensed consolidated balance sheets.

Equipment acquired under capital leases is included in property and equipment, net and consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Computer software	\$ 108	\$ 108
Office equipment	49	49
Production equipment	44	44
Total	201	201
Accumulated depreciation and amortization	(201)	(189)
Property and equipment, net	\$ —	\$ 12

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Purchase Commitments.

As of September 30, 2016, we had purchase commitments with our third-party foundries of \$1.5 million due within one year, \$0.9 million for a licensing and development agreement, and \$8.3 million in conjunction with an agreement with TowerJazz Panasonic Semiconductor Company.

Litigation.

We may be subject to legal proceedings, claims and litigation, including intellectual property litigation, arising in the ordinary course of business. Such matters are subject to many uncertainties and outcomes and are not predictable with assurance. We accrue amounts that we believe are adequate to address any liabilities related to legal proceedings and other loss contingencies that we believe will result in a probable loss that is reasonably estimable.

Indemnification.

During the normal course of business, we may make certain indemnities, commitments and guarantees which may include intellectual property indemnities to certain of our customers in connection with the sales of our products and indemnities for liabilities associated with the infringement of other parties' technology based upon our products. Our exposure under these indemnification provisions is generally limited to the total amount paid by a customer under the agreement. However, certain agreements include indemnification provisions that could potentially expose us to losses in excess of the amount received under the agreement. In addition, we indemnify our officers, directors and certain key employees while they are serving in good faith in such capacities.

We have not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets. Where necessary, we accrue for losses for any known contingent liabilities, including those that may arise from indemnification provisions, when future payment is probable.

Note 8. Common Stock, Common Stock Warrants and Stock Option Plan.

Common Stock.

We are authorized to issue 100,000,000 shares of common stock with \$0.0001 par value per share. Each holder of common stock is entitled to one vote per share. The holders of common stock are also entitled to receive dividends, when and if declared by our Board of Directors.

Common Stock Reserved for Future Issuance.

As of September 30, 2016 and December 31, 2015, we had reserved shares of common stock for future issuances as follows:

	September 30, 2016	December 31, 2015
Warrants to purchase common stock	411,514	411,514
Stock option plan:		
Options outstanding	984,386	796,356
Options available for future grants	1,612,318	1,814,846
Shares available for ESPP	81,355	149,747
Total	<u>3,089,573</u>	<u>3,172,463</u>

Upon completion of our IPO on October 30, 2015, all outstanding shares of our preferred stock were converted into 9,114,739 shares of common stock.

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Common Stock Warrants.

The following common stock warrants were outstanding as of September 30, 2016 and December 31, 2015 and were the result of a conversion of preferred stock warrants upon the completion of our IPO on October 30, 2015.

Total amount of securities issuable under the outstanding warrants	Exercise Price	Issuance Date	Expiration Date
7,378	\$ 12.20	2010	2017
74,141	\$ 31.35	2012-2013	2019
329,995	\$ 2.38	2014-2015	2022-2024
411,514			

Common stock warrants are exercisable at the option of the holder any time after the date of issuance into shares of our common stock. The aggregate amount of shares of common stock that would be issued is determined by dividing the exercisable price by the conversion price applicable on the date of conversion multiplied by the number of warrants exercised.

Employee Benefit Plans

2007 Equity Incentive Plan.

In 2007, our Board of Directors and shareholders approved the 2007 Equity Incentive Plan (the “2007 Plan”) under which 272,727 shares of common stock were reserved and available for the issuance of stock options and restricted stock to eligible participants. The 2007 Plan was subsequently amended to increase the number of shares of common stock reserved for issuance under the 2007 Plan to 787,878 and during the year ended December 31, 2015, the number of shares reserved for issuance under the 2007 Plan was increased to 2,651,515. Options and restricted stock awards were granted at a price per share not less than the 85% of the fair value at the date of grant or award, respectively. Restricted stock awarded to persons controlling more than 10% of our stock were granted at a price per share not less than the 100% of the fair value at the date of the award. Options that were granted to new employees generally vest over a four-year period with 25% vesting at the end of one year and the remaining to vest monthly thereafter, while options that were granted to existing employees generally vest over a four-year period. Options granted generally are exercisable up to 10 years from the date of grant. As of October 26, 2015, no shares were available for grant under the 2007 Plan and all outstanding options continue to be governed and remain outstanding in accordance with their existing terms under the 2007 Plan. In addition, any shares subject to outstanding awards under the 2007 Plan that are issuable upon the exercise of options that expire or become unexercisable for any reason without having been exercised in full will be available for future grant and issuance under the 2015 Plan (as defined below).

2015 Equity Incentive Plan

In September 2015, our Board of Directors adopted, and in October 2015 our stockholders approved, our 2015 Equity Incentive Plan. The 2015 Equity Incentive Plan became effective on the date immediately prior to the date of our initial public offering. As a result, 1,813,272 shares of common stock previously reserved but unissued under the 2007 Plan on the effective date of the 2015 Equity Incentive Plan became reserved for issuance under our 2015 Equity Incentive Plan, and we ceased granting awards under our 2007 Plan. The number of shares reserved for issuance under our 2015 Equity Incentive Plan will increase automatically on the first day of January of each of 2016 through 2025 by the number of shares equal to 4% of the total outstanding shares of our common stock as of the immediately preceding December 31. However, our Board of Directors may reduce the amount of the increase in any particular year.

Our 2015 Equity Incentive Plan authorizes the award of stock options, restricted stock awards, stock appreciation rights, restricted stock units (“RSU’s”), performance awards and stock bonuses. No person will be eligible to receive more than 2,000,000 shares in any calendar year under our 2015 Equity Incentive Plan other than a new employee of ours, who will be eligible to receive no more than 4,000,000 shares under the plan in the calendar year in which the employee commences employment. The aggregate number of shares of our common stock that may be subject to awards granted to any single non-employee director pursuant to the 2015 Equity Incentive Plan in any calendar year shall not exceed 300,000. Our 2015 Equity Incentive Plan provides that no more than 25,000,000 shares will be issued as incentive stock options.

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2015 Employee Stock Purchase Plan

In September 2015, our Board of Directors adopted, and in October 2015 our stockholders approved, our 2015 Employee Stock Purchase Plan (“ESPP”). The 2015 Employee Stock Purchase Plan became effective on the date of our initial public offering. We reserved 150,000 shares of our common stock for issuance under our 2015 Employee Stock Purchase Plan. The number of shares reserved for issuance under our 2015 Employee Stock Purchase Plan will increase automatically on the first day of January following the first offering date by the number of shares equal to 1% of the total outstanding shares of our common stock as of the immediately preceding December 31 (rounded to the nearest whole share). However, our Board of Directors may reduce the amount of the increase in any particular year. The aggregate number of shares issued over the term of our 2015 Employee Stock Purchase Plan will not exceed 2,250,000 shares of our common stock.

Under our 2015 Employee Stock Purchase Plan, eligible employees will be able to acquire shares of our common stock by accumulating funds through payroll deductions. Eligible employees will be able to select a rate of payroll deduction up to 15% of their base cash compensation. The purchase price for shares of our common stock purchased under our 2015 Employee Stock Purchase Plan will be 85% of the lesser of the fair market value of our common stock on (i) the first trading day of the applicable offering period and (ii) the last trading day of each purchase period in the applicable offering period. Except for the first offering period, each offering period will run for no more than six months, with purchases occurring every six months. The first offering period began upon the effective date of our IPO and was originally set to end on June 30, 2016. On May 25, 2016, the Board of Directors extended the initial offering period to July 31, 2016. Subsequent purchase periods will be 6 months in duration beginning on August 1, 2016. On July 29, 2016, we issued 68,392 shares of common stock in conjunction with the end date of the initial purchase window.

No participant will have the right to purchase shares of our common stock in an amount that has a fair market value greater than \$25,000, determined as of the first day of the applicable purchase period, for each calendar year in which that right is outstanding. In addition, no participant will be permitted to purchase more than 2,500 shares during any one purchase period or a lesser amount as determined by our compensation committee.

Our 2015 Employee Stock Purchase Plan will continue until the earlier to occur of its termination by our Board of Directors, the issuance of all shares reserved for issuance under it or the tenth anniversary of its effective date.

A summary of stock option and restricted stock units activity under the 2007 Plan and the 2015 Equity Incentive Plan is as follows:

	Stock Options			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(aggregate intrinsic value in thousands)			
Outstanding as of December 31, 2014	604,412	\$ 1.57	6.8	\$ —
Granted	202,662	5.18		
Exercised	(5,952)	1.67		
Canceled	(4,766)	2.31		
Outstanding as of December 31, 2015	796,356	\$ 2.49	6.5	\$ 4,157
Granted	217,900	3.48		
Exercised	(12,924)	1.80		
Canceled	(16,946)	3.58		
Outstanding as of September 30, 2016	984,386	\$ 2.70	6.6	\$ —
Options vested and expected to vest as of September 30, 2016	966,899	\$ 2.68	6.6	\$ —
Options vested and exercisable as of September 30, 2016	673,259	\$ 2.16	5.5	\$ 40

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	Restricted stock units				
	Shares	Weighted- Average Grant Date	Fair Value	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
		(aggregate intrinsic value in thousands)			
Outstanding as of December 31, 2014	—	—	—	—	—
Granted	880,072	\$ 5.95	—	—	—
Released	—	—	—	—	—
Forfeited/expired	(5,564)	5.95	—	—	—
Outstanding as of December 31, 2015	874,508	\$ 5.95	1.8	\$ 6,742	—
Granted	69,414	4.82	—	—	—
Released	—	—	—	—	—
Forfeited/expired	(12,048)	5.64	—	—	—
Outstanding as of September 30, 2016	931,874	\$ 5.87	0.4	\$ 2,069	—

Note 9. Stock-based Compensation.

We record stock-based compensation for stock options based on fair value as of the grant date using the Black-Scholes option-pricing model. The fair value of restricted stock units equals the market value of the underlying stock on the date of grant. We recognize such costs as compensation expense on a straight-line basis over the employee's requisite service period, which is generally four years. Our valuation assumptions are as follows:

Fair value of common stock. Prior to our IPO in October 2015, we estimated the fair value of our common stock using various valuation methodologies, including valuation analyses performed by third-party valuation firms. After the initial public offering, we used the publicly quoted price as the fair value of our common stock.

Risk-free interest rate. We base the risk-free interest rate used in the Black-Scholes option-pricing model on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent expected term of the options for each option group.

Expected term. The expected term represents the period that our stock-based awards are expected to be outstanding. The expected term assumption is based on the simplified method in which the expected term is equal to the average of the stock-based award's weighted-average vesting period and its contractual term. We expect to continue using the simplified method until sufficient information about historical behavior is available.

Volatility. We determine volatility based on the historical stock volatilities of a group of publicly listed guideline companies over a period equal to the expected terms of the options, as we do not have sufficient trading history to determine the volatility of our common stock.

Dividend yield. We have never declared or paid any cash dividend and do not currently plan to pay a cash dividend in the foreseeable future. Consequently, we used an expected dividend yield of zero.

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The following table summarizes the weighted-average assumptions used in the Black-Scholes option-pricing model to determine fair value of stock options:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Volatility	-	40%	51%	40%
Expected dividend yield	-	-	-	-
Risk-free rate	-	1.53%	1.34%	1.59%
Expected term (in years)	-	5.90	5.65	5.46
Weighted average grant date FV	-	\$ 4.01	\$ 1.67	\$ 2.76

We did not grant any stock options during the three months ended September 30, 2016. We granted 217,900 stock options during the nine months ended September 30, 2016. We granted 55,454 and 201,185 stock options during the three and nine months ended September 30, 2015, respectively.

The following table presents the effects of stock-based compensation for stock options, RSU's and ESPP shares during the periods (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of revenue	\$ 22	\$ 3	\$ 60	\$ 6
Research and development	273	26	787	66
Sales and marketing	186	16	530	37
General and administrative	398	40	1,131	88
Total	<u>\$ 879</u>	<u>\$ 85</u>	<u>\$ 2,508</u>	<u>\$ 197</u>

Stock-based compensation expense capitalized to inventories was not material during the three and nine months ended September 30, 2016 and 2015, respectively.

We did not realize any income tax benefit from stock option exercises in any of the periods presented due to recurring losses and valuation allowances.

As of September 30, 2016, the total unrecognized compensation cost related to stock options, net of estimated forfeitures, was approximately \$0.6 million, and this amount is expected to be recognized over a weighted-average period of approximately 1.9 years.

As of September 30, 2016, the total unrecognized compensation cost related to RSU's and ESPP was \$3.0 million and \$58,000, respectively, and these amounts are expected to be recognized over 1.2 years and 0.3 years, respectively.

Note 10. Income Taxes.

We recorded an income tax provision of \$15,000 and \$5,000 for the three months ended September 30, 2016 and 2015, respectively. We recorded an income tax provision of \$46,000 and \$76,000 for the nine months ended September 30, 2016 and 2015, respectively. The income tax provision is comprised of estimates of current taxes due in domestic and foreign jurisdictions. The income tax provision reflects tax expense associated with state income tax, foreign taxes, uncertain tax positions and tax expense related to the recording of a deferred tax liability that results from the amortization for income tax purposes of acquisition-related goodwill. The decrease in the tax provision between 2016 and 2015 is primarily due to a decrease in foreign taxes and deferred tax expense associated with our deferred tax liability.

As of September 30, 2016, our deferred tax assets are fully offset by a valuation allowance except in those jurisdictions where it is determined that a valuation allowance is not required. Accounting for income taxes provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based on the weight of available evidence, which includes historical operating

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performance, reported cumulative net losses since inception and difficulty in accurately forecasting our future results, we provided a full valuation allowance against our net U.S. deferred tax assets. We reassess the need for our valuation allowance on a quarterly basis. If it is later determined that a portion or all of the valuation allowance is not required, it generally will be a benefit to the income tax provision in the period that such determination is made.

We evaluate tax positions for recognition using a more-likely-than-not recognition threshold, and those tax positions eligible for recognition are measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon the effective settlement with a taxing authority that has full knowledge of all relevant information. We believe that we have provided adequate reserves for our income tax uncertainties in all open tax years. We do not anticipate a material change in the total amount or composition of its unrecognized tax benefits within 12 months of September 30, 2016.

We file tax returns in the United States for federal, California, and other states. All tax years remain open to examination for both federal and state purposes as a result of our net operating loss and credit carryforwards. We file foreign tax returns in the United Kingdom, France, China, Hong Kong, and Taiwan. These tax years remain open to examination, except for 2011 and prior years in France.

Note 11. Net Loss Per Share.

The following outstanding common stock equivalents were excluded from the computation of diluted net loss per share for the periods presented because including them would have been antidilutive:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Shares not used in computing net loss per share as considered anti-dilutive:				
Preferred stock	-	9,114,739	-	9,114,739
Stock options	984,386	796,147	984,386	796,147
Preferred stock warrants	-	411,499	-	411,499
Common stock warrants	411,514	218,618	411,514	218,618
Restricted stock units	931,874	-	931,874	-
	<u>2,327,774</u>	<u>10,541,003</u>	<u>2,327,774</u>	<u>10,541,003</u>

Note 12. Other Income (Expense), Net.

Other income (expense), net consisted of the following (in thousands):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revaluation of convertible preferred stock warrant liability	\$ -	\$ 441	\$ -	\$ 522
Other income (expense)	(18)	53	(29)	261
Other income (expense), net	<u>\$ (18)</u>	<u>\$ 494</u>	<u>\$ (29)</u>	<u>\$ 783</u>

Note 13. Subsequent Events.

None

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

Forward-looking statements and factors that may affect future results

The discussion below contains forward-looking statements, which are subject to safe harbors under the Securities Act of 1933, as amended (the "Securities Act") and the Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements generally relate to future events or to our future financial or operating performance. You can generally identify forward-looking statements because they contain words such as "may," "might," "will," "should," "expects," "plans," "anticipates," "could," "intend," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions that concern our expectations, strategy, plans or intentions. We have based these forward-looking statements primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. Except as required by law, we do not undertake any obligation to update these forward-looking statements to reflect events occurring or circumstances arising after the date of this report. You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties, and our actual results, performance, or achievements could differ materially from those expressed or implied by the forward-looking statements on the basis of several factors, including those that we discuss in Risk Factors, set forth in Part II, Item 1A, of this Quarterly Report on Form 10-Q. We encourage you to read that section carefully.

The following is a discussion and analysis of our financial condition and results of operations and should be read together with our condensed consolidated financial statements and related notes to condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes to audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015. In this Quarterly Report, unless otherwise specified or the context otherwise requires, "Adesto," "we," "us," and "our" refer to Adesto Technologies Corporation and its consolidated subsidiaries.

Overview

We are a leading provider of application-specific and ultra-low power non-volatile memory, or NVM, products. We optimize our NVM products for Internet of Things, or IoT, applications including current and next-generation Internet-connected devices in the consumer, industrial, medical and wearables markets. We combine our NVM design capabilities with proprietary intellectual property and differentiated technology platforms to deliver high-performance products that dramatically reduce the overall energy consumption of our customers' systems and extend battery life. Our products feature embedded intelligence in a small form factor and high reliability.

Our revenue is derived from the sale of our NVM products, primarily our standard serial flash memory products, which represented substantially all of our revenue for the three months ended September 30, 2016. On September 28, 2012, we purchased certain flash memory product assets from Atmel Corporation, or Atmel. The products we acquired as part of the acquisition were approaching the end of their life cycle and experiencing annual revenue declines. While we provide support for these products, we have not invested further in their research and development. Revenue from these legacy products have declined to \$0.4 million from \$2.6 million for the nine months ended September 30, 2016 and 2015, respectively and we expect no material revenue from these products in the future. Since the acquisition, we have invested in developing new products that are better suited for low-power, high-growth applications, accelerated development of select products and introduced new products based on the acquired technology. In 2013, we introduced the first of our next-generation DataFlash and Fusion Flash products, which have similar functionality to our legacy products, but also offer enhanced features such as ultra-deep power down and wide supply voltage range operation. Revenue from our next-generation NVM products was \$11.1 million and \$10.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$31.3 million and \$28.9 million for the nine months ended September 30, 2016 and 2015, respectively. We had been exclusively developing products based on Conductive Bridging RAM, or CBRAM, technology prior to the acquisition of assets from Atmel. Since then, we have continued to invest our resources into developing and enhancing our families of CBRAM-based products, although revenue associated with these products has not been material to date. We have made and continue to make these upfront investments because we believe that the introduction of any fundamentally new semiconductor technology must necessarily go through a lengthy customer evaluation process and several cycles of improvement in the field before it can be widely adopted or generate material revenue.

For the nine months ended September 30, 2016, our products were sold to approximately 400 end customers. In general, we work directly with our customers to have our NVM devices designed into and qualified for their products. Although we maintain direct sales, support and development relationships with our customers, once our products are designed into a customer's product, we sell a majority of our products to those customers through distributors. We generated 66% and 68% of our revenue from distributors during the three months ended September 30, 2016 and 2015, respectively, and 69% and 67% of our revenue from distributors during

the nine months ended September 30, 2016 and 2015, respectively. Sales to three distributors generated approximately 32% and 25% of our revenue during the three months ended September 30, 2016 and 2015, respectively, and 37% and 25% of our revenue during the nine months ended September 30, 2016 and 2015, respectively. Additionally, we derived approximately 83% and 79% of our revenue internationally during the three months ended September 30, 2016 and 2015, respectively and 85% and 80% of our revenue internationally during the nine months ended September 30, 2016 and 2015, respectively, the majority of which was recognized in the Asia Pacific, or APAC, region. Revenue by geography is recognized based on the region to which our products are sold, and not to where the end products are shipped. Our headquarters are located in Santa Clara, California, with additional sales operations in North America, Europe, the Middle East and Africa, or EMEA, and APAC regions. We recorded revenue of \$11.2 million and \$11.1 million, and net losses of \$4.1 million and \$1.1 million, for the three months ended September 30, 2016 and 2015, respectively, and \$31.6 million and \$31.4 million, and net losses of \$9.9 million and \$5.1 million, for the nine months ended September 30, 2016 and 2015, respectively.

Factors Affecting Our Performance

Product adoption in new markets and applications. We optimize our products to meet the technical requirements of the emerging IoT market. The growth in the IoT market is dependent on many factors, most of which are outside of our control. Should the IoT market not develop or develop more slowly, our financial results could be adversely affected.

Ability to attract and retain customers that make large orders. In 2015, our products were sold to approximately 500 end customers, of which approximately 20 generated more than half our revenue. One end customer accounted for 10% or more of our revenue in 2015. While we expect the composition of our customers to change over time, our business and operating results will depend on our ability to continually target new and retain existing customers that make large orders, particularly those in growth markets which are less dependent on macroeconomic conditions.

Design wins with new and existing customers. We believe our solutions significantly improve the performance and potentially lower the system cost of our customers' designs, particularly if we are part of the early design phase. Accordingly, we work closely with our customers and targeted prospects to understand their product roadmaps and strategies. We consider design wins to be critical to our future success. We define a design win as the successful completion of the evaluation stage, where a customer has tested our product, verified that our product meets its requirements, qualified our NVM device for their products and placed an order for the purchase of our products. The number of our design wins has grown from 32 in 2013 to 65 in 2014 and to 135 in 2015, including 6, 63, and 125 design wins for new products, respectively. We had more than 150 new design wins during the first nine months of 2016. The revenue that we generate, if any, from each design win can vary significantly. Our long-term sales expectations are based on forecasts from customers, internal estimates of customer demand factoring in expected time to market for end customer products incorporating our solutions and associated revenue potential and internal estimates of overall demand based on historical trends.

Pricing, product cost and gross margins of our products. Our gross margin has been and will continue to be affected by a variety of factors, including the timing of changes in pricing, shipment volumes, new product introductions, changes in product mixes, changes in our purchase price of fabricated wafers and assembly and test service costs, manufacturing yields and inventory write downs, if any. In general, newly introduced products and products with higher performance and more features tend to be priced higher than older, more mature products. Average selling prices in the semiconductor industry typically decline as products mature. Consistent with this historical trend, we expect that the average selling prices of our products will decline as they mature. In the normal course of business, we will seek to offset the effect of declining average selling prices on existing products by reducing manufacturing costs and introducing new and higher value-added products. If we are unable to maintain overall average selling prices or offset any declines in average selling prices with realized savings on product costs, our gross margin will decline.

Investment in growth. We have invested, and intend to continue to invest, in expanding our operations, increasing our headcount, developing our products and differentiated technologies to support our growth and expanding our infrastructure. We expect our total operating expenses to increase in the foreseeable future to meet our growth objectives. We plan to continue to invest in our sales and support operations throughout the world, with a particular focus in the near term of adding additional sales and field applications personnel in APAC to further broaden our support and coverage of our existing customer base, in addition to developing new customer relationships and generating design wins. We also intend to continue to invest additional resources in research and development to support the development of our products and differentiated technologies. Any investments we make in our sales and marketing organization or research and development will occur in advance of experiencing any benefits from such investments, and the return on these investments may be lower than we expect. In addition, as we invest in expanding our operations internationally, our business and results will become further subject to the risks and challenges of international operations, including higher operating expenses and the impact of legal and regulatory developments outside the United States.

Components of Our Results of Operations

Revenue

We derive substantially all of our revenue through the sale of our NVM products to OEMs and ODMs, primarily through distributors. We generated 69% and 67% of our revenue from distributors during the nine months ended September 30, 2016 and 2015, respectively. We recognize revenue from product sales when persuasive evidence of an arrangement exists and all other revenue recognition criteria are met. We sell the majority of our products to distributors and generally recognize revenue when we ship the product directly to the distributors.

Because our distributors market and sell their products worldwide, our revenue by geographic location is not necessarily indicative of where our customers' product sales and design win activity occur, but rather of where their manufacturing operations occur.

Cost of Revenue and Gross Margin

Cost of revenue primarily consists of costs paid to our third-party manufacturers for wafer fabrication, assembly and testing of our NVM products, write-downs of inventory for excess and obsolete inventories including write-downs of inventory for products based on CBRAM technology and accruals for future losses on CBRAM wafer purchase commitments to the extent our costs exceed the market price for such products. To a lesser extent, cost of revenue also includes depreciation of test equipment and expenses relating to manufacturing support activities, including personnel-related costs, logistics, and quality assurance and shipping.

Our gross margin has been and will continue to be affected by a variety of factors, including the timing of changes in pricing, shipment volumes, new product introductions, changes in product mixes, changes in our purchase price of fabricated wafers and assembly and test service costs, manufacturing yields and inventory write downs, if any. We expect our gross margin to fluctuate over time depending on the factors described above.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing and general and administrative expense. Personnel-related costs, including salaries, benefits, bonuses and stock-based compensation, are the most significant component of each of our operating expense categories. In addition, in the near term we expect to hire additional personnel, primarily in our selling and marketing functions, and increase research and development expenditures, such as prototype wafers, associated with the implementation of our CBRAM technology in a manufacturing facility in Asia. Accordingly, we expect our operating expenses to increase as we invest in these initiatives.

Research and Development. Our research and development expenses consist primarily of personnel-related costs for the design and development of our products and technologies. Additional research and development expenses include product prototypes, mask costs, external test and characterization expenses, depreciation, amortization of design tool software licenses, amortization of acquisition-related intangible assets and allocated overhead expenses. We also incur costs related to outsourced research and development activities. We expect research and development expenses to increase in absolute dollars for the foreseeable future as we continue to improve our product features, increase our portfolio of solutions and implement our CBRAM manufacturing technology in a new manufacturing facility.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel-related costs for our sales, business development, marketing, and applications engineering activities, third-party sales representative commissions, promotional and other marketing expenses, amortization of acquisition-related intangible assets and travel expenses. We expect sales and marketing expenses to increase in absolute dollars for the foreseeable future as we continue to expand our direct sales teams, primarily in the Asia Pacific Region, and increase our marketing activities.

General and Administrative. General and administrative expenses consist primarily of personnel-related costs, consulting expenses and professional fees. Professional fees principally consist of legal, audit, tax and accounting services. We expect general and administrative expenses to increase in absolute dollars for the foreseeable future as we hire additional personnel, make improvements to our infrastructure and incur significant additional costs for the compliance requirements of operating as a public company, including higher legal, insurance and accounting expenses.

Other Income (Expense), Net

Other income (expense), net is comprised of interest income (expense) and other income (expense). Interest expense consists of interest on our outstanding debt. Other expense, net consists primarily of the change in fair value of our preferred stock warrant

liability and foreign exchange gains or losses. Our foreign currency exchange gains and losses relate to transactions and asset and liability balances denominated in currencies other than the U.S. dollar. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in foreign currency exchange rates.

Provision for Income Taxes

Provision for income taxes consists primarily of U.S. federal and state income taxes in the United States and income taxes in certain foreign jurisdictions in which we conduct business. We have a full valuation allowance for deferred tax assets, including net operating loss carryforwards and tax credits related primarily to research and development. We expect to maintain this full valuation allowance for the foreseeable future.

Comparison of the Three and Nine months Ended September 30, 2016 and 2015 (in thousands, except percentage data):

Revenue

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2016	2015	\$	%	2016	2015	\$	%
Revenue	11,180	11,143	37	-	31,638	31,433	205	1
Revenue by category of products								
Legacy Products	89	818	(729)	(89)	356	2,556	(2,200)	(86)
New Products	11,091	10,325	766	7	31,282	28,877	2,405	8

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue by geography:				
United States			17%	21%
Europe			13%	12%
Asia Pacific			69%	65%
Rest of world			1%	2%

Revenue increased by \$37,000, or less than 1%, during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The increase was due primarily to an increase in sales of our Fusion Flash products. During the first three months of 2016, we began to see a slowdown in customer orders that we believe is due to reduced consumer demand in our end markets. This slowdown may persist in future periods.

Revenue increased by \$0.2 million, or 1%, during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. The increase was due primarily to an increase in sales of our Data Flash and Fusion Flash products offset by reductions in sales of our Standard Flash products.

Cost of Revenue and Gross Margin

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2016	2015	\$	%	2016	2015	\$	%
Cost of revenue	\$ 5,803	\$ 6,110	\$ (307)	(5)%	\$ 16,531	\$ 18,346	\$ (1,815)	(10)%
Gross profit	5,377	5,033	344	7	15,107	13,087	2,020	15

Cost of revenue decreased by \$0.3 million, or 5%, during the three months ended September 30, 2016, as compared to the three months ended September 30, 2015 due primarily to a reduction in direct manufacturing costs as a result of a favorable product mix towards our Fusion Flash products. Cost of revenue decreased by \$1.8 million, or 10%, during the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015 due primarily to a reduction in direct manufacturing costs.

Gross profit increased by \$0.3 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 due primarily to improvements in our cost structure as a result of a favorable product mix and a reduction in direct manufacturing expenses.

Gross profit increased by \$2.0 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 due to improvements in our cost structure, favorable product mix, and an increase in sales of our Data Flash and Fusion Flash products.

Operating Expenses

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2016	2015	\$	%	2016	2015	\$	%
Operating expenses:								
Research and development	\$ 4,390	\$ 3,217	\$ 1,173	36%	\$ 12,527	\$ 9,313	\$ 3,214	35%
Sales and marketing	2,870	2,126	744	35	8,315	6,189	2,126	34
General and administrative	1,586	919	667	73	4,984	2,589	2,395	93
Gain from settlement with former foundry supplier	-	-	-	-	(1,962)	-	(1,962)	NM
Total operating expenses	\$ 8,846	\$ 6,262	\$ 2,584	41%	\$ 23,864	\$ 18,091	\$ 5,773	32%

Research and Development. Research and development (“R&D”) expense increased by \$1.2 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, due to personnel-related expenses of \$0.3 million, an increase in materials and supplies of \$0.6 million, an increase of outsourced R&D of \$0.1 million, and an increase of facilities costs of \$0.2 million. R&D expense increased by \$3.2 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015, due to personnel-related expenses of \$1.0 million, an increase in materials, supplies and third party project expenses of \$1.0 million, an increase in expenses for outsourced R&D activities, which consisted primarily of fees for professional consultants, of \$0.5 million, and an increase in facilities expense of \$0.7 million.

Sales and Marketing. Sales and marketing expense increased by \$0.7 million during the three months ended September 30, 2016, as compared to the three months ended September 30, 2015, due to personnel-related expenses of \$0.6 million and an increase of facilities expense of \$0.1 million. Sales and marketing expense increased by \$2.1 million during the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, due to personnel-related expenses of \$1.5 million, an increase in travel expenses of \$0.1 million, an increase in outside services of \$0.1 million, and an increase in facilities expenses of \$0.4 million.

General and Administrative. General and administrative expenses increased by \$0.7 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, mainly due to an increase in personnel-related expenses of \$0.6 million and facilities expenses of \$0.1 million. General and administrative expenses increased by \$2.4 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015, mainly due to increases in personnel-related expenses of \$1.7 million, public company-related costs of \$0.3 million, and facilities related expenses of \$0.4 million.

Gain from settlement with a former foundry supplier. During the nine months ended September 30, 2016, we recognized a non-cash gain of \$2.0 million resulting from settlement of a disputed liability with a former foundry supplier. We did not recognize a similar gain or loss during the nine months ended September 30, 2015.

Other Income (Expense), Net

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2016	2015	\$	%	2016	2015	\$	%
Interest expense, net	\$ (576)	(336)	\$ (240)	(71)%	\$ (1,058)	\$ (822)	\$ (236)	(29)%
Other income (expense), net	(18)	494	(512)	(104)	(29)	783	(812)	(104)
Total other income (expense), net	\$ (594)	\$ 158	\$ (752)	(476)%	\$ (1,087)	\$ (39)	\$ (1,048)	(2,687)%

Interest expense, net increased by \$0.2 million and \$0.2 million during the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015, due to a write off of unamortized debt discount associated with the repayment in full of our Opus Bank loan.

Other income (expense), net decreased by \$0.5 million during the three months ended September 30, 2016 due primarily to the recording of a reduction in our liability associated with preferred stock warrants during the three months ended September 30, 2015.

Other income (expense), net decreased by \$0.8 million during the nine months ended September 30, 2016 due primarily to the recording of a reduction in our liability associated with preferred stock warrants along with the settlement with Atmel regarding certain funds held in escrow in connection with serial flash assets purchased from Atmel during the nine months ended September 30, 2015.

Provision for Income Taxes

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,		\$	%	September 30,		\$	%
	2016	2015			2016	2015		
Provision for income taxes	\$ 15	\$ 5	\$ 10	200%	\$ 46	\$ 76	\$ (30)	(39)%

Provision for income taxes increased by \$10,000 and decreased by \$30,000 during the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015. Both the three months and nine months changes are related to our foreign subsidiaries due to a reduction in tax expense related to our foreign subsidiaries and deferred tax expense related to our deferred tax liability.

Liquidity and Capital Resources

Since inception, we have funded our operations primarily with gross proceeds from the sale of an aggregate of \$78.5 million of convertible preferred stock, \$22.5 million of term debt associated with the acquisition of the certain flash memory product assets from Atmel Corporation, net proceeds from our IPO on October 30, 2015 of \$22.1 million and borrowings under our current Credit Facility of \$19.9 million. Our principal source of liquidity as of September 30, 2016 consisted of cash and cash equivalents of \$21.4 million. We did not have any borrowing capacity available under our term loan facility or credit line as of September 30, 2016. Our outstanding borrowings under both facilities as of September 30, 2016 were \$20.0 million. Substantially all of our cash and cash equivalents are held in the United States.

We believe our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs over the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, the introduction of new and enhanced products and our costs to implement new manufacturing technologies. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. Any additional debt financing obtained by us in the future could also involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Additionally, if we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

The following table summarizes our cash flows for the periods indicated:

	Nine Months Ended September 30,	
	2016	2015
Cash flows used in operating activities	\$ (5,361)	\$ (4,166)
Cash flows used in investing activities	(2,358)	(388)
Cash flows provided by financing activities	6,063	4,040

Cash Flows from Operating Activities

Our primary source of cash from operating activities has been from cash collections from our customers. We expect cash inflows from operating activities to be affected by increases in sales and timing of collections. Our primary uses of cash from operating activities have been for personnel costs, investments in research and development and sales and marketing, and inventory procurement. Net cash used in operating activities for the periods presented consisted of net losses adjusted for certain noncash items

and changes in working capital. Within changes in working capital, changes in accounts receivable, inventory and accounts payable generally account for the largest adjustments, as we typically use more cash to fund accounts receivable and build inventory as our business grows. Increases in accounts payable typically provides more cash as we do more business with our contract foundries and other third parties, depending on the timing of payments.

During the nine months ended September 30, 2016, cash used in operating activities was \$5.4 million, primarily from a net loss of \$9.9 million and the impact of a \$2.0 million non-cash gain resulting from a settlement with a former foundry supplier partially offset by non-cash charges of \$2.5 million related to stock-based compensation expense, \$1.6 million related to depreciation and amortization, \$0.6 million related to the amortization of debt discount along with a decrease in accounts receivable of \$1.5 million and an increase in account payable and accruals of \$0.2 million.

During the nine months ended September 30, 2015, cash used in operating activities was \$4.2 million, primarily from a net loss of \$5.1 million and net changes in our operating assets and liabilities of \$1.2 million partially offset by non-cash charges of \$2.1 million primarily related to depreciation and amortization.

Cash Flows from Investing Activities

Our investing activities consist primarily of purchases of property and equipment. We expect to continue to make significant capital expenditures to support continued growth of our business. During the nine months ended September 30, 2016 and 2015, cash used in investing activities was \$2.4 million and \$0.4 million, respectively, due to purchases of equipment and leasehold improvements related to our new headquarters facility in Santa Clara, CA.

Cash Flows from Financing Activities

Cash flows from financing activities primarily include proceeds and payments related to our term loans and our credit facility.

During nine months ended September 30, 2016, cash provided by financing activities was \$6.1 million due to \$17.8 million in net proceeds from a new Bridge Bank term loan, \$2.0 million in proceeds from a new Bridge Bank line of credit, \$0.2 million from the issuance of common stock offset by the repayment of \$14.0 million outstanding on the Opus Bank term loan.

During nine months ended September 30, 2015, cash provided by financing activities was \$4.0 million due to \$14.9 million of proceeds from the Opus Bank term loan partially offset by repayments of \$10.9 million on the line of credit and term loan held by Bridge Bank.

Off Balance Sheet Arrangements

During the periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off balance sheet arrangements or other contractually narrow or limited purpose.

Credit Facility

In April 2015, we entered into a three-year \$15.0 million credit agreement, or the term loan facility. The agreement provided for a senior secured term loan facility, in an aggregate principal amount of up to \$15.0 million to be used for general corporate purposes including working capital, to repay certain indebtedness and for capital expenditures and other expenses. Interest accrued on outstanding borrowings at a rate equal to (a) the higher of (i) the prime rate (as publicly announced from time to time by the Wall Street Journal) and (ii) 3.25% plus (b) (i) 1.00% if our cash and cash equivalents are greater than 125% of the outstanding principal of our borrowings under the term loan facility, or (ii) 2.00% if our cash and cash equivalents are less than or equal to 125% of such borrowings. Indebtedness incurred under this agreement was collateralized by substantially all of our assets and contained financial covenants requiring us to maintain a monthly asset coverage ratio of not less than 1.10 to 1.00, and quarterly adjusted EBITDA (measured on a trailing three-month basis) of \$1 through September 30, 2016 and increasing to higher levels thereafter. Under the agreement, the quarterly EBITDA covenant was not applicable if the asset coverage ratio is met at all times during any particular quarter. The agreement contained customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets, merge or consolidate and make acquisitions. Upon an occurrence of an event of default, we could be required to pay interest on all outstanding obligations under the agreement at a rate of 5% above the otherwise applicable interest rate, and the lender may accelerate our obligations under the agreement. On July 7, 2016, we terminated the term loan facility. In connection with termination and new

borrowings under the new Credit Facility (as defined below), we paid off all outstanding borrowings, accrued interest, and fees under the term loan facility

On July 7, 2016, we entered into a business financing agreement (“Credit Facility”) with a financial institution. The Credit Facility provides for (i) a term loan of up to \$18.0 million and (ii) a revolving credit line advance in the aggregate amount of the lower of (x) \$2.0 million and (y) 80% of certain of our receivables. The term loan made pursuant to the Credit Facility bears interest at a rate per annum equal to the greater of the prime rate and 3.5%, plus 0.75%, and matures in June 2019. The line of credit bears interest at a rate per annum equal to the greater of the prime rate or 3.5% plus 0.50%, and matures in July 2018. We will make interest-only payments on the term loan from July 2016 through September 2016 and will make principal and interest payments in 33 equal monthly installments starting October 2016. Indebtedness we incur under this agreement is collateralized by substantially all of our assets, subject to certain customary exceptions. We paid a facility fee of \$150,000 upon entry into the Credit Facility and an additional \$10,000 on July 7, 2017 as well as a \$25,000 diligence fee. The Credit Facility contains customary representations and warranties and affirmative and negative covenants. Among other negative covenants, we may not permit the ratio of the balance of unrestricted cash deposited at the financial institution to the total amounts owed with respect to the term loan to be less than 1.15 to 1.00. Upon an occurrence of an event of default, we could be required to pay interest on all outstanding obligations under the agreement at a rate of 5% above the otherwise applicable interest rate, and the lender may accelerate our obligations under the agreement. As of September 30, 2016, we were in compliance with all financial covenants and restrictions.

Contractual Obligations and Commitments

The following is a summary of our contractual obligations and commitments as of September 30, 2016:

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1 – 3 Years	4 – 5 Years	More than 5 Years
		(in thousands)			
Operating leases (1)	\$ 8,512	\$ 298	\$ 3,560	\$ 2,536	\$ 2,118
Inventory-related commitments (2)	1,529	1,529	—	—	—
Financing arrangements (3)	20,000	1,636	15,091	3,273	—
Joint Development and Manufacturing Agreement (4)	8,250	300	7,950	—	—
Licensing and Development Agreement (5)	900	75	825	—	—
Total contractual cash obligations	<u>\$ 39,191</u>	<u>\$ 3,838</u>	<u>\$ 27,426</u>	<u>\$ 5,809</u>	<u>\$ 2,118</u>

- (1) Operating leases primarily relate to our leases of office space with terms expiring through July 31, 2023.
- (2) Represents outstanding purchase orders for wafer commitments that we have placed with our suppliers as of September 30, 2016.
- (3) Financing arrangements represent debt maturities under our Credit Facility with Bridge Bank.
- (4) Represents our commitments under the CBRAM Joint Development and Manufacturing Agreement executed on February 18, 2016 with TowerJazz Panasonic Semiconductor Company.
- (5) Represents our commitments under the Licensing and Development Agreement executed on April 21, 2016 with Semitech Semiconductor Pty, Ltd.

As of September 30, 2016, we had a liability of \$11,000 for uncertain tax positions.

Internal Control Over Financial Reporting

Our management and independent registered public accounting firm did not and were not required to perform an evaluation of our internal control over financial reporting as of and for the years ended December 31, 2015, 2014, and 2013 in accordance with the provisions of the JOBS Act.

Critical Accounting Policies and Estimates

During the nine months ended September 30, 2016 there were no significant changes to our critical accounting policies and estimates as described in the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 30, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include foreign exchange rate and interest rate sensitivities as follows:

Foreign Currency Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates.

The majority of our revenue is denominated in U.S. dollars. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the United States and to a lesser extent in EMEA and APAC. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical consolidated financial statements.

We have not hedged exposures denominated in foreign currencies or used any other derivative financial instruments. Although we transact the substantial majority of our business in U.S. dollars, future fluctuations in the value of the U.S. dollar may affect the competitiveness of our products and thus may impact our results of operations and cash flows.

Interest Rate Sensitivity

We had cash and cash equivalents of \$21.4 million as of September 30, 2016, consisting of bank deposits and money market funds. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant. We also had total outstanding gross debt of \$20.0 million offset by an unamortized debt discount of approximately \$0.1 million as of September 30, 2016. The outstanding debt relates to a term loan and line of credit.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. Our exposure to interest rates relates to the change in the amounts of interest we must pay on our variable rate borrowings. A hypothetical 10% increase in our borrowing rates would not have a material impact on interest expense on our principal balances as of September 30, 2016.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our CEO and CFO, is responsible for establishing and maintaining our disclosure controls and procedures and determining the existence of a material weakness in such disclosure controls and procedures. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our consolidated financial statements will not be prevented or detected on a timely basis. Our management (with the participation of our CEO and CFO) has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. Based on this evaluation, as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the nine months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting means a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

PART II: OTHER INFORMATION

ITEM 1. Legal Proceedings

We are not currently a party to any legal proceedings which, if determined adversely to us, would individually or in the aggregate have a material adverse effect on our business, operating results, financial condition or cash flows. We may, from time to time, become involved in legal proceedings arising in the ordinary course of our business and as our business grows, we may become a party to an increasing number of legal proceedings.

ITEM 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, before making a decision to invest in our common stock. Our business, operating results, financial condition, or prospects could be materially and adversely affected by any of these risks and uncertainties. If any of these risks actually occurs, the trading price of our common stock could decline and you might lose all or part of your investment. Our business, operating results, financial performance, or prospects could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material.

Risks Related to Our Business and Our Industry

We have a history of losses which may continue in the future, and we cannot be certain that we will achieve or sustain profitability.

We have incurred net losses since our inception. We incurred net losses of \$9.9 million, \$8.4 million, \$8.9 million, and \$8.2 million for the nine months ended September 30, 2016 and the years ended December 31, 2015, 2014 and 2013, respectively. As of September 30, 2016, we had an accumulated deficit of \$92.4 million. We expect to incur significant expenses related to the continued development and expansion of our business, including in connection with our efforts to pursue opportunities in emerging IoT markets, develop and improve upon our products and technology, maintain and enhance our research and development and sales and marketing activities and hire additional personnel. Further, revenue may not grow or revenue may decline for a number of possible reasons, many of which are outside our control, including a decline in demand for our products, increased competition, business conditions that adversely affect the semiconductor memory industry, including reduced demand for products in the end markets that we serve, or our failure to capitalize on growth opportunities. If we fail to generate sufficient revenue to support our operations, we may not be able to achieve or sustain profitability.

We may be unable to match production with customer demand for a variety of reasons including our inability to accurately forecast customer demand or the capacity constraints of contract manufacturers, which could adversely affect our operating results.

We make planning and spending decisions, including determining production levels, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimates of product demand and customer requirements. Our products are typically purchased pursuant to individual purchase orders. While our customers may provide us with their demand forecasts, they are not contractually committed to buy any quantity of products beyond purchase orders. Furthermore, many of our customers may increase, decrease, cancel or delay purchase orders already in place without significant penalty. The short-term nature of commitments by our customers and the possibility of unexpected changes in demand for their products reduce our ability to accurately estimate future customer requirements. On occasion, customers may require rapid increases in production, which can strain our resources, necessitate more onerous procurement commitments and reduce our gross margin. If we overestimate customer demand, we may purchase products that we may not be able to sell, which could result in decreases in our prices or write-downs of unsold inventory. Conversely, if we underestimate customer demand or if sufficient manufacturing capacity was unavailable, we would lose sales opportunities and could lose market share or damage our customer relationships. The rapid pace of innovation in our industry could also render significant portions of our inventory obsolete. Excess or obsolete inventory levels could result in unexpected expenses or write-downs of inventory values that could adversely affect our business, operating results and financial condition.

Our quarterly operating results or other operating metrics may fluctuate significantly, which could cause the trading price of our common stock to decline.

Our quarterly operating results and other operating metrics have fluctuated in the past and may continue to fluctuate from quarter to quarter. We expect that this trend will continue as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- the receipt, reduction, delay or cancellation of orders by large customers;
- the gain or loss of significant customers and distributors;
- the timing and success of our launch of new or enhanced products and those of our competitors;
- market acceptance of our products and our customers' products;
- the level of growth or decline in the IoT market;
- the timing and extent of research and development and sales and marketing expenditures;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- changes in our product mix;
- our ability to reduce the manufacturing costs of our products;
- competitive pressures resulting in lower than expected average selling prices;
- fluctuations in sales by and inventory levels of OEMs and ODMs who incorporate our memory products in their products;
- cyclical and seasonal fluctuations in our markets;
- fluctuations in the manufacturing yields of our third-party contract manufacturers;
- events that impact the availability of production capacity at our third-party subcontractors and other interruptions in the supply chain including due to geopolitical events, natural disasters, materials shortages, bankruptcy or other causes;
- supply constraints for and changes in the cost of the other components incorporated into our customers' products;
- the timing of expenses related to the acquisition of technologies or businesses;
- product rates of return or price concessions in excess of those expected or forecasted;
- costs associated with the repair and replacement of defective products;
- unexpected inventory write-downs or write-offs;
- costs associated with litigation over intellectual property rights and other litigation;
- the length and unpredictability of the purchasing and budgeting cycles of our customers;
- loss of key personnel or the inability to attract qualified engineers; and
- geopolitical events, such as war, threat of war or terrorist actions, or the occurrence of natural disasters.

Any one of the factors above or the cumulative effect of some of the factors above may result in significant fluctuations in our operating results.

The semiconductor memory industry is highly cyclical and our markets may experience significant cyclical fluctuations in demand as a result of changing economic conditions, budgeting and buying patterns of customers and others factors. As a result of these and other factors affecting demand for our products and our results of operations in any given period, the results of any prior quarterly or annual periods should not be relied upon as indicative of our future revenue or operating performance. Fluctuations in our revenue and operating results could also cause our stock price to decline.

We rely on third parties to manufacture, package, assemble and test the semiconductor components comprising our products, which exposes us to a number of risks, including reduced control over manufacturing and delivery timing and potential exposure to price fluctuations, which could result in a loss of revenue or reduced profitability.

As a fabless semiconductor company, we outsource the manufacturing, packaging, assembly and testing of our semiconductor components to third-party foundries and assembly and testing service providers. We use two foundries, United Microelectronics Corporation in Taiwan and XMC in Wuhan, China, for the production of our flash memory products and a single foundry, Altis Semiconductor S.N.C. in France, for our Mavriq and Moneta products. Our primary assembly and testing contractor is Amkor Technology, Inc. in Taiwan, Korea and the Philippines. Our wafer probing is performed by King Yuan Electronics Co., Ltd. in Taiwan.

Relying on third-party manufacturing, assembly and testing presents a number of risks, including but not limited to:

- capacity and materials shortages during periods of high demand;
- reduced control over delivery schedules, inventories and quality;
- the unavailability of, or potential delays in obtaining access to, key process technologies;
- the inability to achieve required production or test capacity and acceptable yields on a timely basis;
- misappropriation of our intellectual property;
- the third parties' ability to perform its obligations due to bankruptcy or other financial constraints;
- limited warranties on wafers or products supplied to us; and
- potential increases in prices.

Any of the foregoing risks may affect our ability to meet customer demand. For example, one of our silicon wafer suppliers suddenly declared bankruptcy in December 2013 and abruptly shut down its foundry. As a result, we were unable to fulfill a portion of our customers' orders in 2014 while we transitioned wafer production to a new foundry. Based on the average selling prices then in effect for those wafers, we estimate that the potential loss of revenue exceeded \$10.0 million.

We currently do not have long-term supply contracts with our third-party contract manufacturers for our DataFlash and Fusion Flash products, including United Microelectronics Corporation and Amkor Technology, Inc. Therefore, they are not obligated to perform services or supply components to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. During periods of high demand and tight inventories, our third-party foundries and assembly and testing contractors may allocate capacity to the production of other companies' components while reducing deliveries to us, or significantly raise their prices. In particular, they may allocate capacity to other customers that are larger and better financed than us or that have long-term agreements, decreasing the capacity available to us. Shortages of capacity available to us may be caused by the actions of their other, large customers that may be difficult to predict, such as major product launches. If we need other foundries or assembly and test contractors because of increased demand, or if we are unable to obtain timely and adequate deliveries from our providers, we might not be able to cost-effectively and quickly retain other vendors to satisfy our requirements. Because the lead-time needed to establish a relationship with a new third-party supplier could be several quarters, there is no readily available alternative source of supply for any specific component. In addition, the time and expense to qualify a new foundry could result in additional expense, diversion of resources or lost sales, any of which would negatively impact our financial results.

In the event that we expand production of a component to include a new contract manufacturer, as we expect to do with our current and future CBRAM-based products, it may take approximately 18 to 24 months to allow a transition from our current foundry or assembly services provider to the new provider. We may experience difficulty migrating our proprietary CBRAM technology platform and, consequently, may experience reduced yields, delays in component deliveries and increased research and development expense. The inability by us or our third-party manufacturers to effectively and efficiently transition our technology to their infrastructure may adversely affect our operating results and our gross margin. There can be no assurance that we will be able to find suitable replacements for our third-party contract manufacturers.

If any of our current or future foundry partners or assembly and test subcontractors significantly increases the costs of wafers or other materials, interrupts or reduces our supply, including for reasons outside of their control, or if any of our relationships with our suppliers is terminated, our operating results could be adversely affected. Such occurrences could also damage our customer relationships, result in lost revenue, cause a loss in market share or damage our reputation.

The market for semiconductor memory products is characterized by declines in average selling prices, which we expect to continue, and which could negatively affect our revenue and margins.

Our customers expect the average selling price of our products to decrease year-over-year and we expect this trend to continue. When such pricing declines occur, we may not be able to mitigate the effects by selling more or higher margin units, or by reducing our manufacturing costs. In such circumstances, our operating results could be materially and adversely affected. Our legacy and new flash memory products have experienced declining average selling prices over their life cycle. The rate of decline may be affected by a number of factors, including relative supply and demand, the level of competition, production costs and technological changes. As a result of the decreasing average selling prices of our products following their launch, our ability to increase or maintain our margins depends on our ability to introduce new or enhanced products with higher average selling prices and to reduce our per-unit cost of sales and our operating costs. We may not be able to reduce our costs as rapidly as companies that operate their own manufacturing, assembly and testing facilities, and our costs may even increase because we do not operate our own manufacturing, assembly or testing facilities, which could also reduce our gross margins. In addition, our new or enhanced products may not be as successful or enjoy as high margins as we expect. If we are unable to offset any reductions in average selling prices by introducing new products with higher average selling prices or reducing our costs, our revenue and margins will be negatively affected and may decrease.

The semiconductor memory market is highly cyclical and has experienced severe downturns in the past, generally as a result of wide fluctuations in supply and demand, constant and rapid technological change, continuous new product introductions and price erosion. During downturns, periods of intense competition, or the presence of oversupply in the industry, the selling prices for our products may decline at a high rate over relatively short time periods as compared to historical rates of decline. We are unable to predict selling prices for any future periods and may experience unanticipated, sharp declines in selling prices for our products.

Our growth depends on the growth and development of the emerging IoT industry, and if the market does not develop as we expect, our business prospects may be harmed.

Our products are increasingly being utilized in IoT edge devices. The IoT industry is nascent and is characterized by rapidly changing technologies, devices and connectivity requirements, evolving industry standards and changing customer demands. The continued development of IoT depends in part on significant growth in the number of connected devices. Such growth is affected by various factors, including the continued growth in the use of mobile operator networks and the Internet to connect an increasing number and variety of devices, price reductions for key hardware and software components, innovation of other components of the IoT nodes toward low-power formats, and the continued development of IoT standards and protocols. Without these continued developments, IoT might not gain widespread market acceptance and our business could suffer. Security and privacy concerns, evolving business practices and consumer preferences may also slow the growth and development of IoT. Because our revenue growth ultimately depends upon the success of IoT, our business may suffer as a result of slowing or declining growth in IoT adoption. Even if the IoT industry does develop, we may not be well positioned or able to penetrate and capitalize on this new market. As a result of these factors, the future revenue and income potential of our business is uncertain.

The markets for our products are evolving, and changing market conditions, such as the introduction of new technologies or changes in customer preferences, may negatively affect demand for our products. If we fail to properly anticipate or respond to changing market conditions, our business prospects and results of operations will suffer.

The NVM industry is subject to constant and rapid changes in technology, frequent new product introductions, short product life cycles, rapid product obsolescence and evolving technical standards. New technologies may be introduced that make the current technologies on which our products are based less competitive or obsolete or require us to make changes to our technology that could be expensive and time consuming to implement. Due to the evolving nature of our markets, our future success depends on our ability to accurately anticipate and respond to changes in industry standards, technological requirements, customer and consumer preferences and other market conditions. Our technologies could become obsolete sooner than we expect because of faster than anticipated, or unanticipated, changes in one or more of the industry standards and technological requirements. We may be unable to develop and introduce new or enhanced technologies that satisfy customer requirements and achieve market acceptance in a timely manner or at all, succeed in commercializing the technologies on which we have focused our research and development expenditures to develop, and anticipate new industry standards and technological changes. If we fail to adapt successfully to technological changes or fail to obtain access to important new technologies, we may be unable to retain customers or attract new customers. Any decrease in demand for our products, or the need for low-power products in general, due to the emergence of competing technologies, changes in customer preferences and requirements or other factors, could adversely affect our business, results of operations and prospects.

We must continuously develop new and enhanced products, and if we are unable to successfully market our new and enhanced products for which we incur significant expenses to develop, our results of operations and financial condition will be materially adversely affected.

In order to compete effectively in our markets, we must continually design, develop and introduce new and improved products with improved features in a cost-effective manner in response to changing technologies and market demand. This requires us to devote substantial financial and other resources to research and development. We are developing next-generation products, which we expect to be one of the drivers of our revenue growth in the future. However, we may not succeed in developing and marketing these new and enhanced products. We also face the risk that customers may not value or be willing to bear the cost of incorporating our new and enhanced products into their products, particularly if they believe their customers are satisfied with current solutions. Regardless of the improved features or superior performance of our new and enhanced products, customers may be unwilling to adopt our solutions due to design or pricing constraints, or because they do not want to rely on a single or limited supply source. Because of the extensive time and resources that we invest in developing new and enhanced products, if we are unable to sell customers new generations of our products, our revenue could decline and our business, financial condition, results of operations and cash flows would be negatively affected. For example, we generated limited revenue from sales of our Mavriq and Moneta products to date. While we expect revenue from our Mavriq and Moneta products to grow, we may not be able to materially increase our revenue from this product family. Similarly, any of our more recently-introduced products or product families based on CBRAM or floating gate architecture may not achieve market acceptance and contribute significantly to our revenue. If we are unable to successfully develop and market our new and enhanced products that we have incurred significant expenses developing, our results of operations and financial condition will be materially and adversely affected.

Our success and future revenue depend on our ability to secure design wins and on our customers' ability to successfully sell the products that incorporate our solutions. Securing design wins is a lengthy, expensive and competitive process, and may not result in actual orders and sales, which could cause our revenue to decline.

We sell to customers that incorporate our NVM into their products. A design win occurs after a customer has tested our product, verified that it meets the customer's requirements, qualified our solutions for their products and placed an order for the purchase of our products. Our customers may need several months to years to test, evaluate and adopt our product and additional time to begin volume production of the product that incorporates our solution. Due to this generally lengthy design cycle, we may experience significant delays from the time we increase our operating expenses and make investments in our products to the time that we generate revenue from sales of these products. Moreover, even if a customer selects our solution, we cannot guarantee that this will result in any sales of our products, as the customer may ultimately change or cancel its product plans, or efforts by our customer to market and sell its product may not be successful. We may not generate any revenue from design wins after incurring the associated costs, which would cause our business and operating results to suffer.

If a current or prospective customer designs a competitor's solution into its product, it becomes significantly more difficult for us to sell our solutions to that customer because changing suppliers involves significant time, cost, effort and risk for the customer even if our solutions remain compatible with their product design. If current or prospective customers do not include our solutions in their products and we fail to achieve a sufficient number of design wins, our results of operations and business may be harmed.

We rely on our relationships with OEMs and ODMs to enhance our solutions and market position, and our failure to continue to develop or maintain such relationships in the future would harm our ability to remain competitive.

We develop our products for leading OEMs and ODMs that serve a variety of end markets and are developing devices for wearables, sensors, Bluetooth 4.0 and other IoT applications. For each application, manufacturers create products that incorporate specialized semiconductor technology, which makers of memory products use as the basis for their products. These manufacturers set the specifications for many of the key components to be used on each generation of their products and, in the case of memory components, generally qualify only a few vendors to provide memory components for their products. As each new generation of their products is released, vendors are validated in a similar fashion. We must work closely with semiconductor manufacturers to ensure our products become qualified for use in their products. As a result, maintaining close relationships with leading product manufacturers that are developing devices for wearables, Bluetooth 4.0 and other IoT applications is crucial to the long-term success of our business. We could lose these relationships for a variety of reasons, including our failure to qualify as a vendor, our failure to demonstrate the value of our new solutions, declines in product quality, or if OEMs or ODMs seek to work with vendors with broader product suites, greater production capacity or greater financial resources. If our relationships with key industry participants were to deteriorate or if our solutions were not qualified by our customers, our market position and revenue could be materially and adversely affected.

Changes to industry standards and technical requirements relevant to our products and markets could adversely affect our business, results of operations and prospects.

Our products are only a part of larger electronic systems. All products incorporated into these systems must comply with various industry standards and technical requirements created by regulatory bodies or industry participants in order to operate efficiently together. Industry standards and technical requirements in our markets are evolving and may change significantly over time. For our products, the industry standards are developed by the JEDEC Solid State Technology Association, an industry trade organization. In addition, large industry-leading semiconductor and electronics companies play a significant role in developing standards and technical requirements for the product ecosystems within which our products can be used. Our customers also may design certain specifications and other technical requirements specific to their products and solutions. These technical requirements may change as the customer introduces new or enhanced products and solutions.

Our ability to compete in the future will depend on our ability to identify and comply with evolving industry standards and technical requirements. The emergence of new industry standards and technical requirements could render our products incompatible with products developed by other suppliers or make it difficult for our products to meet the requirements of certain of our customers in consumer, industrial, IoT and other markets. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards and requirements. If our products are not in compliance with prevailing industry standards and technical requirements for a significant period of time, we could miss opportunities to achieve crucial design wins, our revenue may decline and we may incur significant expenses to redesign our products to meet the relevant standards, which could adversely affect our business, results of operations and prospects.

If sales of our customers' products decline or if their products do not achieve market acceptance, our business and operating results could be adversely affected.

Our revenue depends on our customers' ability to commercialize their products successfully. The markets for our customers' products are extremely competitive and are characterized by rapid technological change. Competition in our customers' markets is based on a variety of factors including price, performance, product quality, marketing and distribution capability, customer support, name recognition and financial strength. As a result of rapid technological change, the markets for our customers' products are characterized by frequent product introductions, short product life cycles, fluctuating demand and increasing product capabilities. As a result, our customers' products may not achieve market success or may become obsolete. We cannot assure you that our customers will dedicate the resources necessary to promote and commercialize their products, successfully execute their business strategies for such products, or be able to manufacture such products in quantities sufficient to meet demand or cost-effectively manufacture products at a high volume. Our customers do not have contracts with us that require them to manufacture, distribute or sell any products. Moreover, our customers may develop internally, or in collaboration with our competitors, technology that they may utilize instead of the technology available to them through us. Our customers' failure to achieve market success for their products, including as a result of general declines in our customers' markets or industries, could negatively affect their willingness to utilize our products, which may result in a decrease in our revenue and negatively affect our business and operating results.

Our revenue also depends on the timely introduction, quality and market acceptance of our customers' products that incorporate our solutions. Our customers' products are often very complex and subject to design complexities that may result in design flaws, as well as potential defects, errors and bugs. We have in the past been subject to delays and project cancellations as a result of design flaws in the products developed by our customers. For example, in 2014 flaws in one of our customer's products that were unrelated to our memory solutions generated negative publicity for our customer and delayed the product's release until it could be redesigned. In the past, we have also been subject to delays and project cancellations as a result of changing market requirements, such as the customer adding a new feature, or because a customer's product fails their end customer's evaluation or field trial. Customer products may also be delayed due to issues with other vendors of theirs. We incur significant design and development costs in connection with designing our solutions for customers' products. If our customers discover design flaws, defects, errors or bugs in their products, or if they experience changing market requirements, failed evaluations or field trials, or issues with other vendors, they may delay, change or cancel a project. If we have already incurred significant development costs, we may not be able to recoup those costs, which in turn would adversely affect our business and financial results.

We face competition and expect competition to increase in the future. If we fail to compete effectively, our revenue growth and results of operations will be materially and adversely affected.

The global semiconductor market in general, and the semiconductor memory market in particular, are highly competitive. We expect competition to increase and intensify as other semiconductor companies enter our markets, many of which have greater financial and other resources with which to pursue technology development, product design, manufacturing, marketing and sales and distribution of their products. Increased competition could result in price pressure, reduced profitability and loss of market share, any of which could materially and adversely affect our business, revenue and operating results. Currently, our competitors range from

large, international companies offering a wide range of semiconductor products to companies specializing in other alternative, specialized emerging memory technologies. Our primary competitors include Macronix International Co. Ltd., Microchip Technology Inc., Micron Technology, Inc., Spansion Inc. (acquired by Cypress Semiconductor Corporation), STMicroelectronics NV and Winbond Electronics Corp. In addition, as the IoT market opportunity grows, we expect new entrants will enter these markets and existing competitors, including leading semiconductor companies, may make significant investments to compete more effectively against our products. These competitors could develop technologies or architectures that make our products or technologies obsolete.

Our ability to compete successfully depends on factors both within and outside of our control, including:

- the functionality and performance of our products and those of our competitors;
- our relationships with our customers and other industry participants;
- prices of our products and prices of our competitors' products;
- our ability to develop innovative products;
- our ability to retain high-level talent, including our management team and engineers; and
- the actions of our competitors, including merger and acquisition activity, launches of new products and other actions that could change the competitive landscape.

Competition could result in pricing pressure, reduced revenue and profitability and loss of market share, any of which could materially and adversely affect our business, results of operations and prospects. In the event of a market downturn, competition in the markets in which we operate may intensify as our customers reduce their purchase orders. Our competitors that are significantly larger and have greater financial, technical, marketing, distribution, customer support and other resources or more established market recognition than us may be better positioned to accept lower prices and withstand adverse economic or market conditions.

Our customers require our products and our third-party contractors to undergo a lengthy and expensive qualification process. If we are unsuccessful or delayed in qualifying any of our products with a customer, our business and operating results would suffer.

Prior to selecting and purchasing our products, our customers typically require that our products undergo extensive qualification processes, which involve testing of our products in the customers' systems, as well as testing for reliability. This qualification process may continue for several months or years. However, obtaining the requisite qualifications for a memory product does not assure any sales of the product. Even after successful qualification and sales of a product to a customer, a subsequent revision in our third-party contractors' manufacturing process or our selection of a new contract manufacturer may require a new qualification process, which may result in delays and excess or obsolete inventory. After our products are qualified and selected, it can and often does take several months or more before the customer commences volume production of systems that incorporate our products. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, to qualify our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, sales of those products may be precluded or delayed, which may impede our growth and harm our business.

Our costs may increase substantially if our third-party manufacturing contractors do not achieve satisfactory product yields or quality.

The fabrication process is extremely complicated and small changes in design, specifications or materials can result in material decreases in product yields or even the suspension of production. From time to time, the third-party foundries that we contract to manufacture our products may experience manufacturing defects and reduced manufacturing yields related to errors or problems in their manufacturing processes or the interrelationship of their processes with our designs. In some cases, our third-party foundries may not be able to detect these defects early in the fabrication process or determine the cause of such defects in a timely manner.

Generally, in pricing our products, we assume that manufacturing yields will continue to improve, even as the complexity of our products increases. Once our products are initially qualified with our third-party foundries, minimum acceptable yields are established. We are responsible for the costs of the units if the actual yield is above the minimum. If actual yields are below the minimum we are not required to purchase the units. Typically, minimum acceptable yields for our new products are generally lower at first and gradually improve as we achieve full production. Unacceptably low product yields or other product manufacturing problems could substantially increase overall production time and costs and adversely impact our operating results. Product yield losses will increase our costs and reduce our gross margin. In addition to significantly harming our results of operations and cash flow, poor yields may delay shipment of our products and harm our relationships with existing and potential customers.

The complexity of our products may lead to errors, defects and bugs, which could negatively impact our reputation with customers and result in liability.

Products as complex as ours may contain errors, defects and bugs when first introduced to customers or as new versions are released. Our products have in the past experienced such errors, defects and bugs. Delivery of products with production defects or reliability, quality or compatibility problems could significantly delay or hinder market acceptance of the products or result in a costly recall and could damage our reputation and adversely affect our ability to retain existing customers and attract new customers. Errors, defects or bugs could cause problems with the functionality of our products, resulting in interruptions, delays or cessation of sales of these products to our customers. We may also be required to make significant expenditures of capital and resources to resolve such problems. We cannot assure you that problems will not be found in new products, both before and after commencement of commercial production, despite testing by us, our suppliers or our customers. Any such problems could result in:

- delays in development, manufacture and roll-out of new products;
- additional development costs;
- loss of, or delays in, market acceptance;
- diversion of technical and other resources from our other development efforts;
- claims for damages by our customers or others against us; and
- loss of credibility with our current and prospective customers.

Any such event could have a material adverse effect on our business, financial condition and results of operations.

We may experience difficulties in transitioning to new wafer fabrication process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.

We aim to use the most advanced manufacturing process technology appropriate for our solutions that is available from our third-party foundries. As a result, we periodically evaluate the benefits of migrating our solutions to other technologies in order to improve performance and reduce costs. These ongoing efforts require us from time to time to modify the manufacturing processes for our products and to redesign some products, which in turn may result in delays in product deliveries. We may face difficulties, delays and increased expense as we transition our products to new processes, and potentially to new foundries. We will depend on our third-party foundries as we transition to new processes. We cannot assure you that our third-party foundries will be able to effectively manage such transitions or that we will be able to maintain our relationship with our third-party foundries or develop relationships with new third-party foundries. If we or any of our third-party foundries experience significant delays in transitioning to new processes or fail to efficiently implement transitions, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, any of which could harm our relationships with our customers and our operating results.

As smaller line width geometry manufacturing processes become more prevalent, we intend to move our future products to increasingly smaller geometries in order to reduce costs while integrating greater levels of functionality into our products. This transition will require us and our third-party foundries to migrate to new designs and manufacturing processes for smaller geometry products. We may not be able to achieve smaller geometries with higher levels of design integration or to deliver new integrated products on a timely basis. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs and increase performance. We are dependent on our relationships with our third-party foundries to transition to smaller geometry processes successfully. We cannot assure you that our third-party foundries will be able to effectively manage any such transition. If we or our third-party foundries experience significant delays in any such transition or fail to implement a transition, our business, financial condition and results of operations could be materially harmed.

If we fail to hire additional finance personnel and strengthen our financial reporting systems and infrastructure, we may not be able to timely and accurately report our financial results or comply with the requirements of being a public company, including compliance with the Sarbanes-Oxley Act and SEC reporting requirements.

We intend to hire additional accounting and finance staff with technical accounting, SEC reporting and Sarbanes-Oxley Act compliance expertise. Any inability to recruit and retain such staff would have an adverse impact on our ability to accurately and timely prepare our financial statements. We may be unable to locate and hire qualified professionals with requisite technical and public company experience when and as needed. In addition, new employees will require time and training to learn our business and operating processes and procedures. If our finance and accounting organization is unable for any reason to respond adequately to the increased demands from being a public company, the quality and timeliness of our financial reporting may suffer, which could result in the identification of material weaknesses in our internal controls. For example, in 2015, our independent registered public accounting firm identified in their report to our audit committee that we had a material weakness in our internal control over financial

reporting as of December 31, 2014 due to our lack of sufficient, qualified personnel in accounting and financial reporting functions with sufficient experience and expertise with respect to the application of GAAP (as defined below) and related financial reporting, which led to a delay in the closing of our books and resulted in a number of post-closing adjustments to our consolidated financial statements as of and for the years ended December 31, 2013 and 2014. Any consequences resulting from inaccuracies or delays in our reported financial statements could cause the trading price of our common stock to decline and could harm our business, operating results and financial condition.

If we fail to strengthen our financial reporting systems, infrastructure and internal control over financial reporting to meet the demands placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act, we may be unable to report our financial results timely and accurately and prevent fraud. We expect to incur significant expense and devote substantial management effort toward ensuring compliance with Section 404.

A breach of our security systems may damage our reputation and adversely affect our business.

Our security systems are designed to protect our customers', suppliers' and employees' confidential information, as well as maintain the physical security of our facilities. We also rely on a number of third-party "cloud-based" service providers of corporate infrastructure services relating to, among other things, human resources, electronic communication services and some finance functions, and we are, of necessity, dependent on the security systems of these providers. Any security breaches or other unauthorized access by third parties to the systems of our cloud-based service providers or the existence of computer viruses in their data or software could expose us to a risk of information loss and misappropriation of confidential information. Accidental or willful security breaches or other unauthorized access by third parties to our information systems or facilities, or the existence of computer viruses in our data or software, could expose us to a risk of information loss and misappropriation of proprietary and confidential information belonging to us, our customers or our suppliers. Any theft or misuse of this information could result in, among other things, unfavorable publicity, damage to our reputation, difficulty in marketing our products, allegations by our customers that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for liabilities and damages related to the theft or misuse of this information, any of which could have a material adverse effect on our business, financial condition, our reputation, and our relationships with our customers and partners. Since the techniques used to obtain unauthorized access or to sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

Failure to protect our intellectual property could substantially harm our business.

Our success and ability to compete depend in part upon our ability to protect our intellectual property. We rely on a combination of intellectual property rights, including patents, mask work protection, copyrights, trademarks, trade secrets and know-how, in the United States and other jurisdictions. The steps we take to protect our intellectual property rights may not be adequate, particularly in foreign jurisdictions such as China. Any patents we hold may not adequately protect our intellectual property rights or our products against competitors, and third parties may challenge the scope, validity or enforceability of our issued patents. In addition, other parties may independently develop similar or competing technologies designed around any patents or patent applications that we hold. Some of our products and technologies are not covered by any patent or patent application, as we do not believe patent protection of these products and technologies is critical to our business strategy at this time. A failure to timely seek patent protection on products or technologies generally precludes us from seeking future patent protection on these products or technologies.

In addition to patents, we also rely on contractual protections with our customers, suppliers, distributors, employees and consultants, and we implement security measures designed to protect our trade secrets and know-how. However, we cannot assure you that these contractual protections and security measures will not be breached, that we will have adequate remedies for any such breach or that our customers, suppliers, distributors, employees or consultants will not assert rights to intellectual property or damages arising out of such contracts.

We may initiate claims against third parties to protect our intellectual property rights if we are unable to resolve matters satisfactorily through negotiation. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management. It could also result in the impairment or loss of portions of our intellectual property, as an adverse decision could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively impact our business, financial condition and results of operations. Additionally, any enforcement of our patents or other intellectual property may provoke third parties to assert counterclaims against us. Our failure to secure, protect and enforce our intellectual property rights could materially harm our business.

We may face claims of intellectual property infringement, which could be time-consuming, costly to defend or settle, result in the loss of significant rights, harm our relationships with our customers and distributors, or otherwise materially adversely affect our business, financial condition and results of operations.

The semiconductor memory industry is characterized by companies that hold patents and other intellectual property rights and that vigorously pursue, protect and enforce intellectual property rights. These companies include patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may provide little or no deterrence. From time to time, third parties may assert against us and our customers' patent and other intellectual property rights to technologies that are important to our business.

Claims that our products, processes or technology infringe third-party intellectual property rights, regardless of their merit or resolution, could be costly to defend or settle and could divert the efforts and attention of our management and technical personnel. We may also be obligated to indemnify our customers or business partners in connection with any such litigation, which could result in increased costs. Infringement claims also could harm our relationships with our customers or distributors and might deter future customers from doing business with us. If any such proceedings result in an adverse outcome, we could be required to:

- cease the manufacture, use or sale of the infringing products, processes or technology;
- pay substantial damages for infringement;
- expend significant resources to develop non-infringing products, processes or technology, which may not be successful;
- license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all;
- cross-license our technology to a competitor to resolve an infringement claim, which could weaken our ability to compete with that competitor; or
- pay substantial damages to our customers to discontinue their use of or to replace infringing technology sold to them with non-infringing technology, if available.

Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations. Furthermore, our exposure to the foregoing risks may also be increased as a result of acquisitions of other companies or technologies. For example, we may have a lower level of visibility into the development process with respect to intellectual property or the care taken to safeguard against infringement risks with respect to the acquired company or technology. In addition, third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to the acquisition.

We rely upon third-party licensed technology to develop our products. If licenses of third-party technology are inadequate, our ability to develop and commercialize our products or product enhancements could be negatively impacted.

Our products incorporate technology licensed from third parties. In connection with our acquisition of certain flash memory assets from Atmel Corporation in 2012, we obtained a perpetual license to Atmel's flash memory technology. In addition, a component of our CBRAM technology is licensed from Axon Technology Corp. While we believe these licenses enable us to develop our products and pursue our current product strategies, these licenses may not provide us with the benefits we expect from them. From time to time, we may be required to license additional technology from third parties to develop our products or product enhancements. However, these third-party licenses may not be available to us on commercially reasonable terms or at all. Our inability to obtain third-party licenses necessary to develop products and product enhancements could require us to obtain substitute technology at a greater cost or of lower quality or performance standards or delay product development. Any of these results may limit our ability to develop new products, which could harm our business, financial condition and results of operations.

Our success depends on our ability to attract and retain key employees, and our failure to do so could harm our ability to grow our business and execute our business strategies.

Our success depends on our ability to attract and retain our key employees, including our management team and experienced engineers. Competition for personnel in the semiconductor technology field is intense, and the availability of suitable and qualified candidates is limited. We compete to attract and retain qualified research and development personnel with other semiconductor companies, universities and research institutions, particularly those in the San Francisco Bay Area where our headquarters is located. The members of our management and key employees are at-will employees and although we recently issued refresh equity awards to our personnel in connection with our initial public offering in October 2015, there can be no assurance that these awards will be effective to retain our key employees. If we lose the services of any key senior management member or employee, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely impact our business and prospects. The loss of the services of one or more of our key employees, especially our key engineers, or our inability to attract and retain qualified engineers, could harm our business, financial condition and results of operations.

We may not be able to effectively manage our growth, and we may need to incur significant expenditures to address the additional operational and control requirements of our growth, either of which could harm our business and operating results.

As we continue to expand our business, we expect our headcount and overall size of our operations to grow significantly. To effectively manage our growth, we must continue to expand our operational, engineering and financial systems, procedures and controls and to improve our accounting and other internal management systems. This may require substantial managerial and financial resources, and our efforts in this regard may not be successful. Our current systems, procedures and controls may not be adequate to support our future operations. If we fail to adequately manage our growth, or to improve our operational, financial and management information systems, or fail to effectively motivate or manage our new and future employees, the quality of our products and the management of our operations could suffer, which could adversely affect our operating results.

We have expanded in the past and may continue to expand in the future through acquisitions of, or investments in, other companies, each of which may divert our management's attention, result in additional dilution to stockholders or use resources that are necessary to operate our business.

In the past, we have grown our business through acquisitions and we may in the future seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our business, enhance our technical capabilities or otherwise offer growth opportunities. For example, in September 2012, we purchased certain flash memory product assets from Atmel Corporation, which brought us a large customer base for products, a world-wide sales and distribution network and products and technology to further broaden our technology platform offerings. Such acquisitions or investments could create risks for us, including:

- difficulties in assimilating acquired personnel, operations and technologies or realizing synergies expected in connection with an acquisition, particularly with acquisitions of companies with large and widespread operations, complex products or that operate in markets in which we historically have had limited experience;
- unanticipated costs or liabilities, including possible litigation, associated with the acquisition;
- incurrence of acquisition-related costs;
- diversion of management's attention from other business concerns;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate an acquisition.

A significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill, which must be assessed for impairment at least annually. If such acquisitions do not yield expected returns, we may be required to take charges to our earnings based on this impairment assessment process, which could harm our results of operations.

We may be unable to complete acquisitions at all or on commercially reasonable terms, which could limit our future growth. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of additional debt, which could adversely affect our operating results and result in a decline in our stock price and further restrict our ability to pursue business opportunities, including potential acquisitions. In addition, if an acquired business fails to meet our expectations, our operating results may suffer.

We have operations outside of the United States and intend to expand our international operations, which exposes us to significant risks.

We have limited operations in Europe and Asia. We intend to expand our operations in Asia. The success of our business depends, in large part, on our ability to operate successfully from geographically disparate locations and to further expand our international operations and sales. Operating in international markets requires significant resources and management attention and subjects us to regulatory, economic and political risks that are different from those we face in the United States. We cannot be sure that further international expansion will be successful. In addition, we face risks in doing business internationally that could expose us to reduced demand for our products, lower prices for our products or other adverse effects on our operating results. Among the risks we believe are most likely to affect us are:

- difficulties, inefficiencies and costs associated with staffing and managing foreign operations;
- longer and more difficult customer qualification and credit checks;
- greater difficulty collecting accounts receivable and longer payment cycles;
- the need for various local approvals to operate in some countries;
- difficulties in entering some foreign markets without larger-scale local operations;
- compliance with local laws and regulations;
- unexpected changes in regulatory requirements, including the elimination of tax holidays;
- reduced protection for intellectual property rights in some countries;
- adverse tax consequences as a result of repatriating cash generated from foreign operations to the United States;
- adverse tax consequences, including potential additional tax exposure if we are deemed to have established a permanent establishment outside of the United States;
- the effectiveness of our policies and procedures designed to ensure compliance with the Foreign Corrupt Practices Act of 1977 and similar regulations;
- fluctuations in currency exchange rates, which could increase the prices of our products to customers outside of the United States, increase the expenses of our international operations by reducing the purchasing power of the U.S. dollar and expose us to foreign currency exchange rate risk if, in the future, we denominate our international sales in currencies other than the U.S. dollar;
- new and different sources of competition; and
- political and economic instability, and terrorism.

Our failure to manage any of these risks successfully could harm our operations and reduce our revenue.

In order to comply with environmental laws and regulations, we may need to modify our activities or incur substantial costs, and if we fail to comply with environmental regulations we could be subject to substantial fines or be required to have our suppliers alter their processes.

The semiconductor memory industry is subject to a variety of international, federal, state and local governmental regulations directed at preventing or mitigating environmental harm, as well as to the storage, discharge, handling, generation, disposal and labeling of toxic or other hazardous substances. Failure to comply with environmental regulations could subject us to civil or criminal sanctions and property damage or personal injury claims. Compliance with current or future environmental laws and regulations could restrict our ability to expand our business or require us to modify processes or incur other substantial expenses which could harm our business. In response to environmental concerns, some customers and government agencies impose requirements for the elimination of hazardous substances, such as lead (which is widely used in soldering connections in the process of semiconductor packaging and assembly), from electronic equipment. For example, the European Union, or EU, adopted its Restriction on Hazardous Substance Directive which prohibits, with specified exceptions, the sale in the EU market of new electrical and electronic equipment containing more than agreed levels of lead or other hazardous materials and China has enacted similar regulations. Environmental laws and regulations such as these could become more stringent over time, causing a need to redesign technologies, imposing greater compliance costs and increasing risks and penalties associated with violations, which could seriously harm our business.

The issuance of new accounting standards or future interpretations of existing accounting standards could adversely affect our operating results.

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP. A change in those principles could have a significant effect on our reported results and might affect our reporting of transactions completed before a change is announced. GAAP is issued and subject to interpretation by the Financial Accounting Standards Board, the SEC and various other bodies formed to promulgate and interpret accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. The issuance of new accounting standards or future interpretations of existing accounting standards, or changes in our business practices or estimates, could result in future changes in our revenue recognition or other accounting policies that could have a material adverse effect on our results of operations.

Our management team has limited experience managing a public company.

Most members of our management team have limited experience managing a publicly-traded company, interacting with public company investors, and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition to being a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial condition, and operating results.

Some of our facilities and the facilities of our suppliers are located near known earthquake fault zones, and the occurrence of an earthquake or other catastrophic disaster could damage our facilities, which could cause us to curtail our operations.

Our principal offices, and our contract manufacturers' and suppliers' facilities in Asia, are located near known earthquake fault zones and, therefore, are vulnerable to damage from earthquakes. We are also vulnerable to damage from other types of disasters, such as power loss, fire, floods and similar events. If any such disaster were to occur, our ability to operate our business could be seriously impaired. In addition, we may not have adequate insurance to cover our losses resulting from disasters or other similar significant business interruptions. Any significant losses that are not recoverable under our insurance policies could seriously impair our business and financial condition.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

We have funded our operations since inception through equity financings, our borrowing arrangements and our initial public offering in October 2015. We have incurred net losses and negative cash flows from operating activities since our inception, and we expect we will continue to incur operating and net losses and negative cash flows from operations for the foreseeable future. We do not know when or if our operations will generate sufficient cash to fund our ongoing operations. In the future, we may require additional capital to fund our ongoing operations, respond to business opportunities, challenges, acquisitions or unforeseen circumstances and may determine to engage in equity or debt financings or enter into credit facilities, but we may not be able to timely secure additional debt or equity financing or raise additional capital in the public market on favorable terms or at all.

Our current credit facility limits our ability to incur indebtedness, and these restrictions are subject to a number of qualifications and exceptions subject to the consent of our lender. Any additional debt financing obtained by us in the future could also involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

If we raise additional funds through issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

Provisions of our debt agreements may restrict our ability to pursue our business strategies.

Borrowings under our \$20.0 million credit facility are collateralized by substantially all of our assets. Our credit facility restricts our ability to, among other things:

- dispose of or sell assets;
- consolidate or merge with other entities;

- incur additional indebtedness;
- create liens on our assets;
- pay dividends;
- make investments;
- enter into transactions with affiliates; and
- redeem subordinated indebtedness.

These restrictions are subject to certain exceptions. In addition, our credit facility requires us to maintain a ratio of the balance of unrestricted cash deposited with the lender to the total amounts owed with respect to the term loan thereunder to be less than 1.15 to 1.00. The operating and financial restrictions and covenants in the credit facility, as well as any future financing agreements that we may enter into, may restrict our ability to finance our operations, engage in business activities or expand or fully pursue our business strategies. Our ability to comply with these covenants may be affected by events beyond our control, and we may not be able to meet those covenants. A breach of any of these covenants could result in a default under the credit facility, which could cause all of the outstanding indebtedness thereunder to either (i) to become immediately due and payable and (ii) to be subject to an increase by 5% of the interest rate charged during the period of the unremedied breach

Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.

In general, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income, and tax credits to offset tax. In addition, although we do not expect to undergo an ownership change, we may experience an ownership change in the future, and our ability to utilize our NOLs and tax credits could be further limited by Section 382 of the Code. Future changes in our stock ownership, many of which are outside of our control, could result in an ownership change under Section 382 of the Code. Our net operating losses and tax credits could also be impaired under state laws. As a result, we might not be able to utilize a material portion of our state NOLs and tax credits.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting and, beginning with our annual report for the fiscal year ending December 31, 2016, provide a management report on our internal control over financial reporting, which must be attested to by our independent registered public accounting firm to the extent we are no longer an “emerging growth company,” as defined by the JOBS Act. If we have one or more material weaknesses in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We are in the process of designing and implementing our internal control over financial reporting required to comply with this obligation, which process will be time consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to determine that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our common stock could be negatively affected, and we could become subject to investigations by the NASDAQ Stock Market, the SEC or other regulatory authorities, which could require additional financial and management resources.

Regulations related to “conflict minerals” may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.

Pursuant to the Dodd-Frank Act, the SEC has adopted requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. These requirements will require companies to diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. The implementation of these requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of our products, and affect our costs and relationships with customers, distributors and suppliers as we must obtain additional information from them to ensure our compliance with the disclosure requirement. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for

these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free and these customers may discontinue, or materially reduce, purchases of our products, which could result in a material adverse effect on our results of operations and our financial condition may be adversely affected.

We are an emerging growth company. We cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. For as long as we continue to be an emerging growth company, we also intend to take advantage of certain other exemptions from various reporting requirements that are applicable to other public companies including the exemption from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, the reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of our initial public offering, (b) in which we have total annual gross revenue of at least \$1.0 billion or (c) in which we become a large accelerated filer, which means that we have been public for at least 12 months, have filed at least one annual report and the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last day of our then most recently completed second fiscal quarter, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

Risks Related to Ownership of Our Common Stock

The market price of our common stock has been and will likely continue to be volatile, and you could lose all or part of your investment.

The market price of our common stock has been, and will likely continue to be, volatile. Since shares of our common stock were sold in our initial public offering in October 2015 at a price of \$5.00 per share, our stock price has fluctuated significantly. In addition to the factors discussed in this Quarterly Report on Form 10-Q, the market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- overall performance of the equity markets in general, in our industry or in the markets we address;
- our operating performance and the performance of other similar companies;
- changes in the estimates of our results of operations that we provide to the public, our failure to meet these projected results or changes in recommendations by securities analysts that elect to follow our common stock;
- announcements of technological innovations, new products or enhancements to products, acquisitions, strategic alliances or significant agreements by us or by our competitors;
- announcements of new business partners, on the termination of existing business partner arrangements or changes to our relationships with such business partners;
- recruitment or departure of key personnel;
- announcements of litigation or claims against us;
- changes in legal requirements relating to our business;
- the economy as a whole, market conditions in our industry, and the industries of our customers and end customers;
- trading activity by our principal stockholders;
- the expiration of contractual lock-up or market standoff agreements; and
- sales of shares of our common stock by us or our stockholders.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a

manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have filed securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

If securities analysts do not publish research or reports about our business or if they downgrade our stock, the price of our stock could decline.

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. If few analysts cover our company, the price and trading volume of our stock could suffer. If one or more of the analysts who cover us downgrade our stock, or publish unfavorable research about our business, our stock price would likely decline rapidly. If one or more of these analysts cease coverage of our company or fail to publish regularly, we could lose visibility in the market, which in turn could cause our stock price to decline.

We do not intend to pay dividends for the foreseeable future.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. In addition, our ability to pay cash dividends on our capital stock is restricted by the terms of our term loan facility and is likely to be restricted by any future debt financing arrangement. Any return to stockholders will therefore be limited to increases in the price of our common stock, if any.

Provisions in our amended and restated certificate of incorporation and bylaws or Delaware law might discourage, delay or prevent a change of control of our company or changes in our management.

Delaware corporate law and our amended and restated certificate of incorporation and bylaws contain provisions that could discourage, delay or prevent a change in control of our company or changes in our board of directors that the stockholders of our company may deem advantageous. Among other things, these provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;
- provide that directors may be removed only “for cause” and only with the approval of stockholders representing 66 2/3 percent of our outstanding common stock;
- require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and bylaws;
- authorize the issuance of “blank check” preferred stock that our board could issue to increase the number of outstanding shares and to discourage a takeover attempt;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which means that all stockholder actions will be required to be taken at a meeting of our stockholders;
- provide that our board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any delay or prevention of a change of control transaction or changes in our management could cause the market price of our common stock to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY AND USE OF PROCEEDS

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from Public Offering of Common Stock

On October 30, 2015, we completed our initial public offering in which we sold 5,000,000 shares of common stock at a price to the public of \$5.00 per share. On November 4, 2015 we completed the sale of an additional 192,184 shares of common stock pursuant to the underwriters' over-allotment option. The aggregate offering price for shares sold by us in the offering was approximately \$26.0 million. The offer of up to 5,750,000 shares in the initial public offering, for a proposed maximum aggregate offering price of \$28.75 million, were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-206940) that was declared effective by the Securities and Exchange Commission on October 26, 2015. Needham & Company, LLC, Oppenheimer & Co. Inc. and Roth Capital Partners, LLC were the underwriters for the offering. Following the sale of 5,192,184 shares in connection with the closing of the initial public offering and the sale of the shares subject to the over-allotment option, the offering terminated. We raised approximately \$22.1 million in net proceeds after deducting underwriting discounts and commissions of approximately \$1.9 million and other offering expenses of approximately \$1.9 million. As of September 30, 2016, we had used approximately \$9.8 million of the estimated aggregate net proceeds from our initial public offering: to fund working capital and general corporate requirements in the ordinary course of business. The foregoing amounts represent our best estimate of our use of proceeds for the period indicated. No such payments were made to our directors or officers or their associates, holders of 10% or more of any class of our equity securities or to our affiliates. We intend to use the net proceeds from the initial public offering for additional working capital and other general corporate purposes, including research and development activities, sales and marketing activities and capital expenditures, to enhance existing and develop new products and product families, expand our manufacturing capabilities or fund our growth.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. Exhibits

Number	Description
10.1	Business Financing Agreement by and between the Registrant and Western Alliance Bank, dated July 7, 2016.
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(c) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(c) and 15d-14(a)-, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

+ This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or Exchange Act, or otherwise subject to the liability of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act of 1934.

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BUSINESS FINANCING AGREEMENT

Borrower: ADESTO TECHNOLOGIES CORPORATION
1250 Borregas Avenue
Sunnyvale, CA 94089

Lender: WESTERN ALLIANCE BANK, an Arizona corporation
55 Almaden Boulevard, Suite 100
San Jose, CA 95113

This BUSINESS FINANCING AGREEMENT, dated as of July 7, 2016, is made and entered into between WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION ("**Lender**") and ADESTO TECHNOLOGIES CORPORATION, a Delaware corporation ("**Borrower**") on the following terms and conditions:

1. REVOLVING CREDIT LINE.

- 1.1 Advances.** Subject to the terms and conditions of this Agreement, from the date on which this Agreement becomes effective until the Maturity Date, Lender will make Advances to Borrower not exceeding the Credit Limit or the Borrowing Base, whichever is less; provided that in no event shall Lender be obligated to make any Advance that results in an Overadvance or while any Overadvance is outstanding. Amounts borrowed under this Section may be repaid and reborrowed during the term of this Agreement. It shall be a condition to each Advance that (a) an Advance Request acceptable to Lender has been received by Lender, (b) all of the representations and warranties set forth in Section 3 are true and correct on the date of such Advance as though made at and as of each such date except for representations and warranties that refer to a specific earlier date which must have been true and correct as of such earlier date, and (c) no Default has occurred and is continuing, or would result from such Advance.
- 1.2 Advance Requests.** Borrower may request that Lender make an Advance by delivering to Lender an Advance Request therefor and Lender shall be entitled to rely on all the information provided by Borrower to Lender on or with the Advance Request. The Lender may honor Advance Requests, instructions or repayments given by the Borrower (if an individual) or by any Authorized Person.
- 1.3 Due Diligence.** Lender may audit Borrower's Receivables and any and all records pertaining to the Collateral, at Lender's sole discretion and at Borrower's expense. The first such audit shall be completed prior to the first Advance being made and no less often than annually thereafter. Lender may at any time and from time to time contact Account Debtors and other persons obligated or knowledgeable in respect of Receivables to confirm the Receivable Amount of such Receivables, to determine whether Receivables constitute Eligible Receivables, and for any other purpose in connection with this Agreement. If any of the Collateral or Borrower's books or records pertaining to the Collateral are in the possession of a third party, Borrower authorizes that third party to permit Lender or its agents to have access to perform inspections or audits thereof and to respond to Lender's requests for information concerning such Collateral and records.
- 1.4 Collections.**
- (a) Lender shall have the exclusive right to receive all Collections on all Receivables. Borrower shall (i) immediately notify, transfer and deliver to Lender all Collections Borrower receives for deposit into an account under the sole control of Lender (the "Collection Account"), (ii) deliver to Lender a detailed cash receipts journal on Friday of each week until the Lockbox is operational, and (iii) immediately enter into a collection services agreement acceptable to Lender (the "**Lockbox Agreement**") pursuant to which all Collections received in the Lockbox shall be deposited into the Collection Account. Borrower shall use the Lockbox address as the remit to and payment address for all of Borrower's Collections from Account Debtors, and Borrower shall instruct all Account Debtors to make payments either directly to the Lockbox for deposit by Lender directly to the Collection Account, or instruct them to deliver such payments to Lender by wire transfer, ACH, or other means as Lender may direct for deposit to the Lockbox or Collection Account. It will be considered an immediate Event of Default if this does not occur or the Lockbox is not operational within 15 days of the date of this Agreement.
- (b) At Lender's option, Lender may either (i) transfer all Collections deposited into the Collection Account to Borrower's Account, or (ii) apply the Collections deposited into the Collection Account to the outstanding Account Balance, in either case, within three business days of the date received; provided that upon the occurrence and during the continuance of any Default, Lender may apply all Collections to the Obligations in such order and manner as Lender may determine. Lender has no duty to do any act other than to apply such amounts as required above. If an item of Collections is not honored or Lender does not receive good funds for any reason, any amount previously transferred to Borrower's Account or applied to the Account Balance shall be reversed as of the date transferred or applied, as applicable, and, if applied to the Account Balance, the Finance Charge will accrue as if the

Collections had not been so applied. Lender shall have, with respect to any goods related to the Receivables, all the rights and remedies of an unpaid seller under the UCC and other applicable law, including the rights of replevin, claim and delivery, reclamation and stoppage in transit.

- 1.5 Receivables Activity Report.** Within 30 days after the end of each Month End, Lender shall send to Borrower a report covering the transactions for the prior billing period, including the amount of all Advances, Collections, Adjustments, Finance Charges, and other fees and charges. The accounting shall be deemed correct and conclusive unless Borrower makes written objection to Lender within 30 days after the Lender sends the accounting to Borrower.
- 1.6 Adjustments.** Any Adjustments or disputes asserted by any Account Debtor will be, on a monthly basis (after receipt by Lender of the reporting required by Section 4.9(g) hereof), reviewed with Lender, in a matter satisfactory to Lender, and Lender will have the right to adjust the Borrowing Base reserve based on such review. So long as any Obligations are outstanding, Lender shall have the right, at any time, to take possession of any rejected, returned, or recovered personal property. If such possession is not taken by Lender and upon Lender's request, Borrower is to resell it for Lender's account at Borrower's expense with the proceeds made payable to Lender. While Borrower retains possession of any returned goods, Borrower shall segregate said goods and mark them as property of Lender.
- 1.7 Recourse; Maturity.** Advances and the other Obligations shall be with full recourse against Borrower. On the Maturity Date, the Borrower will pay all then outstanding Advances and other Obligations to the Lender or such earlier date as shall be herein provided.
- 1.8 Cash Management Services.** Borrower may use availability hereunder up to the Cash Management Sublimit for Lender's cash management services, which may include merchant services, direct deposit of payroll, business credit card, and check cashing services identified in various cash management services agreements related to such services (the "**Cash Management Services**"). The entire Cash Management Sublimit will be treated as an Advance for purposes of determining availability under the Credit Limit and shall decrease, on a dollar-for-dollar basis, the amount available for other Advances. The Cash Management Services shall be subject to additional terms set forth in applicable cash management services agreements. If at any time this Agreement is terminated or otherwise ceases to exist, Borrower shall immediately secure in cash all obligations with respect to Cash Management Services on terms reasonably acceptable to Lender.
- 1.9 Overadvances.** Upon any occurrence of an Overadvance, Borrower shall immediately pay down the Advances such that, after giving effect to such payments, no Overadvance exists.
- 1.10 Term Loan.**
- (a) **Term Loan.** Subject to the terms and conditions of this Agreement, on the date hereof, or as soon thereafter as all conditions precedent to the making thereof have been met, Lender hereby agrees to make a loan to Borrower in the principal amount of \$18,000,000 (the "**Term Loan**") which shall be used to refinance all indebtedness owing from Borrower to Opus Bank and for general working capital.
 - (b) **Interest on the Term Loan.** The outstanding principal amount of the Term Loan shall accrue interest at the Term Loan Rate and shall be payable in accordance with Section 1.10(c).
 - (c) **Repayment.** Borrower shall make "interest only" payments on the outstanding principal amount of the Term Loan beginning on July 10, 2016 and on the tenth (10th) calendar day of each month thereafter. Borrower shall repay the Term Loan in (i) 33 equal monthly installments of principal, plus (ii) monthly payments of interest beginning on October 10, 2016, and on the 10th calendar day of each month thereafter, until the Term Loan Maturity Date. In any event, on the Term Loan Maturity Date, Borrower will repay the remaining principal balance plus any interest then due on the Term Loan.
 - (d) **Prepayment.** Borrower may prepay all but not less than all of the Term Loan at any time along with the Termination Fee.

2. FEES AND FINANCE CHARGES.

- 2.1 Finance Charges.** Lender may, but is not required to, deduct the amount of accrued Finance Charge from Collections received by Lender. The accrued and unpaid Finance Charge shall be due and payable within 10 calendar days after each Month End during the term hereof.
- 2.2 Fees.**
- (a) **Maintenance Fee.** On each Month End, Borrower shall pay to lender the accrued unpaid Maintenance Fee for the Monthly Period ending on such Month End.

- (b) **Termination Fee.** In the event this Agreement is terminated prior to the first anniversary of the date of this Agreement, Borrower shall pay the Termination Fee to Lender.
- (c) **Facility Fee.** Borrower shall pay the Facility Fee to Lender promptly upon the execution of this Agreement and annually thereafter.
- (d) **Cash Management Fees.** Borrower shall pay to Lender fees in connection with the Cash Management Services as determined in accordance with Lender's standard fees and charges then in effect for such activity.
- (e) **Due Diligence Fee.** Borrower shall pay the Due Diligence Fee to Lender promptly upon the execution of this Agreement (payment of which Lender hereby acknowledges has been received) and annually thereafter.
- (f) **Term Loan Facility Fee.** Borrower shall pay the Term Loan Facility Fee to Lender promptly upon the execution of this Agreement.

3. REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants:

- 3.1** No representation, warranty or other statement of Borrower in any certificate or written statement given to Lender contains any untrue statement of a material fact or omits to state a material fact necessary to make the statement contained in the certificates or statement not misleading.
- 3.2** Borrower is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state in which the conduct of its business or its ownership of property requires that it be qualified unless such failure to be in good standing or qualified and licensed would not reasonably be expected to result in a material adverse effect.
- 3.3** The execution, delivery and performance of this Agreement has been duly authorized, and does not conflict with Borrower's organizational documents, nor constitute an Event of Default under any material agreement by which Borrower is bound. Borrower is not in default under any material agreement to which or by which it is bound.
- 3.4** Borrower has good title to the Collateral and all inventory, subject to Permitted Liens, is in all material respects of good and marketable quality, free from material defects.
- 3.5** Borrower's name, form of organization, chief executive office, and the place where the records concerning all Receivables and Collateral are kept is set forth at the beginning of this Agreement, Borrower is located at its address for notices set forth in this Agreement.
- 3.6** If Borrower owns, holds or has any interest in, any copyrights (whether registered, or unregistered), patents or trademarks, and licenses of any of the foregoing, such interest has been specifically disclosed and identified to Lender in writing.

4. MISCELLANEOUS PROVISIONS. Borrower will:

- 4.1** Maintain its corporate existence and good standing in its jurisdiction of incorporation and maintain its qualification in each jurisdiction necessary to Borrower's business or operations and not merge or consolidate with or into any other business organization, or acquire all or substantially all of the capital stock or property of a third party, unless (i) any such acquired entity becomes a "borrower" under this Agreement and (ii) Lender has previously consented to the applicable transaction in writing.
- 4.2** Give Lender at least 30 days prior written notice of changes to its name, organization, chief executive office or location of records.
- 4.3** Pay all its taxes including gross payroll, withholding and sales taxes when due and will deliver satisfactory evidence of payment to Lender if requested.
- 4.4** Maintain:
 - (a) insurance satisfactory to Lender in its reasonable business judgment as to amount, nature and carrier covering property damage (including loss of use and occupancy) to any of the Borrower's properties, business interruption insurance, public liability insurance including coverage for contractual liability, product liability and workers' compensation, and any other insurance which is usual for the Borrower's business. Each such policy shall provide for at least thirty (30) days prior notice to Lender of any cancellation thereof.
 - (b) all risk property damage insurance policies (including without limitation windstorm coverage, and hurricane coverage as applicable) covering the tangible property comprising the collateral. Each insurance policy must be for the full replacement cost of the collateral and include a replacement cost endorsement. The insurance must be issued

by an insurance company acceptable to Lender and must include a lender's loss payable endorsement in favor of Lender in a form acceptable to Lender.

Upon the request of Lender, Borrower shall deliver to Lender a copy of each insurance policy, or, if permitted by Lender, a certificate of insurance listing all insurance in force.

- 4.5 Immediately transfer and deliver to Lender all Collections Borrower receives.
- 4.6 Not create, incur, assume, or be liable for any indebtedness, other than Permitted Indebtedness.
- 4.7 Not directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments.
- 4.8 Not engage in any transactions with its Subsidiaries or Affiliates that are not arms length and in the ordinary course of business.
- 4.9 Immediately notify Lender if Borrower hereafter obtains any interest in any copyrights, patents, trademarks or licenses that are significant in value or are material to the conduct of its business.
- 4.10 Provide the following financial information and statements in form and content acceptable to Lender, and such additional information as requested by Lender from time to time. Lender has the right to require Borrower to deliver financial information and statements to Lender more frequently than otherwise provided below, and to use such additional information and statements to measure any applicable financial covenants in this Agreement.
 - (a) Promptly upon filing with the Securities and Exchange Commission, all reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission (including the annual financial statements of Borrower, certified and dated by an authorized financial officer. These financial statements must be audited (with an opinion satisfactory to the Lender) by Burr, Pilger and Mayer or another Certified Public Accountant acceptable to Lender. The statements shall be prepared on a consolidated basis.
 - (b) No later than 30 days after the end of each month (including the last period in each fiscal year), monthly financial statements of Borrower, certified and dated by an authorized financial officer. The statements shall be prepared on a consolidated basis.
 - (c) Promptly, upon sending or receipt, copies of any management letters and correspondence relating to management letters, sent or received by Borrower to or from Borrower's auditor. If no management letter is prepared, Borrower shall, upon Lender's request, obtain a letter from such auditor stating that no deficiencies were noted that would otherwise be addressed in a management letter.
 - (d) Financial projections including an operating budget covering a time period acceptable to Lender and specifying the assumptions used in creating the projections. Draft annual projections shall in any case be provided to Lender no less than 30 days prior to the beginning of each fiscal year with final, board-approved annual projections due to Lender no later than 60 days after the beginning of each fiscal year.
 - (e) Within 30 days of the end of each month, a compliance certificate of Borrower, signed by an authorized financial officer and setting forth (i) the information and computations (in sufficient detail) to establish compliance with all financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any Default under this Agreement and, if any such Default exists, specifying the nature thereof and the action Borrower is taking and proposes to take with respect thereto.
 - (f) Within 10 days after the end of each calendar month, a borrowing base certificate, in form and substance satisfactory to Lender, setting forth Eligible Receivables and Receivable Amounts thereof as of the last day of the preceding calendar month
 - (g) Within 10 days after the end of each calendar month, a detailed aging of Borrower's receivables by invoice or a summary aging by Account Debtor, together with a backlog schedule, payable aging, inventory analysis, deferred revenue report, an inventory sell-through report (one-month in arrears), a credit memo/adjustments report and such other matters as Lender may request.
 - (h) Promptly upon Lender's request, such other books, records, statements, lists of property and accounts, budgets, forecasts or reports as to Borrower and as to each guarantor of Borrower's obligations to Lender as Lender may request.

- 4.11 No later than 60 days after the date of this Agreement and at all times thereafter, maintain all of its and its Subsidiaries' depository and operating accounts with Lender"); provided, however, that Borrower's foreign Subsidiaries may maintain accounts with foreign (i.e non domestic) banks with aggregate balances not to exceed \$500,000.
- 4.12 Provide to Lender promptly upon the execution hereof the following documents which shall be in form and substance satisfactory to Lender: (i) a Control Agreement from each bank where Borrower maintains a depository or operating account, including, but not limited to, Opus Bank (which shall in any case be provided to Lender no later than 30 days after the date hereof, (ii) Resolutions to Borrow, (iii) an Insurance Authorization Letter, (iv) a completed Compliance Certificate, (v) an Intellectual Property Security Agreement executed by Borrower and Artemis Acquisition LLC in favor of Lender, (vi) a Guaranty duly executed by Artemis Acquisition LLC together with Limited Liability Company Resolutions to Guaranty, (vii) a Third Party Security Agreement duly executed by Artemis Acquisition LLC, (viii) a payoff letter from Opus Bank and (ix) evidence that (a) the liens securing the existing indebtedness of Borrower to Opus Bank will be terminated and (b) the documents and/or filings evidencing the perfection of such liens, including without limitation any financing statements and/or control agreements, have or will, concurrently with the execution of this Agreement and the funding of the Term Loan, be terminated.
- 4.13 Promptly provide to Lender such additional information and documents regarding the finances, properties, business or books and records of Borrower or any guarantor or any other obligor as Lender may reasonably request.
- 4.14 Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):
- (a) Liquidity Ratio not at any time less than 1.15 for 1.00.
5. **SECURITY INTEREST.** To secure the prompt payment and performance to Lender of all of the Obligations, Borrower hereby grants to Lender a continuing security interest in the Collateral. Borrower is not authorized to sell, assign, transfer or otherwise convey any Collateral without Lender's prior written consent, except for (i) the sale of finished inventory in the Borrower's usual course of business; (ii) the use, payment or transfer of cash for the purchase of goods and services in a manner not otherwise prohibited by the terms of this Agreement or the related documents and other uses, payments and transfers of cash that are not prohibited by the terms of this Agreement or any related document; (iii) sales or transfers of unneeded, worn out or obsolete Equipment; and (v) in connection with the granting of Permitted Liens and the making of Permitted Investments. Borrower agrees to sign any instruments and documents requested by Lender to evidence, perfect, or protect the interests of Lender in the Collateral. Borrower agrees to deliver to Lender the originals of all instruments, chattel paper and documents evidencing or related to Receivables and Collateral. Borrower shall not grant or permit any lien or security in the Collateral or any interest therein other than Permitted Liens. Borrower hereby pledges to Lender and grants to Lender a security interest in Borrower's deposit account #XXXXX3543 held at Lender into which the Term Loan shall be funded and which shall, at all times have a minimum aggregate balance equal to 115% of the total amounts owing with respect to the Term Loan, together with all proceeds and substitutions thereof, all interest paid thereon, and all other cash and noncash proceeds of the foregoing (all hereinafter called the "**Pledged Collateral**"), as security for the prompt performance of all of Borrower's Obligations to Lender. Borrower authorizes Lender to file such financing statements, and take such other actions as Lender determines from time to time may be necessary or appropriate to perfect the security interest granted hereunder. Prior to the occurrence of an Event of Default, such account shall not be restricted and shall be under the control of Borrower. After the occurrence and during the continuance of an Event of Default, all amounts held in the Pledged Account shall be deemed restricted and under Lender's sole control and shall be applied to the payment of any Obligations, whether then due or not, in such order or at such time of application as Lender may determine in its sole discretion.
6. **POWER OF ATTORNEY.** Borrower irrevocably appoints Lender and its successors and as true and lawful attorney in fact, and authorizes Lender (a) to, whether or not there has been an Event of Default, (i) demand, collect, receive, sue, and give releases to any Account Debtor for the monies due or which may become due upon or with respect to the Receivables and to compromise, prosecute, or defend any action, claim, case or proceeding relating to the Receivables, including the filing of a claim or the voting of such claims in any bankruptcy case, all in Lender's name or Borrower's name, as Lender may choose; (ii) prepare, file and sign Borrower's name on any notice, claim, assignment, demand, draft, or notice of or satisfaction of lien or mechanics' lien or similar document; (iii) notify all Account Debtors with respect to the Receivables to pay Lender directly; (iv) receive and open all mail addressed to Borrower for the purpose of collecting the Receivables; (v) endorse Borrower's name on any checks or other forms of payment on the Receivables; (vi) execute on behalf of Borrower any and all instruments, documents, financing statements and the like to perfect Lender's interests in the Receivables and Collateral; (vii) debit any Borrower's deposit accounts maintained with Lender for any and all Obligations due under this Agreement; and (viii) do all acts and things necessary or expedient, in furtherance of any such purposes, and (b) to, upon the occurrence and during the continuance of an Event of Default, sell, assign, transfer, pledge, compromise, or discharge the whole or any part of the Receivables. Upon the occurrence and continuation of an Event of Default, all of the power of attorney rights granted by Borrower to Lender hereunder shall be applicable with respect to all Receivables and all Collateral.

7. DEFAULT AND REMEDIES.

7.1 **Events of Default.** The occurrence of any one or more of the following shall constitute an Event of Default hereunder (each an “**Event of Default**”).

- (a) **Failure to Pay.** Borrower fails to make a payment when due under this Agreement.
- (b) **Lien Priority.** Lender fails to have an enforceable first lien (except for any prior liens to which Lender has consented in writing and Permitted Liens that are senior in priority) on or security interest in the Collateral.
- (c) **False Information.** Borrower (or any guarantor) has given Lender any materially false or misleading information or representations or has failed to disclose any material fact relating to the subject matter of this Agreement.
- (d) **Bankruptcy.** Borrower (or any guarantor) files a bankruptcy petition, a bankruptcy petition is filed against Borrower (or any guarantor) or Borrower (or any guarantor) makes a general assignment for the benefit of creditors.
- (e) **Receivers.** A receiver or similar official is appointed for a substantial portion of Borrower’s (or any guarantor’s) business, or the business is terminated.
- (f) **Judgments.** Any judgments or arbitration awards are entered against Borrower (or any guarantor), or Borrower (or any guarantor) enters into any settlement agreements with respect to any litigation or arbitration and the aggregate amount of all such judgments, awards, and agreements exceeds \$50,000 and the same are not within ten (10) business days after the entry thereof, discharged or execution thereof bonded or stayed pending appeal.
- (g) **Material Adverse Change.** A material adverse change occurs (or circumstances that could reasonably be expected to result in a material adverse change occur), in either case, in Borrower’s (or any guarantor’s) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
- (h) **Cross-default.** Any default occurs under any agreement in connection with any credit Borrower (or any guarantor) or any of Borrower’s Affiliates has obtained from anyone else or which Borrower (or any guarantor) or any of Borrower’s Affiliates has guaranteed (other than trade amounts payable incurred in the ordinary course of business and not more than 60 days past due) resulting in the right by such person to accelerate the maturity of any indebtedness in an amount in excess of \$100,000.
- (i) **Default under Related Documents.** Any event of default occurs and continues under any subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect.
- (j) **Guaranty.** If any guaranty of all or a portion of the Obligations (a “Guaranty”) ceases for any reason to be in full force and effect, or any guarantor fails to perform any material obligation under any Guaranty or a security agreement securing any Guaranty (collectively, the “Guaranty Documents”), or any event of default occurs under any Guaranty Document or any guarantor revokes or purports to revoke a Guaranty, or any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth in any Guaranty Document or in any certificate delivered to Lender in connection with any Guaranty Document, or if any of the circumstances described in subsections (c) or (g) above occur with respect to any guarantor.
- (k) **Other Agreements.** Borrower (or any guarantor) or any of Borrower’s Affiliates fails to meet the conditions of, or fails to perform any material obligation under any other material agreement Borrower (or any guarantor) or any of Borrower’s Affiliates has with Lender or any Affiliate of Lender.
- (l) **Change of Control.** The holders of the capital ownership of the Borrower as of the date hereof cease to own and control, directly and indirectly, at least 51% of the capital ownership of the Borrower.
- (m) **Covenant Default.** If Borrower fails or neglects to perform any obligations with respect to any of the affirmative or negative covenants contained herein within any applicable grace period set forth herein.
- (n) **Other Breach Under Agreement.** If Borrower fails or neglects to perform or observe any other material term, provision, condition, covenant contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Lender and as to any default under such other term, provision, condition or covenant that can be cured, has failed to cure such default within ten days after Borrower receives written notice thereof from Lender or any officer of Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within the ten day period or cannot after diligent attempts by Borrower be cured within such ten day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed 30 days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default but no further extensions of credit will be made.

- 7.2 Remedies.** Upon the occurrence and during the continuance of an Event of Default, (1) without implying any obligation to do so, Lender may cease making Advances or extending any other financial accommodations to Borrower; (2) all or a portion of the Obligations shall be, at the option of and upon demand by Lender, or with respect to an Event of Default described in Section 7.1(e), automatically and without notice or demand, due and payable in full; (3) Lender may set-off and apply to the Obligations any and all balances and deposits held by Lender; and (4) Lender shall have and may exercise all the rights and remedies under this Agreement and under applicable law, including the rights and remedies of a secured party under the California Uniform Commercial Code, all the power of attorney rights described in Section 6 with respect to all Collateral, and the right to collect, dispose of, sell, lease, use, and realize upon all Receivables and all Collateral in any commercial reasonable manner.
- 8. ACCRUAL OF INTEREST, FEES.** All interest and finance charges hereunder calculated at an annual rate shall be based on a year of 360 days, which results in a higher effective rate of interest than if a year of 365 or 366 days were used. Lender may charge interest, finance charges and fees based upon the projected amounts thereof as of the due dates therefor, and adjust subsequent charges to account for the actual accrued amounts. If any amount due under Section 2.2, amounts due under Section 9, and any other Obligations not otherwise bearing interest hereunder is not paid when due, such amount shall bear interest at a per annum rate equal to the Finance Charge Percentage until the earlier of (i) payment in good funds or (ii) entry of a trial judgment thereof, at which time the principal amount of any money judgment remaining unsatisfied shall accrue interest at the highest rate allowed by applicable law.
- 9. FEES, COSTS AND EXPENSES; INDEMNIFICATION.** The Borrower will pay to Lender upon demand all fees, costs and expenses (including fees of attorneys and professionals and their costs and expenses) that Lender incurs or may from time to time impose in connection with any of the following: (a) preparing, negotiating, administering, and enforcing this Agreement or any other agreement executed in connection herewith, including any amendments, waivers or consents in connection with any of the foregoing, (b) any litigation or dispute (whether instituted by Lender, Borrower or any other person) in any way relating to the Receivables, the Collateral, this Agreement or any other agreement executed in connection herewith or therewith, (c) enforcing any rights against Borrower or any guarantor, or any Account Debtor, (d) protecting or enforcing its interest in the Receivables or the Collateral, (e) collecting the Receivables and the Obligations, or (f) the representation of Lender in connection with any bankruptcy case or insolvency proceeding involving Borrower, any Receivable, the Collateral, any Account Debtor, or any guarantor. Borrower shall indemnify and hold Lender harmless from and against any and all claims, actions, damages, costs, expenses, and liabilities of any nature whatsoever arising in connection with any of the foregoing.
- 10. INTEGRATION, SEVERABILITY WAIVER, CHOICE OF LAW, FORUM AND VENUE.**
- 10.1** This Agreement and any related security or other agreements required by this Agreement, collectively: (a) represent the sum of the understandings and agreements between Lender and Borrower concerning this credit; (b) replace any prior oral or written agreements between Lender and Borrower concerning this credit; and (c) are intended by Lender and Borrower as the final, complete and exclusive statement of the terms agreed to by them. In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. If any provision of this Agreement is deemed invalid by reason of law, this Agreement will be construed as not containing such provision and the remainder of the Agreement shall remain in full force and effect. Lender retains all of its rights, even if it makes an Advance after a default. If Lender waives a default, it may enforce a later default. Any consent or waiver under, or amendment of, this Agreement must be in writing, and no such consent, waiver, or amendment shall imply any obligation by Lender to make any subsequent consent, waiver, or amendment.
- 10.2** THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF CALIFORNIA. THE PARTIES HERETO AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER RELATED DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF SANTA CLARA, CALIFORNIA, OR, AT THE SOLE OPTION OF LENDER, IN ANY OTHER COURT IN WHICH LENDER SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS JURISDICTION OVER THE SUBJECT MATTER AND PARTIES IN CONTROVERSY. EACH PARTY HERETO WAIVES ANY RIGHT TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION AND STIPULATES THAT THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF SANTA CLARA, CALIFORNIA SHALL HAVE IN PERSONAM JURISDICTION AND VENUE OVER EACH SUCH PARTY FOR THE PURPOSE OF LITIGATING ANY SUCH DISPUTE, CONTROVERSY, OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT, OR ANY OTHER RELATED DOCUMENTS. SERVICE OF PROCESS SUFFICIENT FOR PERSONAL JURISDICTION IN ANY ACTION AGAINST THE BORROWER MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO ITS ADDRESS SPECIFIED FOR NOTICES PURSUANT TO SECTION 11.

11. **NOTICES; TELEPHONIC AND TELEFAX AUTHORIZATIONS.** All notices shall be given to Lender and Borrower at the addresses or faxes set forth on the signature page of this agreement and shall be deemed to have been delivered and received: (a) if mailed, three (3) calendar days after deposited in the United States mail, first class, postage pre-paid, (b) one (1) calendar day after deposit with an overnight mail or messenger service; or (c) on the same date of confirmed transmission if sent by hand delivery, telecopy, telefax or telex. Lender may honor telephone or telefax instructions for Advances or repayments given, or purported to be given, by any one of the Authorized Persons. Borrower will indemnify and hold Lender harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions Lender reasonably believes are made by any Authorized Person. This paragraph will survive this Agreement's termination, and will benefit Lender and its officers, employees, and agents.

12. **DEFINITIONS AND CONSTRUCTION.**

12.1 **Definitions.** In this Agreement:

"Account Balance" means at any time the aggregate of the Advances outstanding as reflected on the records maintained by Lender, together with any past due Finance Charges thereon.

"Account Debtor" has the meaning in the California Uniform Commercial Code and includes any person liable on any Receivable, including without limitation, any guarantor of any Receivable and any issuer of a letter of credit or banker's acceptance assuring payment thereof.

"Adjustments" means all discounts, allowances, disputes, offsets, defenses, rights of recoupment, rights of return, warranty claims, or short payments, asserted by or on behalf of any Account Debtor with respect to any Receivable.

"Advance" means an advance with respect to an Eligible Receivable made by Lender to Borrower under this Agreement.

"Advance Rate" means 80% or such greater or lesser percentage as Lender may from time to time establish in its sole discretion upon notice to Borrower (including but not limited to the situation where Borrower's 12 month dilution is greater than 5%).

"Advance Request" means a writing in form and substance satisfactory to Lender and signed by an Authorized Person requesting an Advance.

"Agreement" means this Business Financing Agreement.

"Affiliate" means, as to any person or entity, any other person or entity directly or indirectly controlling or controlled by, or under direct or indirect common control with, such person or entity.

"Authorized Person" means Borrower (if an individual) or any one of the individuals authorized to sign on behalf of the Borrower, and any other individual designated by any one of such authorized signers.

"Borrowing Base" means at any time the sum of (i) the Eligible Receivable Amount multiplied by the Advance Rate minus (ii) such reserves as Lender, in its sole discretion, may reasonably deem proper and necessary from time to time, which shall initially be set at 20% of the Eligible Receivable Amount.

"Cash Management Sublimit" means \$25,000.

"Collateral" means all of Borrower's rights and interest in any and all personal property, whether now existing or hereafter acquired or created and wherever located, and all products and proceeds thereof and accessions thereto, including but not limited to the following (collectively, the "Collateral"): (a) all accounts (including health care insurance receivables), chattel paper (including tangible and electronic chattel paper), inventory (including all goods held for sale or lease or to be furnished under a contract for service, and including returns and repossessions), equipment (including all accessions and additions thereto), instruments (including promissory notes), investment property (including securities and securities entitlements), documents (including negotiable documents), deposit accounts, letter of credit rights, money, any commercial tort claim of Borrower which is now or hereafter identified by Borrower or Lender, general intangibles (including payment intangibles and software), goods (including fixtures) and all of Borrower's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records; and (b) any and all cash proceeds and/or noncash proceeds thereof, including without limitation, insurance proceeds, and all supporting obligations and the security therefore or for any right to payment. Notwithstanding the foregoing, the Collateral does not include (a) more than 65% of the presently existing and hereafter arising issued and outstanding shares of capital stock owned by Borrower of any Foreign Subsidiary which shares entitle the holder thereof to vote for the election of directors or any other matter; (b) rights held under a license or lease that are not assignable by their terms without the consent of the licensor or lessor thereof (but only to the extent such restriction on assignment is enforceable under applicable law); and (c) any interest of Borrower as a lessee under an equipment lease if Borrower is prohibited by the terms of such lease from

granting a security interest in such lease or under which such an assignment or lien would cause a default to occur under such lease; provided, however, that upon termination of such prohibition, such interest shall immediately become Collateral without any action by Borrower or Lender.

“**Collection Account**” has the meaning assigned such term in Section 1.4 hereof.

“**Collections**” means all payments from or on behalf of an Account Debtor with respect to Receivables.

“**Compliance Certificate**” means a certificate in the form attached as Exhibit A to this Agreement by an Authorized Person that, among other things, the representations and warranties set forth in this Agreement are true and correct as of the date such certificate is delivered.

“**Credit Limit**” means \$2,000,000, which is intended to be the maximum amount of Advances at any time outstanding.

“**Default**” means any Event of Default or any event that has occurred and which if not cured or waived before the end of such cure period will constitute an Event of Default.

“**Deferred Revenue**” is all amounts received or invoiced, as appropriate, in advance of performance under contracts and not yet recognized as revenue.

“**Due Diligence Fee**” means payment of an annual fee equal to \$900 due upon each anniversary of the date of this Agreement so long as any Advance is outstanding or available hereunder.

“**Eligible Receivable**” means a Receivable that satisfies all of the following:

- (a) The Receivable has been created by Borrower in the ordinary course of Borrower’s business and without any obligation on the part of Borrower to render any further performance.
- (b) Borrower’s work related to the Receivable has been 100% completed.
- (c) There are no conditions which must be satisfied before Borrower is entitled to receive payment of the Receivable, and the Receivable does not arise from COD sales, consignments, conditional or guaranteed sales.
- (d) The Account Debtor upon the Receivable does not claim any defense to payment of the Receivable, whether well founded or otherwise.
- (e) The Receivable is not the obligation of an Account Debtor who has asserted or may be reasonably be expected to assert any counterclaims or offsets against Borrower (including offsets for any “contra accounts” owed by Borrower to the Account Debtor for goods purchased by Borrower or for services performed for Borrower).
- (f) The Receivable represents a genuine obligation of the Account Debtor and to the extent any credit balances exist in favor of the Account Debtor, such credit balances that have existed for greater than 90 days shall be deducted in calculating the Receivable Amount.
- (g) Borrower has sent an invoice to the Account Debtor in the amount of the Receivable
- (h) Borrower is not prohibited by the laws of the state where the Account Debtor is located from bringing an action in the courts of that state to enforce the Account Debtor’s obligation to pay the Receivable. Borrower has taken all appropriate actions to ensure access to the courts of the state where Account Debtor is located, including, where necessary; the filing of a Notice of Business Activities Report or other similar filing with the applicable state agency or the qualification by Borrower as a foreign corporation authorized to transact business in such state.
- (i) The Receivable is owned by Borrower free of any title defects or any liens or interests of others except the security interest in favor of Lender and Permitted Liens, and Lender has a perfected, first priority security interest in such Receivable.
- (j) The Account Debtor on the Receivable is not any of the following: (1) an employee, Affiliate, parent or subsidiary of Borrower, or an entity which has common officers or directors with Borrower; (2) the U.S. government or any agency or department of the U.S. government unless Borrower complies with the procedures in the Federal Assignment of Claims Act of 1940 (41 U.S.C. §15) with respect to the Receivable, and the underlying contract expressly provides that neither the U.S. government nor any agency or department thereof shall have the right of set-off against Borrower; or (3) an Account Debtor as to which 35% or more of the aggregate dollar amount of all outstanding Receivables owing from such Account Debtor have not been paid within 90 days from invoice date.
- (k) The Account Debtor on the Receivable is not any person or entity located in a foreign country, other than Canada, unless the Account Debtor is a foreign subsidiary of Arrow Electronics, Inc., Avnet, Inc. or another foreign entity approved by Lender in its sole discretion on a case-by-case basis and provided that the aggregate amount of Advances made with respect to such Receivables shall not exceed \$700,000 at any time.

- (l) The Receivable is not in default (a Receivable will be considered in default if any of the following occur: (i) the Receivable is not paid within 90 days from its invoice date; (ii) the Account Debtor obligated upon the Receivable suspends business, makes a general assignment for the benefit of creditors, or fails to pay its upon the Receivable under any bankruptcy law or any other law or laws for the relief of debtors).
- (m) The Receivable does not arise from the sale of goods which remain in Borrower's possession or under Borrower's control.
- (n) The Receivable is not evidenced by a promissory note or chattel paper, nor is the Account Debtor obligated to Borrower under any other obligation which is evidenced by a promissory note.
- (o) the Receivable is not that portion of Receivables due from an Account Debtor which is in excess of 35% of Borrower's aggregate dollar amount of all outstanding Receivables.
- (p) The Receivable has not been pre-billed and is not a progress billing, retention billing, bonded receivable or a bill and hold account.
- (q) The Receivable is otherwise acceptable to Lender.

"Eligible Receivable Amount" means at any time the sum of the Receivable Amounts of the Eligible Receivables net of pre-paid deposits, pre-billed invoices, offset able deferred revenue, offsets, and contras related to each specific Account Debtor.

"Event of Default" has the meaning set forth in Section 7.1.

"Facility Fee" means payment of a fee equal to \$15,000 due upon the date of this Agreement and \$10,000 due on the first anniversary thereof.

"Finance Charge" means an interest amount equal to the Finance Charge Percentage of the ending daily Account Balance for the relevant period.

"Finance Charge Percentage" means a rate per month equal to the Prime Rate plus 0.50 percentage points plus an additional 5.00 percentage points during any period that an Event of Default has occurred and is continuing.

"Foreign Subsidiary" means a subsidiary of Borrower that is a corporation organized under the laws of a jurisdiction other than the United States or any state or territory thereof or the District of Columbia.

"Investment" means, as to any person, any investment by such person, whether by means of the purchase or other acquisition of stock or other securities of any other person or by means of a loan, creating a debt, capital contribution, guaranty or other debt or equity participation or interest in any other person. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

"Lender" means Western Alliance Bank, an Arizona corporation, and its successors and assigns.

"Liquidity Ratio" the, for any applicable measuring period, the ratio of (i) the balance of unrestricted cash at Lender to (ii) the total amounts owing with respect to the Term Loan.

"Maintenance Fee" means an amount equal to 0.15 percentage points per month of the ending daily Account Balance for the relevant period.

"Maturity Date" means two years from the date hereof or such earlier date as Lender shall have declared the Obligations immediately due and payable pursuant to Section 7.2.

"Month End" means the last calendar day of each month.

"Monthly Period" means each calendar month.

"Obligations" means all liabilities and obligations of Borrower to Lender of any kind or nature, present or future, arising under or in connection with this Agreement or under any other document, instrument or agreement, whether or not evidenced by any note, guarantee or other instrument, whether arising on account or by overdraft, whether become due, now owing or hereafter arising, and however acquired; including, without limitation, all Advances, Finance Charges, fees, interest, expenses, professional fees and attorneys' fees.

"Overadvance" means at any time an amount equal to the greater of the amounts (if any) by which the total amount of the outstanding Advances (including the total amount of the Cash Management Sublimit) exceeds the lesser of the Credit Limit or the Borrowing Base.

“Permitted Indebtedness” means:

- (a) Indebtedness under this Agreement or that is otherwise owed to the Lender.
- (b) Indebtedness existing on the date hereof and specifically disclosed on a schedule to this Agreement.
- (c) Purchase money indebtedness (including capital leases) incurred to acquire capital assets in ordinary course of business and not exceeding \$5,000,000 in total principal amount at any time outstanding.
- (d) Other indebtedness in an aggregate amount not to exceed \$150,000 at any time outstanding; provided that such indebtedness is junior in priority (if secured) to the Obligations and provided that the incurrence of such Indebtedness does not otherwise cause and Event of Default hereunder.
- (e) Indebtedness incurred in the refinancing of any indebtedness set forth in (a) through (d) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon the Borrower.
- (f) Subordinated Debt.

“Permitted Investments” means:

- (a) Investments existing on the date first above written that have been disclosed by Borrower to Lender in writing.
- (b) Investments in other assets properly classified as “marketable securities” or “cash” or “cash equivalents”, and which conform to the investment policies adopted by the Board of Directors of Borrower from time to time.
- (c) advances to officers, directors and employees of Borrower and its subsidiaries for travel, entertainment, relocation and analogous ordinary business purposes in an aggregate outstanding amount not to exceed \$100,000 at any time.
- (d) Investments of Borrower in any of its Subsidiaries and Investments of any Subsidiary of Borrower in Borrower or another Subsidiary of Borrower in an aggregate amount not to exceed \$100,000 per fiscal year.
- (e) Extensions of credit to customers or suppliers of Borrower and its Subsidiaries in the ordinary course of business and any Investments received in satisfaction or partial satisfaction thereof in an aggregate outstanding amount not to exceed \$100,000 at any time.
- (f) Investments consisting of loans to employees, the proceeds of which shall be used to purchase Equity Securities of Borrower or its Subsidiaries and other loans to employees in an aggregate amount not in excess of \$100,000 at any time outstanding.

“Permitted Liens” means:

- (a) Liens existing on the date first written above which have been disclosed by Borrower to Lender in writing.
- (b) Liens securing any of the indebtedness described in clauses (a) through (d) of the definition of Permitted Indebtedness.
- (c) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings, provided the same have no priority over any of Lender’s security interests.
- (d) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness described in clause (e) of the definition of Permitted Indebtedness, provided that any extension, renewal or replacement lien shall be limited to the property encumbered by the existing lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.
- (e) Liens securing Subordinated Debt.
- (f) Purchase money liens (i) on equipment acquired or held by Borrower incurred for financing the acquisition of the equipment securing no more than \$5,000,000 in the aggregate amount outstanding at any time, or (ii) existing on equipment when acquired, if the lien is confined to the property and improvements and the proceeds of the equipment.
- (g) Liens of carriers, warehousemen, suppliers, or other persons that are possessory in nature arising in the ordinary course of business, securing liabilities in the aggregate amount not to exceed Fifty Thousand Dollars (\$50,000) and which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto.
- (h) Liens to secure payment of workers’ compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than liens imposed by ERISA).

- (i) Liens in favor of other financial institutions arising in connection with Borrower's deposit and/or securities accounts held at such institutions, provided that Lender has a first priority perfected security interest in the amounts held in such deposit and/or securities accounts.
- (j) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by liens described in (a) through (c), but any extension, renewal or replacement lien must be limited to the property encumbered by the existing lien and the principal amount of the indebtedness may not increase.

“**Person**” means any individual, trustee, corporation, general partnership, limited partnership, limited liability company, joint stock company, trust, unincorporated organization, bank, business association, firm, joint venture, or governmental authority.

“**Prime Rate**” means the greater of 3.50% per year or the Prime Rate published in the Money Rates section of the Western Edition of The Wall Street Journal, or such other rate of interest publicly announced by Lender as its Prime Rate. Lender may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in Lender's Prime Rate.

“**Receivable Amount**” means as to any Receivable, the Receivable Amount due from the Account Debtor after deducting all discounts, credits, offsets, payments or other deductions of any nature whatsoever, whether or not claimed by the Account Debtor.

“**Receivables**” means Borrower's rights to payment arising in the ordinary course of Borrower's business, including accounts, chattel paper, instruments, contract rights, documents, general intangibles, letters of credit, drafts, and bankers acceptances.

“**Subordinated Debt**” means indebtedness of Borrower that is expressly subordinated to the indebtedness of Borrower owed to Lender pursuant to a subordination agreement satisfactory in form and substance to Lender.

“**Subsidiary**” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned or controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of Borrower.

“**Term Loan**” has the meaning set forth in Section 1.11.

“**Term Loan Facility Fee**” means a fee equal to \$135,000 due upon the date of this Agreement.

“**Term Loan Maturity Date**” means June 10, 2019.

“**Term Loan Rate**” means a per annum rate equal to the Prime Rate plus 0.75 percentage points, provided that, an additional 5.00 percentage points during any period that an Event of Default has occurred and is continuing.

“**Termination Fee**” means (i) a payment equal to 1.00% of the Credit Limit plus (ii) a payment equal to 2.00% of the principal amount of the Term Loan.

12.2 Construction:

- (a) In this Agreement: (i) references to the plural include the singular and to the singular include the plural; (ii) references to any gender include any other gender; (iii) the terms “include” and “including” are not limiting; (iv) the term “or” has the inclusive meaning represented by the phrase “and/or;” (v) unless otherwise specified, section and subsection references are to this Agreement, and (vi) any reference to any statute, law, or regulation shall include all amendments thereto and revisions thereof.
- (b) Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved using any presumption against either Borrower or Lender, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each party hereto and their respective counsel. In case of any ambiguity or uncertainty, this Agreement shall be construed and interpreted according to the ordinary meaning of the words used to accomplish fairly the purposes and intentions of all parties hereto.
- (c) Titles and section headings used in this Agreement are for convenience only and shall not be used in interpreting this Agreement.

13. JURY TRIAL WAIVER. THE UNDERSIGNED ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED UNDER CERTAIN CIRCUMSTANCES. TO THE EXTENT PERMITTED BY LAW, EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO

CONSULT) WITH COUNSEL OF ITS, HIS OR HER CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION ARISING OUT OF OR RELATED TO THIS AGREEMENT OR ANY OTHER DOCUMENT, INSTRUMENT OR AGREEMENT BETWEEN THE UNDERSIGNED PARTIES.

14. JUDICIAL REFERENCE PROVISION.

- 14.1 In the event the Jury Trial Waiver set forth above is not enforceable, the parties elect to proceed under this Judicial Reference Provision.
- 14.2 With the exception of the items specified in Section 14.3, below, any controversy, dispute or claim (each, a “**Claim**”) between the parties arising out of or relating to this Agreement or any other document, instrument or agreement between the undersigned parties (collectively in this Section, the “**Loan Documents**”), will be resolved by a reference proceeding in California in accordance with the provisions of Sections 638 et seq. of the California Code of Civil Procedure (“**CCP**”), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as otherwise provided in the Loan Documents, venue for the reference proceeding will be in the state or federal court in the county or district where the real property involved in the action, if any, is located or in the state or federal court in the county or district where venue is otherwise appropriate under applicable law (the “**Court**”).
- 14.3 The matters that shall not be subject to a reference are the following: (i) nonjudicial foreclosure of any security interests in real or personal property, (ii) exercise of self-help remedies (including, without limitation, set-off), (iii) appointment of a receiver and (iv) temporary, provisional or ancillary remedies (including, without limitation, writs of attachment, writs of possession, temporary restraining orders or preliminary injunctions). This reference provision does not limit the right of any party to exercise or oppose any of the rights and remedies described in clauses (i) and exercise of, or opposition to, any of those items does not waive the right of any party to a reference pursuant to this reference provision as provided herein.
- 14.4 The referee shall be a retired judge or justice selected by mutual written agreement of the parties. If the parties do not agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an ex parte or expedited basis, and the parties agree that irreparable harm would result if ex parte relief is not granted. Pursuant to CCP § 170.6, each party shall have one peremptory challenge to the referee selected by the Presiding Judge of the Court (or his or her representative).
- 14.5 The parties agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (i) set the matter for a status and trial-setting conference within fifteen (15) days after the date of selection of the referee, (ii) if practicable, try all issues of law or fact within one hundred twenty (120) days after the date of the conference and (iii) report a statement of decision within twenty (20) days after the matter has been submitted for decision.
- 14.6 The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party’s failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered based upon good cause shown, no party shall be entitled to “priority” in conducting discovery, depositions may be taken by either party upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days after service. All disputes relating to discovery which cannot be resolved by the parties shall be submitted to the referee whose decision shall be final and binding.
- 14.7 Except as expressly set forth herein, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee’s power to award costs to the prevailing party, the parties will equally share the cost of the referee and the court reporter at trial.
- 14.8 The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a court proceeding, including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision at the close of the reference proceeding which disposes of all claims of the parties that are the subject of the reference. Pursuant to CCP § 644, such decision shall be entered by the Court as a judgment or an order in the same manner as if the action had

been tried by the Court and any such decision will be final, binding and conclusive. The parties reserve the right to appeal from the final judgment or order or from any appealable decision or order entered by the referee. The parties reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

- 14.9** If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted), any dispute between the parties that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired judge or justice, in accordance with the California Arbitration Act §1280 through §1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.
- 14.10** THE PARTIES RECOGNIZE AND AGREE THAT ALL CONTROVERSIES, DISPUTES AND CLAIMS RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER OWN CHOICE, EACH PARTY KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, AGREES THAT THIS REFERENCE PROVISION WILL APPLY TO ANY CONTROVERSY, DISPUTE OR CLAIM BETWEEN OR AMONG THEM ARISING OUT OF OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.
- 15. EXECUTION, EFFECTIVENESS, SURVIVAL.** This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other documents executed in connection herewith constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement. This Agreement shall become effective upon the execution and delivery hereof by Borrower and Lender and shall continue in full force and effect until the Maturity Date and thereafter so long as any Obligations remain outstanding hereunder. Lender reserves the right to issue press releases, advertisements, and other promotional materials describing any successful outcome of services provided on Borrower's behalf. Borrower agrees that Lender shall have the right to identify Borrower by name in those materials.
- 16. CONFIDENTIALITY.** In handling any confidential information Lender and all employees and agents of Lender, including but not limited to accountants, shall exercise the same degree of care that it exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) to the subsidiaries or affiliates of Lender in connection with their present or prospective business relations with Borrower, (ii) to prospective transferees or purchasers of any interest in the Advances or the Term Loan, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar investigation of Lender and (v) as Lender may determine in connection with the enforcement of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or possession of Lender when disclosed to Lender, or becomes part of the public domain after disclosure to Lender through no fault of Lender; or (b) is disclosed to Lender by a third party, provided Lender does not have actual knowledge that such third party is prohibited from disclosing such information.
- 17. TERMINATION.** Upon (a) the indefeasible payment in full in cash of the monetary Obligations, (b) the satisfaction of all of Borrower's other Obligations (other than inchoate indemnity obligations) then due, and (c) Lender having no further obligations to make any Advances or Term Loans, at the written instruction from Borrower to Lender to such effect, this Agreement shall terminate (along with the ability for Borrower to request additional credit extensions) except for any of Borrower's obligations that specifically survive termination pursuant to the terms hereof, including, without limitation, Borrower's indemnity obligations hereunder, and Lender shall, upon written request from Borrower, terminate its liens and security interests granted pursuant to this Agreement at Borrower's sole cost and expense.
- 18. OTHER AGREEMENTS.** Any security agreements, liens and/or security interests securing payment of any obligations of Borrower owing to Lender or its Affiliates also secure the Obligations, and are valid and subsisting and are not adversely affected by execution of this Agreement. An Event of Default under this Agreement constitutes a default under other outstanding agreements between Borrower and Lender or its Affiliates.
- 19. REVIVAL AND REINSTATEMENT OF OBLIGATIONS.** If the incurrence or payment of the Obligations by Borrower or any guarantor, or the transfer to Lender of any property should for any reason subsequently be asserted, or declared, to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the United States Bankruptcy Code relating to fraudulent conveyances, preferences, or other voidable or recoverable payments of money or transfers of property (each, a "**Voidable Transfer**"), and if Lender is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that Lender is required or elects to repay or restore, and as to all reasonable costs, expenses, and reasonable attorneys'

fees of Lender related thereto, the liability of Borrower and such guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

20. **PATRIOT ACT NOTIFICATION.** Lender hereby notifies Borrower that pursuant to the requirements of the USA Patriot Act, Title III of Pub. L. 107-56, signed into law October 26, 2001 ("**Patriot Act**"), Lender is required to obtain, verify and record information that identifies Borrower, which information includes the names and addresses of Borrower and other information that will allow Lender to identify Borrower in accordance with the Patriot Act.
21. **NOTICE OF FINAL AGREEMENT.** BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THIS WRITTEN AGREEMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

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IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement on the day and year above written.

BORROWER:

ADESTO TECHNOLOGIES CORPORATION

By /s/ Ron Shelton
Name: RON SHELTON
Title: CHIEF FINANCIAL OFFICER

LENDER:

WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION

By /s/ Christopher Hill
Name: CHRISTOPHER HILL
Title: SENIOR VICE PRESIDENT

Address for Notices:

1250 Borregas Avenue
Sunnyvale, CA 94089

Address for Notices:

55 Almaden Blvd.
San Jose, CA 95113
Fax: (405) 423-8510

Fax: 408.400.0721

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**THIRD PARTY
SECURITY AGREEMENT**

This Third Party Security Agreement (this "Agreement") is made and entered into as of July 7, 2016 by and between ARTEMIS ACQUISITION LLC ("Grantor"), and WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION (the "Bank").

RECITALS

Bank proposes to enter into a transaction with ADESTO TECHNOLOGIES CORPORATION ("Borrower"), pursuant to a Business Financing Agreement dated as of July 7, 2016, as amended from time to time (the "Loan Agreement"). Grantor expects to derive economic benefit from Bank's doing so and dealing with Borrower in accordance with the Loan Agreement, and has entered into a Guaranty of even date herewith with respect to the present and future obligations of Borrower to Bank (as amended from time to time, the "Guaranty"). Grantor wishes to secure performance and payment of all obligations to Bank under the Guaranty and otherwise (the "Guarantor Obligations") with substantially all of Grantor's assets. All terms used without definition in this Agreement shall have the meaning assigned to them in the Loan Agreement. All terms used without definition in this Agreement or in the Loan Agreement shall have the meaning assigned to them in the Uniform Commercial Code.

NOW, THEREFORE, Grantor and the Bank agree as follows:

1. Grant of Security Interest. To secure all of the Guarantor Obligations, Grantor grants to the Bank a security interest in the property described in Exhibit A (the "Collateral").

2. Grantor's Representations and Warranties. Grantor represents and warrants as follows:

(a) Authorization. Grantor has authority and has obtained all approvals and consents necessary to enter into this Agreement, and Grantor's execution, delivery and performance of this Agreement will not violate or conflict with any law, agreement, or other instrument or writing to which Grantor is party or by which Grantor is bound.

(b) Title. The Collateral is owned by Grantor and is free of all liens, encumbrances and other security interests other than Permitted Liens.

(c) Solvency, Payment of Debts. Grantor is solvent and able to pay Grantor's debts as they mature.

(d) Further Representations. Grantor further represents, warrants, and covenants that (i) Grantor is not in default under any agreement under which Grantor owes any money, or any agreement, the violation or termination of which could reasonably have a material adverse effect on Grantor; (ii) the information provided to Bank on or prior to the date of this Agreement is true and correct in all material respects; (iii) all financial statements and other information provided to Bank fairly present Grantor's financial condition, and there has not been a material adverse change in the financial condition of Grantor since the date of the most recent of the financial statements submitted to Bank; (iv) Grantor is in compliance with all laws and orders applicable to Grantor where the failure to be in compliance could reasonably be expected to have a material adverse effect on Grantor; (v) Grantor is neither a party to any litigation nor is the subject of any government investigation, and Grantor has no knowledge of any pending litigation or investigation or the existence of circumstances that reasonably could be expected to give rise to such litigation or investigation where there is a reasonable probability of an adverse determination regarding Grantor which could reasonably be expected to result in a material adverse effect on Grantor; (vi) Grantor's principal residence is located at the address specified in Section 11; and (vii) no representation or other statement made by Grantor to Bank contains any untrue statement of a material fact or omits to state a material fact necessary to make any statements made to Bank not misleading.

3. Covenants.

(a) Encumbrances. Grantor shall not grant a security interest in any of the Collateral other than to Bank or Permitted Liens or execute any financing statements covering any of the Collateral in favor of any person other than Bank other than in connection with Permitted Liens

(b) Use of Collateral. The Collateral will not be used for any unlawful purpose or in any way that will void any insurance required to be carried in connection therewith. Grantor will keep the Collateral free and clear of liens other than Permitted Liens and adverse claims and, as appropriate and applicable, will keep it in good condition and repair, and will clean, shelter, and otherwise care for the Collateral in all such ways as are considered good practice by owners of like property.

(c) Indemnification. Grantor shall indemnify Bank against all losses, claims, demands and liabilities of any kind caused by the Collateral.

(d) Perfection of Security Interest. Grantor shall execute and deliver such documents as Bank reasonably deems necessary to create, perfect and continue the security interest in the Collateral contemplated hereby.

(e) Insurance of Collateral.

(i) Grantor, at Grantor's expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar circumstances in the locations where Grantor's residence is located on the date hereof. Grantor shall also maintain insurance relating to Grantor's ownership and use of the Collateral in amounts and of a type that are customary.

(ii) All such policies of insurance shall be in such form, with such companies, and in such amounts as reasonably satisfactory to Bank. All such policies of property insurance shall contain a Bank's loss payable endorsement, in a form satisfactory to Bank, showing Bank as an additional loss payee thereof and all liability insurance policies shall show Bank as an additional insured, and shall specify that the insurer agrees to give at least twenty (20) days notice to Bank before canceling its policy for any reason (ten (10) days' notice for non-payment of premiums). Upon Bank's request, Grantor shall deliver to Bank certified copies of such policies of insurance and evidence of the payments of all premiums therefor. All proceeds payable under any such policy shall, at the option of Bank, be payable to Bank to be applied on account of the Guarantor Obligations.

(f) Binding Agreement. Anything herein to the contrary notwithstanding, (a) Grantor shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all of Grantor's duties and obligations thereunder to the same extent as if this Agreement had not been executed; (b) the exercise by Bank of any of the rights granted hereunder shall not release Grantor from any of Grantor's duties or obligations under the contracts and agreements included in the Collateral; and (c) Bank shall not have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Agreement, nor shall Bank be obligated to perform any of the obligations or duties of Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

(g) Instruments. Grantor will deliver and pledge to Bank all Instruments that are part of the Collateral duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Bank.

(h) Records. Grantor shall prepare and keep, in accordance with generally accepted accounting principles consistently applied, complete and accurate records regarding the Collateral and, if and when requested by Bank, shall prepare and deliver a complete and accurate schedule of all the Collateral in such detail as Bank may reasonably require.

(i) Inspection of Grantor's Books. Grantor shall permit Bank or its designee at reasonable times and from time to time to inspect Grantor's books, records and properties and to audit and to make copies of extracts from such books and records.

(j) Fees and Costs. Grantor shall pay all expenses, including reasonable attorneys' fees, incurred by Bank in the preservation, realization, enforcement or exercise of any Bank's rights under this Agreement.

(k) Taxes. Grantor will pay all taxes on or before the date such taxes are due, and will comply with all laws and orders applicable to Grantor.

(l) Negative Covenants. Grantor will not (i) make any Investments other than Permitted Investments, or loans or advances to, any person other than as approved in writing by Bank or Permitted Indebtedness, (ii) acquire any assets other than as approved in writing by Bank other than Permitted Investments, (iii) create, incur, assume or be or remain liable with respect to any Indebtedness other than Indebtedness to Bank or other Indebtedness as approved in writing by Bank, (iv) move, dispose of or encumber any portion of Grantor's assets, other than as approved in writing by Bank or Permitted Indebtedness, (v) create, incur, assume or suffer to exist any lien with respect to any of Grantor's property other than Permitted Liens, or assign or otherwise convey any right to receive

income, including the sale of any of Grantor's accounts, (vi) maintain or invest any of Grantor's property with a Person other than Bank unless such Person has entered into an account control agreement with Bank in form and substance satisfactory to Bank, or (vii) permit the inclusion in any contract to which Grantor becomes a party of any provisions that could restrict or invalidate the creation of a security interest in any of Grantor's property other than customary restrictions in in-bound licenses of intellectual property, real property and equipment leases.

(m) Further Assurances. At any time and from time to time, upon the written request of Bank, and at the sole expense of Grantor, Grantor shall promptly and duly execute and deliver any and all such further instruments and documents and take such further action as Bank may reasonably deem desirable to obtain the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, (a) to secure all consents and approvals necessary or appropriate for the grant of a security interest to Bank in any Collateral held by Grantor or in which Grantor has any rights not heretofore assigned, (b) filing any financing or continuation statements under the UCC with respect to the security interests granted hereby, (c) transferring Collateral to Bank's possession (if a security interest in such Collateral can be perfected by possession), (d) placing the interest of Bank as lienholder on the certificate of title (or other evidence of ownership) of any vehicle owned by Grantor or in or with respect to which Grantor holds a beneficial interest and (e) using its best efforts to obtain waivers of liens from landlords and mortgagees. Grantor also hereby authorizes Bank to file any such financing or continuation statement without the signature of Grantor. If any amount payable under or in connection with any of the Collateral is or shall become evidenced by any Instrument, such Instrument, other than checks and notes received in the ordinary course of business, shall be duly endorsed in a manner satisfactory to Bank and delivered to Bank promptly upon Grantor's receipt thereof.

4. Events of Default. The occurrence of any Event of Default under the Loan Agreement, or the failure by Grantor to perform any obligations under the Guaranty within five (5) business days after receipt of Bank's written notice with respect thereto, or the material breach of any representation under this Agreement, or the failure to perform any obligation under Section 3 of this Agreement, shall constitute an "Event of Default" under this Agreement.

5. Remedies on Default. Upon the occurrence of an Event of Default, Bank shall have all rights, privileges, powers and remedies provided by law, including, but not limited to, exercise of any or all of the following remedies.

(a) Bank may declare all amounts outstanding under the Loan Agreement and the Guaranty to be immediately due and payable, and thereupon all such amounts shall be and become immediately due and payable to the Bank.

(b) Bank may dispose of the Collateral in accordance with applicable law.

(c) Bank may use, operate, consume and sell the Collateral in its possession as appropriate for the purpose of performing Grantor's obligations with respect thereto to the extent necessary to satisfy the obligations of Grantor.

(d) All payments received and amounts realized by Bank shall be promptly applied and distributed by the Bank in the following order of priority:

(i) first, to the payment of all costs and expenses, including reasonable legal expenses and attorneys fees, incurred or made hereunder by Bank, including any such costs and expenses of foreclosure or suit, if any, and of any sale or the exercise of any other remedy under this Section 5, and of all taxes, assessments or liens superior to the lien granted under this Agreement; and

(ii) second, to the payment to Bank of the amount then owing under the Loan Agreement.

6. Power of Attorney. Grantor hereby appoints Bank, Grantor's attorney-in-fact to prepare, sign and file or record, for Grantor in Grantor's name, any financing statements, applications for registration and like papers and to take any other action deemed by Bank necessary or desirable in order to perfect the security interest of the Bank hereunder, to dispose of any Collateral, and to perform any obligations of Grantor hereunder, at Grantor's expense, but without obligation to do so.

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

8. Amendment of Loan Documents. Grantor authorizes Bank, without notice or demand and without affecting its liability hereunder, from time to time to (a) renew, extend, or otherwise change the terms of any Loan Document, or any part thereof; (b) take and hold security for the payment of any Loan Document, and exchange, enforce, waive and release any such security; and (c) apply such security and direct the order or manner of sale thereof as Bank in its sole discretion may determine.

9. Grantor Waivers. Grantor waives any right to require Bank to (a) proceed against Borrower, any other guarantor or any other person; (b) proceed against or exhaust any security held from Borrower; (c) marshal any assets of Borrower; or (d) pursue any other remedy in Bank's power whatsoever. Bank may, at its election, exercise or decline or fail to exercise any right or remedy it may have against Borrower or any security held by Bank, including without limitation the right to foreclose upon any such security by judicial or nonjudicial sale, without affecting or impairing in any way the liability of Grantor hereunder. Grantor waives any defense arising by reason of any disability or other defense of Borrower or by reason of the cessation from any cause whatsoever of the liability of Borrower. Grantor waives any setoff, defense or counterclaim that Borrower may have against Bank. Grantor waives any defense arising out of the absence, impairment or loss of any right of reimbursement or subrogation or any other rights against Borrower. Until all obligations under the Guaranty have been satisfied, Grantor shall have no right of subrogation or reimbursement, contribution or other rights against Borrower, and Grantor waives any right to enforce any remedy that Bank now has or may hereafter have against Borrower. Grantor waives all rights to participate in any security now or hereafter held by Bank. Grantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Agreement and of the existence, creation, or incurring of new or additional indebtedness. Grantor assumes the responsibility for being and keeping himself informed of the financial condition of Borrower and of all other circumstances bearing upon the risk of nonpayment of any indebtedness or nonperformance of any obligation of Borrower, warrants to Bank that Grantor will keep so informed, and agrees that absent a request for particular information by Grantor, Bank shall have no duty to advise Grantor of information known to Bank regarding such condition or any such circumstances. Grantor waives the benefits of California Civil Code sections 2809, 2810, 2819, 2845, 2847, 2848, 2849, 2850, 2899 and 3433.

10. Borrower Insolvency. If Borrower becomes insolvent or is adjudicated bankrupt or files a petition for reorganization, arrangement, composition or similar relief under any present or future provision of the United States Bankruptcy Code, or if such a petition is filed against Borrower, and in any such proceeding some or all of any indebtedness or obligations under the Loan Documents are terminated or rejected or any obligation of Borrower is modified or abrogated, or if Borrower's obligations are otherwise avoided for insolvency, bankruptcy or any similar reason, Grantor agrees that Grantor's liability hereunder shall not thereby be affected or modified and such liability shall continue in full force and effect as if no such action or proceeding had occurred. This Agreement shall continue to be effective or be reinstated, as the case may be, if any payment must be returned by Bank upon the insolvency, bankruptcy or reorganization of Borrower, Grantor, any other person, or otherwise, as though such payment had not been made.

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

If to Grantor: ARTEMIS ACQUISITION LLC
c/o ADESTO TECHNOLOGIES CORPORATION
1250 Borregas Ave. Sunnyvale, CA 94089
Tel: (408) 400-0578.

If to Bank: WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION
55 Almaden Boulevard, Suite 100
San Jose, California 95113
Attn: _____
Fax: (405) 423-8510

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

12. Jury Trial Waiver. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING IN CONNECTION WITH THE

OBLIGATIONS OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO ANY OBLIGATION, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER FOUNDED IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER, HAS DETERMINED FOR ITSELF THE NECESSITY TO REVIEW THE SAME WITH ITS LEGAL COUNSEL, AND KNOWINGLY AND VOLUNTARILY WAIVES ALL RIGHTS TO A JURY TRIAL.

13. Reference Provision.

13.1 In the event the Jury Trial Waiver set forth above is not enforceable, the parties elect to proceed under this Judicial Reference Provision.

13.2 With the exception of the items specified in Section 13.3, below, any controversy, dispute or claim (each, a "**Claim**") between the parties arising out of or relating to this Agreement or any other document, instrument or agreement between the undersigned parties (collectively in this Section, the "**Loan Documents**"), will be resolved by a reference proceeding in California in accordance with the provisions of Sections 638 et seq. of the California Code of Civil Procedure ("**CCP**"), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as otherwise provided in the Loan Documents, venue for the reference proceeding will be in the state or federal court in the county or district where the real property involved in the action, if any, is located or in the state or federal court in the county or district where venue is otherwise appropriate under applicable law (the "**Court**").

13.3 The matters that shall not be subject to a reference are the following: (i) nonjudicial foreclosure of any security interests in real or personal property, (ii) exercise of self-help remedies (including, without limitation, set-off), (iii) appointment of a receiver and (iv) temporary, provisional or ancillary remedies (including, without limitation, writs of attachment, writs of possession, temporary restraining orders or preliminary injunctions). This reference provision does not limit the right of any party to exercise or oppose any of the rights and remedies described in clauses (i) and (ii) or to seek or oppose from a court of competent jurisdiction any of the items described in clauses (iii) and (iv). The exercise of, or opposition to, any of those items does not waive the right of any party to a reference pursuant to this reference provision as provided herein.

13.4 The referee shall be a retired judge or justice selected by mutual written agreement of the parties. If the parties do not agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an ex parte or expedited basis, and the parties agree that irreparable harm would result if ex parte relief is not granted. Pursuant to CCP § 170.6, each party shall have one peremptory challenge to the referee selected by the Presiding Judge of the Court (or his or her representative).

13.5 The parties agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (i) set the matter for a status and trial-setting conference within fifteen (15) days after the date of selection of the referee, (ii) if practicable, try all issues of law or fact within one hundred twenty (120) days after the date of the conference and (iii) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

13.6 The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party's failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered based upon good cause shown, no party shall be entitled to "priority" in conducting discovery, depositions may be taken by either party upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days after service. All disputes relating to discovery which cannot be resolved by the parties shall be submitted to the referee whose decision shall be final and binding.

13.7 Except as expressly set forth herein, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted

before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee's power to award costs to the prevailing party, the parties will equally share the cost of the referee and the court reporter at trial.

13.8 The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a court proceeding, including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision at the close of the reference proceeding which disposes of all claims of the parties that are the subject of the reference. Pursuant to CCP § 644, such decision shall be entered by the Court as a judgment or an order in the same manner as if the action had been tried by the Court and any such decision will be final, binding and conclusive. The parties reserve the right to appeal from the final judgment or order or from any appealable decision or order entered by the referee. The parties reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

13.9 If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted), any dispute between the parties that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired judge or justice, in accordance with the California Arbitration Act §1280 through §1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.

13.10 THE PARTIES RECOGNIZE AND AGREE THAT ALL CONTROVERSIES, DISPUTES AND CLAIMS RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER OWN CHOICE, EACH PARTY KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, AGREES THAT THIS REFERENCE PROVISION WILL APPLY TO ANY CONTROVERSY, DISPUTE OR CLAIM BETWEEN OR AMONG THEM ARISING OUT OF OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

14. General Provisions.

14.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Grantor without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion. Bank shall have the right without the consent of or notice to Grantor to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

14.2 Indemnification. Grantor shall defend, indemnify and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this Agreement; and (b) all losses or Bank Expenses in any way suffered, incurred, or paid by Bank as a result of or in any way arising out of, following, or consequential to transactions between Bank and Grantor whether under this Agreement, or otherwise (including without limitation reasonable attorneys' fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

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

14.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

14.5 Amendments in Writing, Integration. This Agreement cannot be amended or terminated orally. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement, if any, are merged into this Agreement and the Loan Documents.

14.6 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement.

14.7 Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding, any Guarantor Obligations remain outstanding, or Bank has any obligation to make Credit Extensions to Borrower. The obligations of Grantor to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 14.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

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IN WITNESS WHEREOF, the parties have executed this Agreement on the date set forth above.

GRANTOR:

ARTEMIS ACQUISITION LLC

By: Adesto Technologies Corporation,
as sole member and manager of
Artemis Acquisition LLC

By: /s/ Narbeh Derhacobian
Name: Narbeh Derhacobian
Title: President and Chief Executive Officer

BANK:

WESTERN ALLIANCE BANK, AN ARIZONA
CORPORATION

By: /s/ Christopher Hill

Name: Christopher Hill

Title: Senior Vice President

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DEBTOR:
SECURED PARTY:

ARTEMIS ACQUISITION LLC
WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION

EXHIBIT A
COLLATERAL DESCRIPTION ATTACHMENT
TO THIRD PARTY SECURITY AGREEMENT

“Collateral” means all of Grantor’s rights and interest in any and all personal property, whether now existing or hereafter acquired or created and wherever located, and all products and proceeds thereof and accessions thereto, including but not limited to the following (collectively, the “Collateral”): (a) all accounts (including health care insurance receivables), chattel paper (including tangible and electronic chattel paper), inventory (including all goods held for sale or lease or to be furnished under a contract for service, and including returns and repossessions), equipment (including all accessions and additions thereto), instruments (including promissory notes), investment property (including securities and securities entitlements), documents (including negotiable documents), deposit accounts, letter of credit rights, money, any commercial tort claim of Grantor which is now or hereafter identified by Grantor or Bank, general intangibles (including payment intangibles and software), goods (including fixtures) and all of Grantor’s books and records with respect to any of the foregoing, and the computers and equipment containing said books and records; and (b) any and all cash proceeds and/or noncash proceeds thereof, including without limitation, insurance proceeds, and all supporting obligations and the security therefore or for any right to payment. Notwithstanding the foregoing, the Collateral does not include (a) more than 65% of the presently existing and hereafter arising issued and outstanding shares of capital stock owned by Grantor of any Foreign Subsidiary which shares entitle the holder thereof to vote for the election of directors or any other matter; (b) rights held under a license or lease that are not assignable by their terms without the consent of the licensor or lessor thereof (but only to the extent such restriction on assignment is enforceable under applicable law); and (c) any interest of Grantor as a lessee under an equipment lease if Grantor is prohibited by the terms of such lease from granting a security interest in such lease or under which such an assignment or lien would cause a default to occur under such lease; provided, however, that upon termination of such prohibition, such interest shall immediately become Collateral without any action by Grantor or Bank.

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CORPORATE RESOLUTIONS TO BORROW

Borrower: ADESTO TECHNOLOGIES CORPORATION

I, the undersigned Secretary or Assistant Secretary of ADESTO TECHNOLOGIES CORPORATION (the "Corporation"), HEREBY CERTIFY that the Corporation is organized and existing under and by virtue of the laws of the State of Delaware.

I FURTHER CERTIFY that attached hereto as Attachments A and B are true and complete copies of the Certificate of Incorporation, as amended, and the Bylaws of the Corporation, each of which is in full force and effect on the date hereof.

I FURTHER CERTIFY that at a meeting of the Directors of the Corporation, duly called and held, at which a quorum was present and voting (or by other duly authorized corporate action in lieu of a meeting), the following resolutions (the "Resolutions") were adopted.

BE IT RESOLVED, that any one (1) of the following named officers, employees, or agents of this Corporation, whose actual signatures are shown below:

<u>NAMES</u>	<u>POSITION</u>	<u>ACTUAL SIGNATURES</u>
NARBEH DERHACOBIAN	PRESIDENT AND CEO OF ADESTO TECHNOLOGIES CORPORATION	/s/ Narbeh Derhacobian
RON SHELTON	CHIEF FINANCIAL OFFICER OF ADESTO TECHNOLOGIES CORPORATION	/s/ Ron Shelton

acting for and on behalf of this Corporation and as its act and deed be, and they hereby are, authorized and empowered:

Borrow Money. To borrow from time to time from Western Alliance Bank, an Arizona corporation ("Bank"), on such terms as may be agreed upon between the officers, employees, or agents of the Corporation and Bank, such sum or sums of money as in their judgment should be borrowed, without limitation.

Execute Loan Documents. To execute and deliver to Bank that certain Business Financing Agreement dated as of July 7, 2016 (the "Financing Agreement") and any other agreement entered into between Corporation and Bank in connection with the Financing Agreement, including any amendments, all as amended or extended from time to time (collectively, with the Financing Agreement, the "Loan Documents"), and also to execute and deliver to Bank one or more renewals, extensions, modifications, refinancings, consolidations, or substitutions for the Loan Documents, or any portion thereof.

Grant Security. To grant a security interest to Bank in the Collateral described in the Loan Documents, which security interest shall secure all of the Corporation's Obligations, as described in the Loan Documents.

Negotiate Items. To draw, endorse, and discount with Bank all drafts, trade acceptances, promissory notes, or other evidences of indebtedness payable to or belonging to the Corporation or in which the Corporation may have an interest, and either to receive cash for the same or to cause such proceeds to be credited to the account of the Corporation with Bank, or to cause such other disposition of the proceeds derived therefrom as they may deem advisable.

Further Acts. In the case of lines of credit, to designate additional or alternate individuals as being authorized to request advances thereunder, and in all cases, to do and perform such other acts and things, to pay any and all fees and costs, and to execute and deliver such other documents and agreements as they may in their discretion deem reasonably necessary or proper in order to carry into effect the provisions of these Resolutions.

BE IT FURTHER RESOLVED, that any and all acts authorized pursuant to these resolutions and performed prior to the passage of these resolutions are hereby ratified and approved, that these Resolutions shall remain in full force and effect and Bank may rely on these Resolutions until written notice of their revocation shall have been delivered to and

received by Bank. Any such notice shall not affect any of the Corporation's agreements or commitments in effect at the time notice is given.

I FURTHER CERTIFY that the officers, employees, and agents named above are duly elected, appointed, or employed by or for the Corporation, as the case may be, and occupy the positions set forth opposite their respective names; that the foregoing Resolutions now stand of record on the books of the Corporation; and that the Resolutions are in full force and effect and have not been modified or revoked in any manner whatsoever.

IN WITNESS WHEREOF, I have hereunto set my hand on July 7, 2016 and attest that the signatures set opposite the names listed above are their genuine signatures.

CERTIFIED AND ATTESTED BY:

X/s/ Ron Shelton

Secretary or Assistant Secretary of Corporation

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INTELLECTUAL PROPERTY SECURITY AGREEMENT

This INTELLECTUAL PROPERTY SECURITY AGREEMENT, dated as of July 7, 2016, (the "Agreement") between WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION ("Lender"), ADESTO TECHNOLOGIES CORPORATION and ARTEMIS ACQUISITION LLC (each a "Grantor" and collectively, "Grantors") is made with reference to (A) that certain Business Financing Agreement, dated as of July 7, 2016 (as amended from time to time, the "Loan Agreement"), between Lender and ADESTO TECHNOLOGIES CORPORATION and (B) that certain Guaranty, dated as of July 7, 2016 (as amended from time to time, the "Guaranty"), between Lender and ARTEMIS ACQUISITION LLC. Terms defined in the Loan Agreement or Guaranty have the same meanings when used in this Agreement.

For good and valuable consideration, receipt of which is hereby acknowledged, each Grantor hereby covenants and agrees as follows:

To secure the obligations under the Loan Agreement and the Guaranty, ADESTO TECHNOLOGIES CORPORATION and ARTEMIS ACQUISITION LLC respectively, grant to Lender a security interest in all right, title, and interest of Grantors in any of the following, whether now existing or hereafter acquired or created in any and all of the following property (collectively, the "Intellectual Property Collateral"):

(a) copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held (collectively, the "Copyrights"), including the Copyrights described in Exhibit A;

(b) trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Grantor connected with and symbolized by such trademarks (collectively, the "Trademarks"), including the Trademarks described in Exhibit B;

(c) patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same (collectively, the "Patents"), including the Patents described in Exhibit C;

(d) mask work or similar rights available for the protection of semiconductor chips or other products (collectively, the "Mask Works");

(e) trade secrets, and any and all intellectual property rights in computer software and computer software products;

(f) design rights;

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

(h) licenses or other rights to use, where Grantor is the licensor or transferor of any of the Copyrights, Patents, Trademarks, or Mask Works, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(i) amendments, renewals and extensions of any of the Copyrights, Trademarks, Patents, or Mask Works; and

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

Notwithstanding anything to the contrary contained in this Agreement, Intellectual Property Collateral does not include rights held under a license that are not assignable by their terms without the consent of the licensor thereof (but only to the extent such restriction on assignment is enforceable under applicable law).

The rights and remedies of Lender with respect to the security interests granted hereunder are in addition to those set forth in the Loan Agreement and the Guaranty, and those which are now or hereafter available to Lender as a matter of law or equity. Each right, power and remedy of Lender provided for herein or in the Loan Agreement or the Guaranty, or now or hereafter existing at law or in equity shall be cumulative and concurrent and shall be in addition to every right, power or remedy provided for herein, and the exercise by Lender of any one or more of such rights, powers or remedies does not preclude the simultaneous or later exercise by Lender of any other rights, powers or remedies.

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

GRANTOR:

ADESTO TECHNOLOGIES CORPORATION

By: /s/ Ron Shelton

Name: RON SHELTON

Title: CHIEF FINANCIAL OFFICER

Address for Notices:

Attn: Ron Shelton, CFO
1250 Borregas Avenue
Sunnyvale, CA 94089
Tel: (408) 419-4841
Fax: (408) 419-4841

GRANTOR:

ARTEMIS ACQUISITION LLC

By: Adesto Technologies Corporation,
as sole member and manager of
Artemis Acquisition LLC

By: /s/ Narbeh Derhacobian

Name: Narbeh Derhacobian

Title: President and Chief Executive Officer

Address for Notices:

c/o ADESTO TECHNOLOGIES CORPORATION
1250 Borregas Ave,
Sunnyvale, CA 94089
Tel: (408) 400-0578

LENDER:

WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION

By: /s/ Christopher Hill

Name: Christopher Hill

Title: Senior Vice President

Address for Notices:

Attn: Mike Field
55 Almaden Boulevard, Suite 100
San Jose, California 95113
Tel: (408) 556-6501
Fax: (408) 282-1681

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EXHIBIT A

COPYRIGHTS

Please Check if No Copyrights Exist

<u>Type of Work:</u>	<u>Title:</u>	<u>International Standard Serial Number (ISSN):</u>	<u>Registration Number:</u>	<u>Filing Date:</u>	<u>Pre - registered?</u>

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EXHIBIT B
TRADEMARKS

Please Check if No Trademarks Exist

<u>Mark / Title:</u>	<u>U.S. Serial Number:</u>	<u>U.S. Registration Number:</u>	<u>USPTO Reference Number:</u>	<u>Filing Date:</u>
adesto TECHNOLOGIES	85470629	4303684		11/11/11
CBRAM	85470550	4235215		11/11/11
Adesto	85470695	4193574		11/11/11

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EXHIBIT C
PATENTS

Please Check if No Patents Exist

<u>Title:</u>	<u>Patent Number:</u>	<u>Application/ Serial Number:</u>	<u>Issued or Published?</u>	<u>Issued/Published Date:</u>
Programmable impedance element circuits and methods	8294488		Issued	10/23/12
Variable impedance memory device biasing circuits and methods	8498164		Issued	7/30/13
Resistive switching devices and methods of formation thereof		13767800	Published	2/14/13
Low power voltage regulator circuit for use in an integrated circuit device	6320454		Issued	11/20/01
Reference cell for high speed sensing in non-volatile memories	6411549		Issued	6/25/02
Method of establishing reference levels for sensing multilevel memory cell states	6618297		Issued	9/9/03
Row decoder circuit for use in programming a memory device	6621745		Issued	9/16/03
Method of programming a multi-level memory device	6714448		Issued	3/30/04
Method of recovering overerased bits in a memory device	6724662		Issued	4/20/04
Approach for zero dummy byte flash memory read operation	6879535		Issued	4/12/05
Current sense amplifier	6946882		Issued	9/20/05
Method for identification of spi compatible serial memory devices	7032039		Issued	4/18/06
Dual stage voltage regulation circuit	7064529		Issued	6/20/06
Functional register decoding system for multiple plane operation	7099226		Issued	8/29/06
Method and apparatus of a smart decoding scheme for fast synchronous read in a memory system	7143257		Issued	11/28/06
Column/sector redundancy cam fast programming scheme using regular memory core array in multi-plane flash memory device	7196952		Issued	3/27/07
Method for fabricating a semiconductor memory cell	7214587		Issued	5/8/07
Semiconductor memory component in cross-point architecture	7215564		Issued	5/8/07
Resistive memory arrangement	7215568		Issued	5/8/07
Pmc memory circuit and method for storing a datum in a pmc memory circuit	7257014		Issued	8/14/07
Integrated semiconductor memory with an arrangement of nonvolatile memory cells, and method	7277312		Issued	10/2/07
Redundant column read in a memory array	7296196		Issued	11/13/07
A memory device including electrical circuit configured to provide reversible bias across the pmc memory cell to perform erase and write functions	7327603		Issued	2/5/08
Memory system and process for controlling a memory component to achieve different kinds of memory characteristics on one and the same memory component	7337282		Issued	2/26/08
Read, write and erase circuit for programmable memory devices	7359236		Issued	4/15/08
Method for fabricating a resistive memory	7368314		Issued	5/6/08

<u>Title:</u>	<u>Patent Number:</u>	<u>Application/ Serial Number:</u>	<u>Issued or Published?</u>	<u>Issued/Published Date:</u>
Memory having cbram memory cells and method	7372716		Issued	5/13/08
Channel discharging after erasing flash memory devices	7397699		Issued	7/8/08
Programmable memory device circuit	7426131		Issued	9/16/08
Resistively switching memory	7442605		Issued	10/28/08
Method for preventing over-erasing of unused column redundant memory cells in a flash memory having single- transistor memory cells	7457167		Issued	11/25/08
Method for improving the thermal characteristics of semiconductor memory cells	7483293		Issued	1/27/09
Read, write and erase circuit for programmable memory devices	7483294		Issued	1/27/09
Resistive memory element with shortened erase time	7511294		Issued	3/31/09
Voltage reference circuit using programmable metallization cells	7514706		Issued	4/7/09
Cbram cell and cbram array, and method of operating thereof	7515454		Issued	4/7/09
Method and system for reducing soft-writing in a multi-level flash memory	7522455		Issued	4/21/09
Integrated circuit including resistivity changing memory cells	7538411		Issued	5/26/09
Implementation of column redundancy for a flash memory with a high write parallelism	7551498		Issued	6/23/09
Resistive memory arrangement	7561460		Issued	7/14/09
Memory cell, memory device and method for the production thereof	7655939		Issued	2/2/10
Method for fabricating a solid electrolyte memory device and solid electrolyte memory device	7658773		Issued	2/9/10
Method for fabricating an integrated device comprising a structure with a solid electrolyte	7700398		Issued	4/20/10
A memory device including electrical circuit configured to provide reversible bias across the pmc memory cell to perform erase and write functions	7715226		Issued	5/11/10
Method for manufacturing a cbram semiconductor memory	7718537		Issued	5/18/10
Integrated circuit, method for manufacturing an integrated circuit memory cell array, memory module, and device	7732888		Issued	6/8/10
Memory component with memory cells having changeable resistance and fabrication method therefor	7737428		Issued	6/15/10
Nor and nad memory arrangement of resistive memory elements	7746683		Issued	6/29/10
Method for manufacturing an integrated circuit including an electrolyte material layer	7749805		Issued	7/6/10
Device and method for access time reduction by speculatively decoding non-memory read commands on a serial interface	7769909		Issued	8/3/10
Solid electrolyte memory element and method for fabricating such a memory element	7772614		Issued	8/10/10
Method for producing memory having a solid electrolyte material region	7829134		Issued	11/9/10
Method of manufacturing an integrated circuit, an integrated circuit and a memory module	7888228		Issued	2/15/11
Method and system to access memory	7929356		Issued	4/19/11

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<u>Title:</u>	<u>Patent Number:</u>	<u>Application/ Serial Number:</u>	<u>Issued or Published?</u>	<u>Issued/Published Date:</u>
Method for producing memory having a solid electrolyte material region	8062694		Issued	11/22/11
Integrated circuits having programmable metallization cells (pmcs) and operating methods therefor	8107273		Issued	1/31/12
Memory cells with an anode comprising intercalating material and metal species dispersed therein	8115282		Issued	2/14/12
Method and system to access memory	8208315		Issued	6/26/12
Methods of manufacturing a semiconductor device; method of manufacturing a memory cell, semiconductor device; semiconductor processing device, integrated circuit having a memory cell	8268664		Issued	9/18/12
Variable impedance memory device having simultaneous program and erase, and corresponding methods and circuits	8274842		Issued	9/25/12
Pmc-based non-volatile cam	8320148		Issued	11/27/12
Humanized antibodies against the beta-amyloid peptide	8323647		Issued	12/4/12
Reconfigurable memory arrays having programmable impedance elements and corresponding methods	8331128		Issued	12/11/12
Methods of programming and erasing programmable metallization cells (pmcs)	8369132		Issued	2/5/13
Memory cell device and method of manufacture	8420481		Issued	4/16/13
Conducting bridge random access memory (cbram) device structures	8426839		Issued	4/23/13
Methods and circuits for temperature varying write operations of programmable impedance elements*	8437171		Issued	5/7/13
Method for operating an integrated circuit having a resistivity changing memory cell	8531863		Issued	9/10/13
Conductive filament based memory elements and methods with improved data retention and/or endurance	8531867		Issued	9/10/13
Resistive switching element		11746393	Published	5/9/07
Contact structure and method for variable impedance memory element		13470286	Published	5/12/12
Resistive switching devices having alloyed electrodes and methods of formation thereof		13558296	Published	7/25/12
Variable impedance memory element structure, methods of manufacture, and memory devices containing the same		13445389	Published	4/12/12
Methods of programing and erasing programmable metallization cells (pmcs)	8625331		Issued	1/7/14
Read methods, circuits and systems for memory devices	8654561		Issued	2/18/14
PMC-based non-volatile cam	8659926		Issued	2/25/14
Erase and soft program within the erase operation for a high speed resistive switching memory operation with aa controlled erased states	8659931		Issued	2/25/14
Cbram/reram with improved program and erase algorithms	8659954		Issued	2/25/14
Integrated circuit devices and systems having programmable impedance elements with different response types	8675396		Issued	3/18/14
Circuits having programmable impedance elements	8687403		Issued	4/1/14
Circuits and methods for placing programmable impedance memory elements in high impedance states	8730752		Issued	5/20/14

<u>Title:</u>	<u>Patent Number:</u>	<u>Application/ Serial Number:</u>	<u>Issued or Published?</u>	<u>Issued/Published Date:</u>
Variable impedance memory device structure and method of manufacture including programmable impedance memory cells and methods of forming the same	8829482		Issued	9/9/14
Programmable impedance memory elements, methods of manufacture, and memory devices containing the same	8847191		Issued	9/30/14
Memory devices, architectures and methods for memory elements having dynamic change in property	8854873		Issued	10/7/14
Resistive switching devices having a buffer layer and methods of formation thereof	8866122		Issued	10/21/14
Programmable memory elements, devices and methods having physically localized structure	8895953		Issued	11/25/14
Memory devices, circuits and, methods that apply different electrical conditions in access operations	8902631		Issued	12/2/14
Resistive switching memory	8912517		Issued	12/16/14
Read operations and circuits for memory devices having programmable elements, including programmable resistance elements	8913444		Issued	12/16/14
Current source circuits and methods for mass write and testing of programmable impedance elements	8947907		Issued	2/3/15
Circuits and methods having programmable impedance elements	8947913		Issued	2/3/15
Programmable impedance memory elements with laterally extending cell structure	8952351		Issued	2/10/15
Memory cell device and method of manufacture	8952493		Issued	2/10/15
Resistive devices and methods of operation thereof	8953362		Issued	2/10/15
Circuits and methods for programming variable impedance elements	8976568		Issued	3/10/15
Memory devices, circuits and, methods that apply different electrical conditions in access	8982602		Issued	3/17/15
Reverse program and erase cycling algorithms	8995167		Issued	3/31/15
Memory cells, devices and method with dynamic storage elements and programmable impedance shadow elements	8995173		Issued	3/31/15
Resistive devices and methods of operation thereof	9001553		Issued	4/7/15
Safeguarding data through an smt process	9007808		Issued	4/14/15
Application of relaxation voltage pulses to programmable impedance elements during read operations	9007814		Issued	4/14/15
Verify pulse delay to improve resistance window	9019745		Issued	4/28/15
Pre-conditioning circuits and methods for programmable impedance elements in memory devices	9025396		Issued	5/5/15
Resistive switching memories	9029829		Issued	5/12/15
Ultra-deep power-down mode for memory devices	9037890		Issued	5/19/15
Programmable window of operation for cbram	9047948		Issued	6/2/15
Coding techniques for reducing write cycles for memory	9047975		Issued	6/2/15
Triggered cell annihilation for resistive switching memory devices	9053789		Issued	6/9/15
Memory elements and methods with improved data retention and/or endurance	9070877		Issued	6/30/15
Memory devices and methods for read and write operation to memory elements having dynamic change in property	9099175		Issued	8/4/15
Resistive switching memory device with diode select	9099176		Issued	8/4/15
Solid electrolyte memory elements with electrode interface for improved performance	9099633		Issued	8/4/15

<u>Title:</u>	<u>Patent Number:</u>	<u>Application/ Serial Number:</u>	<u>Issued or Published?</u>	<u>Issued/Published Date:</u>
System architecture with multiple memory types, including programmable impedance memory elements	9147464		Issued	9/29/15
Programmable impedance element circuits and methods	9159414		Issued	10/13/05
Resistive memory devices, circuits and methods having read current limiting	9165648		Issued	10/20/15
Memory devices, circuits and methods having data values based on dynamic change in material property	9177639		Issued	11/3/15
Multi-port memory devices and methods having programmable impedance elements	9208870		Issued	12/8/15
Verify pulse delay to improve resistance window	9208876		Issued	12/8/15
Resistive switching devices having a switching layer and an intermediate electrode layer and methods of formation thereof	9252359		Issued	2/2/16
Solid electrolyte based memory devices and methods having adaptable read threshold levels	9305643		Issued	4/5/16
Fabrication methods of conducting bridge random access memory (cbram) device structures	9306161		Issued	4/5/16
Latch circuit and methods with programmable impedance elements	9330755		Issued	5/3/16
Common plate switching reduction in resistive switching memory devices	9336868		Issued	5/10/16
Circuits having programmable impedance elements and vertical access devices	9343667		Issued	5/17/16
Sensing data in resistive switching memory devices	9361975		Issued	6/7/16
Circuits and methods for placing programmable impedance memory elements in high impedance states	9368198		Issued	6/14/16
Capacitor arrangements using a resistive switching memory cell structure	9368206		Issued	6/14/16
Prototyping integrated circuit devices with programmable impedance elements	9373398		Issued	6/21/16
Two terminal resistive access devices and methods of formation thereof	9373786		Issued	6/21/16
Memory devices and methods having write data permutation for cell wear reduction		13626721	Published	9/25/12
Network interface with logging		13716357	Published	12/17/12
Programmable impedance memory elements and corresponding methods		14195787	Published	3/3/14
Nonvolatile memory elements having conductive structures with semimetals and/or semiconductors		14217256	Published	3/17/14
Serial memory device alert of an external host to completion of an internally self-timed operation		14516261	Published	10/16/14
Resistive switching memory		14552250	Published	11/24/14
Resistive devices and methods of operation thereof		14599654	Published	1/19/15
Resistive switching element		11746393	Published	5/9/07
Current sense amplifier	6946882		Issued	9/20/05
Cbram cell and cbram array, and method of operating thereof	7515454		Issued	4/7/09
Method for fabricating a solid electrolyte memory device and solid electrolyte memory device	7658773		Issued	2/9/10
Method of operating a resistive memory device with a ramp-up/ramp-down program/erase pulse	9165644		Issued	10/20/15

<u>Title:</u>	<u>Patent Number:</u>	<u>Application/ Serial Number:</u>	<u>Issued or Published?</u>	<u>Issued/Published Date:</u>
Concurrent read and write operations in a serial flash device		14719814	Published	5/22/15
Programmable resistive memory elements with electrode interface layer and memory devices including the same		14791412	Published	7/4/15
Ultra-deep power-down mode for memory devices		14698205	Published	4/28/15

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INSURANCE AUTHORIZATION LETTER

In accordance with the insurance coverage requirements of the Business Financing Agreement dated as of July 7, 2016 (the "Agreement") between WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION ("Lender"), and ADESTO TECHNOLOGIES CORPORATION ("Borrower"), coverage is to be provided as set forth below:

COVERAGE: All risk including liability and property damage.

INSURED: ADESTO TECHNOLOGIES CORPORATION

LOCATION(S) OF COLLATERAL:

1. 1250 Borregas Avenue, Sunnyvale, CA 94089
2. 1925 Zanker Avenue, San Jose CA 95112

Insuring Agent: HUB International

Address: 180 Sutter Street
San Francisco CA 94104

Phone Number: 415-529-3475

Fax Number: _____

ADDITIONAL INSURED AND LOSS PAYEE:

Lender, as its respective interests may appear below.

LENDER:

WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION
55 Almaden Blvd.
San Jose, CA 95113
Attn: Note Dept
Fax # 408-689-8542
Phone # 408-423-8500

The above coverage is to be provided prior to funding the Agreement. Borrower hereby agrees to pay for the coverage above and by signing below acknowledges its obligation to do so.

Signature: /s/ Ron Shelton

Title: CFO

Date: July 7, 2016

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BORROWER: ADESTO TECHNOLOGIES CORPORATION

GUARANTOR: ARTEMIS ACQUISITION LLC

GUARANTY

To: WESTERN ALLIANCE BANK, an Arizona corporation

1. The Guaranty. For valuable consideration, the undersigned (“Guarantor”) hereby unconditionally guarantees and promises to pay promptly to WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION (“Lender”), or order, in lawful money of the United States, any and all Indebtedness of ADESTO TECHNOLOGIES CORPORATION (“Borrower”) to Lender when due, whether at stated maturity, upon acceleration or otherwise, and at all times thereafter. The liability of Guarantor under this Guaranty is not limited as to the principal amount of the Indebtedness guaranteed and includes, without limitation, liability for all interest, fees, indemnities (including, without limitation, hazardous waste indemnities), and other costs and expenses relating to or arising out of the Indebtedness. The liability of Guarantor is continuing and relates to any Indebtedness, including that arising under successive transactions which shall either continue the Indebtedness or from time to time renew it after it has been satisfied. This Guaranty is cumulative and does not supersede any other outstanding guaranties, and the liability of Guarantor under this Guaranty is exclusive of Guarantor’s liability under any other guaranties signed by Guarantor. If more than one individual or entity sign this Guaranty, their obligations under this Guaranty shall be joint and several.

2. Definitions. As used herein:

(a) “Borrower” means the individual or the entity named in Paragraph 1 of this Guaranty and, if more than one, then any one or more of them.

(b) “Guarantor” means the individual or the entity signing this Guaranty and, if more than one, then any one or more of them, jointly and severally.

(c) “Indebtedness” means any and all debts, liabilities, and obligations of Borrower to Lender, now or hereafter existing, whether voluntary or involuntary and however arising, whether direct or indirect or acquired by Lender by assignment, succession, or otherwise, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, held or to be held by Lender for its own account or as agent for another or others, whether Borrower may be liable individually or jointly with others, whether recovery upon such debts, liabilities, and obligations may be or hereafter become barred by any statute of limitations, and whether such debts, liabilities, and obligations may be or hereafter become otherwise unenforceable. Indebtedness includes, without limitation, any and all obligations of Borrower to Lender for reasonable attorneys’ fees and all other costs and expenses incurred by Lender in the collection or enforcement of any debts, liabilities, and obligations of Borrower to Lender.

3. Obligations Independent. The obligations hereunder are independent of the obligations of Borrower or any other guarantor, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor be joined in any such action or actions. Anyone executing this Guaranty shall be bound by its terms without regard to execution by anyone else.

4. Rights of Lender. Guarantor authorizes Lender, without notice or demand and without affecting its liability hereunder, from time to time to: (a) renew, compromise, extend, accelerate, or otherwise change the time for payment, or otherwise change the terms, of the Indebtedness or any part thereof, including increase or decrease of the rate of interest thereon, or otherwise change the terms of the Indebtedness; (b) receive and hold security for the payment of this Guaranty or any Indebtedness and exchange, enforce, waive, release, fail to perfect, sell, or otherwise dispose of any such security; (c) apply such security and direct the order or manner of sale thereof as Lender in its discretion may determine; and (d) release or substitute any Guarantor or any one or more of any endorsers or other guarantors of any of the Indebtedness.

5. Guaranty to be Absolute. Guarantor agrees that until the Indebtedness has been paid in full and any terminated, Guarantor shall not be released by or because of the taking, or failure to take, any action that might in any manner or to any extent vary the risks of Guarantor under this Guaranty or that, but for this paragraph, might discharge or otherwise reduce, limit, or modify Guarantor’s obligations under this Guaranty. Guarantor waives and surrenders any defense to any liability under this Guaranty based upon any such action, including but not limited to any action of Lender described in the immediately preceding paragraph of this Guaranty. It is the express intent of Guarantor that Guarantor’s obligations under this Guaranty are and shall be absolute and unconditional.

6. Guarantor's Waivers of Certain Rights and Certain Defenses. Guarantor waives: (a) any right to require Lender to proceed against Borrower, proceed against or exhaust any security for the Indebtedness, or pursue any other remedy in Lender's power whatsoever; (b) any defense arising by reason of any disability or other defense of Borrower, or the cessation from any cause whatsoever of the liability of Borrower other than the indefeasible satisfaction in full, in cash of all Obligations; (c) any defense based on any claim that Guarantor's obligations exceed or are more burdensome than those of Borrower; and (d) the benefit of any statute of limitations affecting Guarantor's liability hereunder. No provision or waiver in this Guaranty shall be construed as limiting the generality of any other waiver contained in this Guaranty.

7. Waiver of Subrogation. Until the Indebtedness has been paid in full and any commitments of Lender or facilities provided by Lender with respect to the Indebtedness have been terminated, Guarantor agrees not to exercise or assert any right of subrogation, reimbursement, indemnification, and contribution (contractual, statutory, or otherwise) including, without limitation, any claim or right of subrogation under the Bankruptcy Code (Title 11, United States Code) or any successor statute, arising from the existence or performance of this Guaranty, and Guarantor waives any right to enforce any remedy which Lender now has or may hereafter have against Borrower, and waives any benefit of, and any right to participate in, any security now or hereafter held by Lender.

8. Waiver of Notices. Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, notices of intent to accelerate, notices of acceleration, notices of any suit or any other action against Borrower or any other person, any other notices to any party liable on the Indebtedness (including Guarantor), notices of acceptance of this Guaranty, and notices of the existence, creation, or incurring of new or additional Indebtedness.

9. Waivers of Other Rights and Defenses.

(a) Guarantor waives any rights and defenses that are or may become available to Guarantor by reason of Sections 2787 to 2855, inclusive, of the California Civil Code until the Obligations have been indefeasibly satisfied in full in cash and any commitments of Lender or facilities provided by Lender with respect to the Obligations have been terminated.

(b) Guarantor waives all rights and defenses that Guarantor may have because any of the Indebtedness is secured by real property. This means, among other things: (i) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower; and (ii) if Lender forecloses on any real property collateral pledged by Borrower: (1) the amount of the Indebtedness may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price, and (2) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because any of the Indebtedness is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure.

(c) Guarantor waives any right or defense it may have at law or equity, including California Code of Civil Procedure Section 580a, to a fair market value hearing or action to determine a deficiency judgment after a foreclosure.

10. Security. To secure all of Guarantor's obligations hereunder, Guarantor has entered into a certain Third Party Security Agreement, of even date herewith, with Lender (the "Security Agreement").

11. Subordination. Any obligations of Borrower to Guarantor, now or hereafter existing, including but not limited to any obligations to Guarantor as subrogee of Lender or resulting from Guarantor's performance under this Guaranty, are hereby subordinated to the Indebtedness. In addition to Guarantor's waiver of any right of subrogation as set forth in this Guaranty with respect to any obligations of Borrower to Guarantor as subrogee of Lender, Guarantor agrees that, if Lender so requests, Guarantor shall not demand, take, or receive from Borrower, by setoff or in any other manner, payment of any other obligations of Borrower to Guarantor until the Indebtedness has been paid in full and any commitments of Lender or facilities provided by Lender with respect to the Indebtedness have been terminated. If any payments are received by Guarantor in violation of such waiver or agreement, such payments shall be received by Guarantor as trustee for Lender and shall be paid over to Lender on account of the Indebtedness, but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Guaranty. Any security interest, lien, or other encumbrance that Guarantor may now or hereafter have on any property of Borrower is hereby subordinated to any security interest, lien, or other encumbrance that Lender may have on any such property.

12. Revocation of Guaranty.

(a) Guarantor absolutely, unconditionally, knowingly, and expressly waives any right to revoke this Guaranty as to future Indebtedness and, in light thereof, all protection afforded Guarantor under Section 2815 of the California Civil Code. Guarantor fully realizes and understands that, upon execution of this agreement, Guarantor will not have any right to revoke this Guaranty as to any future Indebtedness and, thus, may have no control over such Guarantor's ultimate responsibility for the Indebtedness. If, contrary to the express intent of this agreement, any such revocation is effective notwithstanding the foregoing waiver, Guarantor acknowledges and agrees that: (a) no such revocation shall be effective until written notice thereof has been received by Lender; (b) no such revocation shall apply to any Indebtedness in existence on such date (including any subsequent continuation, extension, or renewal thereof, or change in the interest rate, payment terms, or other terms and conditions thereof); (c) no such revocation shall apply to any Indebtedness made or created after such date to the extent made or created pursuant to a legally binding commitment of Lender which is, or is believed in good faith by Lender to be, in existence on the date of such revocation; (d) no payment by Borrower, or from any other source, prior to the date of such revocation shall reduce the obligations of such Guarantor hereunder; and (e) any payment by Borrower or from any source other than such Guarantor, subsequent to the date of such revocation, shall first be applied to that portion of the obligations, if any, as to which the revocation by such Guarantor is effective (and which are not, therefore, guaranteed by such Guarantor hereunder), and, to the extent so applied, shall not reduce the obligations of such Guarantor hereunder.

(b) Guarantor acknowledges and agrees that this Guaranty may be revoked only in accordance with the foregoing provisions of this paragraph and shall not be revoked simply as a result of any change in name, location, or composition or structure of Borrower, the dissolution of Borrower, or the termination, increase, decrease, or other change of any personnel or owners of Borrower.

13. Reinstatement of Guaranty. If this Guaranty is revoked, returned, or cancelled, and subsequently any payment or transfer of any interest in property by Borrower to Lender is rescinded or must be returned by Lender to Borrower, this Guaranty shall be reinstated with respect to any such payment or transfer, regardless of any such prior revocation, return, or cancellation.

14. Stay of Acceleration. In the event that acceleration of the time for payment of any of the Indebtedness is stayed upon the insolvency, bankruptcy, or reorganization of Borrower or otherwise, all such Indebtedness guaranteed by Guarantor shall nonetheless be payable by Guarantor immediately if requested by Lender.

15. No Deductions. All payments by Guarantor hereunder shall be paid in full, without setoff or counterclaim or any deduction or withholding whatsoever, including, without limitation, for any and all present and future taxes. In the event that Guarantor or Lender is required by law to make any such deduction or withholding, Guarantor agrees to pay on behalf of Lender such amount directly to the appropriate person or entity, or if the Guarantor cannot legally comply with the foregoing, Guarantor shall pay to Lender such additional amounts as will result in the receipt by Lender of the full amount payable hereunder. Guarantor shall promptly provide Lender with evidence of payment of any such amount made on Lender's behalf.

16. Information Relating to Borrower. Guarantor acknowledges and agrees that it shall have the sole responsibility for, and has adequate means of, obtaining from Borrower such information concerning Borrower's financial condition or business operations as Guarantor may require, and that Lender has no duty, and Guarantor is not relying on Lender, at any time to disclose to Guarantor any information relating to the business operations or financial condition of Borrower.

17. Borrower's Authorization. Where Borrower is a corporation, partnership, trust, or limited liability company, it is not necessary for Lender to inquire into the powers of Borrower or of the officers, directors, partners, members, managers, or agents acting or purporting to act on its behalf, and any Indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder, subject to any limitations on Guarantor's liability set forth herein.

18. Information Relating to Guarantor. Guarantor authorizes Lender to verify or check any information given by Guarantor to Lender, check Guarantor's credit references, verify employment, and obtain credit reports. Guarantor acknowledges and agrees that the authorizations provided in this paragraph apply to any individual general partner of Guarantor and to Guarantor's spouse and any such general partner's spouse if Guarantor or such general partner is married and lives in a community property state.

19. Guarantor's Covenants. Until the Indebtedness has been paid in full and any commitments of Lender or facilities provided by Lender with respect to the Indebtedness have been terminated and each and every term, covenant, and condition of this Guaranty is fully performed, Guarantor agrees:

(a) to provide the following financial information and statements in form and content acceptable to Lender, and such additional information as requested by Lender from time to time:

(i) Guarantor's annual financial statements upon request of Lender. These financial statements must be audited, (with an opinion satisfactory to Lender) by a Certified Public Accountant ("CPA") acceptable to Lender;

(ii) Guarantor's quarterly financial statements upon request of Lender. These financial statements must be certified and dated by an authorized financial officer of Guarantor;

(iii) copies of Guarantor's federal income tax return (with all forms K-1 attached) together with a statement of any contributions made by Guarantor to any subchapter S corporation or trust, and, if requested by Lender, copies of any extensions of the filing date.

20. Taxes. Guarantor represents and warrants that it is organized and resident in the United States of America. If Guarantor must make a payment under this Guaranty, Guarantor represents and warrants that it will make the payment from one of its U.S. resident offices to a U.S. office of Lender so that no withholding tax is imposed on the payment. If notwithstanding the foregoing, Guarantor makes a payment under this Guaranty to which withholding tax applies, then Guarantor shall pay any taxes (other than taxes on net income (a) imposed by the country or any subdivision of the country in which Lender's principal office or actual lending office is located and (b) measured by the United States taxable income Lender would have received if all payments under or in respect of this Guaranty were exempt from taxes levied by Guarantor's country) that are at any time imposed on any such payments under or in respect of this Guaranty including, but not limited to, payments made pursuant to this paragraph. Further, Guarantor shall also pay to Lender, on demand, all additional amounts that Lender specifies as necessary to preserve the after-tax yield Lender would have received if such taxes had not been imposed.

21. Change of Status. Guarantor shall not enter into any consolidation, merger, or other combination unless Guarantor is the surviving business entity. Further, Guarantor shall not change its legal structure unless (a) Guarantor obtains the prior written consent of Lender and (b) all Guarantor's obligations under this Guaranty are assumed by the new business entity.

22. Notices. All notices required under this Guaranty shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Guaranty, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as Lender and Guarantor may specify from time to time in writing. Notices sent by (a) first class mail shall be deemed delivered on the earlier of actual receipt or on the fourth business day after deposit in the U.S. mail, postage prepaid, (b) overnight courier shall be deemed delivered on the next business day, and (c) telecopy shall be deemed delivered when transmitted.

23. Successors and Assigns. This Guaranty (a) binds Guarantor and Guarantor's executors, administrators, successors, and assigns, provided that Guarantor may not assign its rights or obligations under this Guaranty without the prior written consent of Lender, and (b) inures to the benefit of Lender and Lender's indorsees, successors, and assigns. Lender may, without notice to Guarantor and without affecting Guarantor's obligations hereunder, sell, assign, grant participations in, or otherwise transfer to any other person, firm, or corporation the Indebtedness and this Guaranty, in whole or in part. Guarantor agrees that Lender may disclose to any assignee or purchaser, or any prospective assignee or purchaser, of all or part of the Indebtedness any and all information in Lender's possession concerning Guarantor, this Guaranty, and any security for this Guaranty.

24. Amendments, Waivers, and Severability. No provision of this Guaranty may be amended or waived except in writing. No failure by Lender to exercise, and no delay in exercising, any of its rights, remedies, or powers shall operate as a waiver thereof, and no single or partial exercise of any such right, remedy, or power shall preclude any other or further exercise thereof or the exercise of any other right, remedy, or power. The unenforceability or invalidity of any provision of this Guaranty shall not affect the enforceability or validity of any other provision of this Guaranty.

25. Costs and Expenses. Guarantor agrees to pay all reasonable attorneys' fees, including allocated costs of Lender's in-house counsel, and all other costs and expenses which may be incurred by Lender (a) in the enforcement of this Guaranty or (b) in the preservation, protection, or enforcement of any rights of Lender in any case commenced by or against Guarantor or Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute.

26. Governing Law and Jurisdiction. This Guaranty shall be governed by and construed under the laws of the State of California. Guarantor irrevocably (a) submits to the non-exclusive jurisdiction of any federal or state court sitting in the State of California in any action or proceeding arising out of or relating to this Guaranty and (b) waives to the fullest extent permitted by law any defense asserting an inconvenient forum in connection therewith. Service of process by Lender in connection with such action or proceeding shall be binding on Guarantor if sent to Guarantor by registered or certified mail at its address specified below.

27. Waiver of Jury Trial. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO ANY DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER FOUNDED IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER, HAS DETERMINED FOR ITSELF THE NECESSITY TO REVIEW THE SAME WITH ITS LEGAL COUNSEL, AND KNOWINGLY AND VOLUNTARILY WAIVES ALL RIGHTS TO A JURY TRIAL.

28. Reference Provision.

a. In the event the Jury Trial waiver is not enforceable, the parties elect to proceed under this Judicial Reference Provision.

b. With the exception of the items specified in Section 28(c) below, any controversy, dispute or claim (each, a "Claim") between the parties arising out of or relating to this Agreement or any other document, instrument or agreement between the undersigned parties (collectively in this Section, the "Loan Documents"), will be resolved by a reference proceeding in California in accordance with the provisions of Sections 638 et seq. of the California Code of Civil Procedure ("CCP"), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as otherwise provided in the Loan Documents, venue for the reference proceeding will be in the state or federal court in the county or district where the real property involved in the action, if any, is located or in the state or federal court in the county or district where venue is otherwise appropriate under applicable law (the "Court").

c. The matters that shall not be subject to a reference are the following: (i) nonjudicial foreclosure of any security interests in real or personal property, (ii) exercise of self-help remedies (including, without limitation, set-off), (iii) appointment of a receiver and (iv) temporary, provisional or ancillary remedies (including, without limitation, writs of attachment, writs of possession, temporary restraining orders or preliminary injunctions). This reference provision does not limit the right of any party to exercise or oppose any of the rights and remedies described in clauses (i) and (ii) or to seek or oppose from a court of competent jurisdiction any of the items described in clauses (iii) and (iv). The exercise of, or opposition to, any of those items does not waive the right of any party to a reference pursuant to this reference provision as provided herein.

d. The referee shall be a retired judge or justice selected by mutual written agreement of the parties. If the parties do not agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an ex parte or expedited basis, and the parties agree that irreparable harm would result if ex parte relief is not granted. Pursuant to CCP § 170.6, each party shall have one peremptory challenge to the referee selected by the Presiding Judge of the Court (or his or her representative).

e. The parties agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (i) set the matter for a status and trial-setting conference within fifteen (15) days after the date of selection of the referee, (ii) if practicable, try all issues of law or fact within one hundred twenty (120) days after the date of the conference and (iii) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

f. The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party's failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered based upon good cause shown, no party shall be entitled to "priority" in conducting discovery, depositions may be taken by either party upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days

after service. All disputes relating to discovery which cannot be resolved by the parties shall be submitted to the referee whose decision shall be final and binding.

g. Except as expressly set forth herein, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee's power to award costs to the prevailing party, the parties will equally share the cost of the referee and the court reporter at trial.

h. The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a court proceeding, including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision at the close of the reference proceeding which disposes of all claims of the parties that are the subject of the reference. Pursuant to CCP § 644, such decision shall be entered by the Court as a judgment or an order in the same manner as if the action had been tried by the Court and any such decision will be final, binding and conclusive. The parties reserve the right to appeal from the final judgment or order or from any appealable decision or order entered by the referee. The parties reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

i. If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted), any dispute between the parties that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired judge or justice, in accordance with the California Arbitration Act §1280 through §1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.

j. THE PARTIES RECOGNIZE AND AGREE THAT ALL CONTROVERSIES, DISPUTES AND CLAIMS RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER OWN CHOICE, EACH PARTY KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, AGREES THAT THIS REFERENCE PROVISION WILL APPLY TO ANY CONTROVERSY, DISPUTE OR CLAIM BETWEEN OR AMONG THEM ARISING OUT OF OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

29. Remedies. All rights and remedies provided in this Guaranty and any instrument or agreement referred to herein are cumulative and are not exclusive of any rights or remedies otherwise provided by law. Any single or partial exercise of any right or remedy shall not preclude the further exercise thereof or the exercise of any other right or remedy.

30. Severability. The illegality or unenforceability of any provision of this Guaranty or any instrument or agreement referred to herein shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Guaranty or any instrument or agreement referred to herein.

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Executed as of July 7, 2016.

“Guarantor”
ARTEMIS ACQUISITION LLC

By: Adesto Technologies Corporation, as sole member and manager of Artemis
Acquisition LLC

By: /s/ Narbeh Derhacobian
Name NARBEH DERHACOBIAN
Title: President and Chief Executive Officer

Address for notices to Lender:

WESTERN ALLIANCE BANK, AN ARIZONA
CORPORATION

55 Almaden Boulevard
San Jose, California 95113
Tel: (408) 556-6502
Fax: (408) 423-8510

Address for notices to Guarantor:

ARTEMIS ACQUISITION LLC
c/o ADESTO TECHNOLOGIES CORPORATION

1250 Borregas Ave.
Sunnyvale, CA 94089
Tel: (408) 400-0578

Company: ARTEMIS ACQUISITION LLC, a California limited liability company

THE UNDERSIGNED hereby certifies that ARTEMIS ACQUISITION LLC, a California limited liability company ("Company"), is duly organized, existing and in good standing as a

_____ member-managed
 X manager-managed

limited liability company under and by virtue of the laws of the State of California, and that the undersigned is the sole member and manager of Company. and that Company's name shown above is the complete and correct name of Company.

THE UNDERSIGNED FURTHER CERTIFIES that at a meeting of Company (or by other duly authorized company action in lieu of a meeting), duly called and held, at which all of the undersigned were present and voting, the following resolutions were adopted:

BE IT RESOLVED, that any one (1) of the following named officers, employees, or agents of the sole member and manager of Company, whose actual signatures are shown below:

<u>NAMES</u>	<u>POSITION</u>	<u>ACTUAL SIGNATURES</u>
Narbeh Derhacobian	President and CEO OF Adesto Technologies Corporation	/s/ Narbeh Derhacobian
Ron Shelton	Chief Financial Officer of Adesto Technologies Corporation	/s/ Ron Shelton

acting for and on behalf of the Company and as its act and deed be, and they hereby are, authorized and empowered in the name of the Company:

Guaranty. The Company is authorized to guarantee loans and other extensions of credit made to ADESTO TECHNOLOGIES CORPORATION ("Borrower") by WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION ("Bank"), pursuant to a Guaranty executed in favor of Bank (together with each document or agreement executed or delivered in connection therewith including but not limited to that certain Third Party Security Agreement between the Company and Bank dated as of July 7, 2016 and that certain Intellectual Property Security Agreement between the Company and Bank dated as of July 7, 2016, as each such document or agreement is amended from time to time, collectively, the "Guaranty Documents") and also to execute and deliver to Bank one or more renewals, extensions, modifications, refinancings, consolidations, or substitutions for the Guaranty Documents, or any portion thereof.

Further Acts. In the case of lines of credit, to designate additional or alternate individuals as being authorized to do and perform such other acts and things, to pay any and all fees and costs, and to execute and deliver such other documents and agreements as they may in their discretion deem reasonably necessary or proper in order to carry into effect the provisions of these Resolutions.

BE IT FURTHER RESOLVED, that any and all acts authorized pursuant to these resolutions and performed prior to the passage of these resolutions are hereby ratified and approved, that these Resolutions shall remain in full force and effect and Bank may rely on these Resolutions until written notice of their revocation shall have been delivered to and received by Bank. Any such notice shall not affect any of Company's agreements or commitments in effect at the time notice is given.

THE UNDERSIGNED FURTHER CERTIFIES that the officers, employees, and agents of Borrowers named above are duly elected, appointed, or employed by or for Borrower, as the case may be, and occupy the positions set opposite their names; that the foregoing Resolutions now stand of record on the books of Company, and that the Resolutions are in full force and effect and have not been modified or revoked in any manner whatsoever.

THE UNDERSIGNED FURTHER CERTIFIES that the Articles of Organization filed at the California Secretary of State on July 9, 2012, and the Operating Agreement of Company, dated as of July 10, 2012 in the form presented to Bank as of the date hereof are true and correct, in full force and effect as of the date hereof, and that no provision of either such document restricts the Company from entering into, or performing its obligations under, the Guaranty Documents.

The undersigned officer of the sole member and manager of Company has read all the provisions of this Limited Liability Company Resolution, and on behalf of Company certifies and agrees to its terms. This certificate is dated July 7, 2016.

By: Adesto Technologies Corporation,
as sole member and manager of Artemis Acquisition LLC

By: /s/ Narbeh Derhacobian
Name: Narbeh Derhacobian
Its: President and Chief Executive Officer

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355157-000162

COMPLIANCE CERTIFICATE

TO: WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION (the "Lender")
 FROM: ADESTO TECHNOLOGIES CORPORATION (the "Borrower")

The undersigned authorized officer of Borrower hereby certifies that in accordance with the terms and conditions of the Business Financing Agreement between Borrower and Lender (the "Agreement"), (i) Borrower is in complete compliance for the period ending July 6, 2016 with all required covenants except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true and correct as of the date hereof. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes.

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

<u>Reporting Covenant</u>	<u>Required</u>	<u>Complies</u>		
Consolidated monthly financial statements and Compliance Certificate	Within 30 days of the end of each calendar month	Yes	No	N/A
A/R & A/P Agings, Borrowing Base Certificate, Backlog Schedule, Deferred Revenue Schedule, Inventory Sell-Through Report (one month in arrears), Credit Memo/Adjustments Report	Monthly within 10 days thereafter	Yes	No	N/A
Consolidated annual financial statements (CPA audited) and IOK/IOQ	Upon filing with SEC	<u>Yes</u>	No	
AIR & Collateral Audit	Prior to the initial Advance and annually thereafter	<u>Yes</u>	No	
Board approved operating projections (including income statements, balance sheets and cash flow statement.)	60 days after each FYE.	<u>Yes</u>	No	

<u>Financial Covenant</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>	
Liquidity Ratio	1.15 to 1.00	~ 1.20 to 1.00 (1)	<u>Yes</u>	No

(1) Calculation based on est payoff of op us debt of \$ 10,508k + \$150k commitment fee

Deposits

Deposits held at Western Alliance Bank:
 \$ 39k
 Deposits held outside of Western Alliance Bank:
 \$ 14,524k

Comments Regarding Exceptions: See Attached.

BANK USE ONLY

Sincerely,
/s/ Ron Shelton
 SIGNATURE
CFO
 TITLE
7/6/16
 DATE

Received by /s/ Lisa Chang
 AUTHORIZED SIGNER
 Date 7/6/16
 Verified AUTHORIZED SIGNER
 Date _____
 Compliance Status YES NO

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
RULE 13A-14(A)/15D-14(A) OF THE SECURITIES EXCHANGE ACT
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Narbeh Derhacobian, certify that:

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

Date: November 14, 2016

By: _____
/s/ Narbeh Derhacobian
Narbeh Derhacobian
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCE OFFICER PURSUANT TO
RULE 13A-14(A)/15D-14(A) OF THE SECURITIES EXCHANGE ACT
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ron Shelton, certify that:

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

Date: November 14, 2016

By: _____
/s/ Ron Shelton
Ron Shelton
Chief Financial Officer
(Principal Financial Officer)

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

I, Narbeh Derhacobian, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- the Quarterly Report of Adesto Technologies Corporation on Form 10-Q for the quarter ended September 30, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Adesto Technologies Corporation.

Date: November 14, 2016

By: /s/ Narbeh Derhacobian
Narbeh Derhacobian
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Ron Shelton, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- the Quarterly Report of Adesto Technologies Corporation on Form 10-Q for the quarter ended September 30, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Adesto Technologies Corporation.

Date: November 14, 2016

By: /s/ Ron Shelton
Ron Shelton
Chief Financial Officer
(Principal Financial Officer)

