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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

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**FORM 8-K**

**Current Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**July 9, 2018**

Date of Report (Date of earliest event reported)

**ADESTO TECHNOLOGIES CORPORATION**

(Exact name of Registrant as specified in its charter)

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

**001-37582**  
(Commission file number)

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

**3600 Peterson Way, Santa Clara**  
(Address of principal executive offices)

**95054**  
(Zip Code)

**(408) 400-0578**  
(Registrant's telephone number, including area code)

**Not Applicable**  
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions (see General Instruction A.2 below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

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## **Item 2.02. Results of Operations and Financial Condition.**

On July 9, 2018, Adesto Technologies Corporation (“Adesto”) announced preliminary estimates of its results of operations for the three months ended June 30, 2018.

On a preliminary estimated basis, Adesto expects its results of operations for the three months ended June 30, 2018 to reflect:

- Revenues between \$18.1 million and \$18.3 million;
- Gross margin between 42% and 44%;
- Total operating expenses between \$11.3 million and \$11.5 million; and
- Non-GAAP total operating expenses between \$8.3 million and \$8.5 million, excluding approximately \$2.0 million in acquisition-related costs, \$0.6 to \$0.7 million in stock-based compensation expense and \$0.3 million in amortization of acquisition-related intangible assets.

Adesto expects its revenues for the three months ended June 30, 2018 will be between \$18.1 million and \$18.3 million, an increase of 35.1% to 36.6% from revenues of \$13.4 million for the three months ended June 30, 2017. This increase was due to higher sales of standard flash memory products to Tier 1 OEM customers and the contribution of revenues generated from its S3 business during the quarter, which it estimates were approximately \$2.0 million. These increases were partially offset by slower than expected sales ramp for DataFlash-L products, which are designed for smart home application markets and carry relatively higher gross margins than Adesto’s other memory products.

Adesto expects its gross margin for the three months ended June 30, 2018 will be between 42% and 44%, a decrease of 6.1 to 8.1 percentage points from gross margin of 50.1% for the three months ended June 30, 2017. This decrease was primarily due to product mix impacts, as Adesto generated a higher proportion of its revenues from sales to Tier 1 OEM customers of standard flash memory products, which generally carry lower gross margins than its other memory products.

Adesto expects total operating expenses for the three months ended June 30, 2018 will be between \$11.3 million and \$11.5 million, an increase of 36.1% to 38.6% from total operating expenses of \$8.3 million for the three months ended June 30, 2017. This increase was driven by approximately \$2.0 million of higher than expected transaction costs associated with its acquisition of S3 (as defined below) and proposed acquisition of Echelon (as defined below) and to a lesser extent, higher operating costs associated with the operations of its S3 business following the closing of the S3 acquisition. On a non-GAAP basis, total operating expenses for the three months ended June 30, 2018 increased as compared to non-GAAP total operating expenses for the three months ended June 30, 2017 due to higher operating costs associated with S3’s operations following the closing of the S3 acquisition.

These preliminary estimates have been prepared by, and are the responsibility of, Adesto’s management and have not been reviewed or audited or subject to any other procedures by Adesto’s independent registered public accounting firm. Accordingly, Adesto’s independent registered public accounting firm does not express an opinion or any other form of assurance with respect to these preliminary estimates.

The information furnished in Item 2.02 of this Current Report on Form 8-K shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

## **Item 8.01 Other Information.**

As previously announced, on June 28, 2018, Adesto, Circuit Acquisition Corporation, a wholly owned subsidiary of Adesto, and Echelon Corporation (“Echelon”), entered into an Agreement and Plan of Merger, pursuant to which Adesto agreed to acquire Echelon (the “Acquisition”). The Acquisition is expected to close in the third quarter of 2018, subject to satisfaction of customary closing conditions, including approval by holders of a majority of Echelon’s outstanding common stock.

Additionally, in connection with Adesto’s acquisition of S3 Asic Semiconductors Limited (“S3”) on May 9, 2018, Adesto is also supplementing and updating the risk factor disclosures contained in its prior public filings, including those discussed under the heading “Item 1A. Risk Factors” in Adesto’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission (the “SEC”) on March 13, 2018, and in Adesto’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018, filed with the SEC on May 10, 2018. The updated risk factor disclosures are filed herewith as Exhibit 99.4 and are incorporated herein by reference.

This Current Report on Form 8-K is also being filed for the purpose of incorporating the contents of this Current Report (other than the information contained in Item 2.02), including the updated Power of Attorney in Exhibit 24.1 to this Current Report, the consolidated financial statements of Echelon and pro forma financial information described in Item 9.01 below (and included in Exhibits 99.1 to 99.3), which are incorporated herein by reference, and the risk factor disclosures included in Exhibit 99.4 to this Current Report into Adesto’s Registration Statement on Form S-3 (No. 333-224790) filed with the SEC on May 9, 2018 and declared effective on June 27, 2018.

## **Item 9.01 Financial Statements and Exhibits.**

### **(a) Financial Statements of Business Acquired**

The historical audited consolidated balance sheets of Echelon as of December 31, 2017 and 2016 and the related audited consolidated statements of operations, stockholders’ equity, and cash flows, for each of the years in the two year period ended December 31, 2017, and the related notes thereto and the report of independent registered public accounting firm thereon, are included on pages 44 through 73 of Echelon’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 27, 2018, and filed as Exhibit 99.1 to this Current Report on Form 8-K and are incorporated herein by reference.

The historical unaudited condensed consolidated balance sheet of Echelon as of March 31, 2017 and the related unaudited condensed consolidated statements of operations, statements of comprehensive loss and statements of cash flows for the three months ended March 31, 2018 and 2017, and the related notes thereto, are included on pages 3 through 17 of Echelon’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018, filed with the SEC on May 10, 2018, and filed as Exhibit 99.2 to this Current Report on Form 8-K and incorporated herein by reference.



(b) Pro Forma Financial Information

The following unaudited pro forma financial information is filed as Exhibit 99.3 hereto and is incorporated herein by reference.

- Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2018 (page 2);
- Unaudited Pro Forma Condensed Combined Statement of Operations for the fiscal year ended December 31, 2017 (page 3);
- Unaudited Pro Forma Condensed Combined Statement of Operations for the three months ended March 31, 2018 (page 4); and
- Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (pages 5 and 12).

The pro forma financial information in Exhibit 99.3 hereto contains statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as “forward looking statements.” These statements can be identified by the fact that they do not relate strictly to historical or current facts. Examples of these statements include, but are not limited to, Adesto’s ability to complete the offering, its anticipated use of proceeds from the offering, and its ability to close the proposed acquisition. Management cautions that any or all of Adesto’s forward-looking statements may turn out to be wrong. Please read the risk factors set forth in Exhibit 99.4 hereto and read Adesto’s annual, quarterly and current reports filed under the Exchange Act for additional information about the risks, uncertainties and other factors affecting these forward-looking statements and Adesto generally. Adesto’s actual future results may vary materially from those expressed or implied in any forward-looking statements. All of Adesto’s forward-looking statements, whether written or oral, are expressly qualified by these cautionary statements and any other cautionary statements that may accompany such forward-looking statements. In addition, Adesto disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

(d) Exhibits.

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
23.1	<a href="#"><u>Consent of Armanino LLP, Independent Registered Public Accounting Firm</u></a>
24.1	<a href="#"><u>Power of Attorney</u></a>
99.1	<a href="#"><u>Audited consolidated balance sheets of Echelon Corporation as of December 31, 2017 and 2016 and the related audited consolidated statements of operations, stockholders’ equity, and cash flows, for each of the two years in the period ended December 31, 2017, and the related notes thereto and the report of independent registered public accounting firm thereon (incorporated herein by reference from pages 44 through 73 of Echelon’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (File No. 001-37755), filed with the SEC on March 27, 2018)</u></a>
99.2	<a href="#"><u>Unaudited condensed consolidated balance sheets of Echelon Corporation as of March 31, 2017 and the related unaudited condensed consolidated statements of operations, statements of comprehensive loss and statements of cash flows for the three months ended March 31, 2018 and 2017, and the related notes thereto (incorporated herein by reference from pages 3 through 17 of Echelon’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (File No. 001-37755), filed with the SEC on May 10, 2018)</u></a>
99.3	<a href="#"><u>Unaudited Pro Forma Condensed Combined Financial Information</u></a>
99.4	<a href="#"><u>Updated Risk Factors</u></a>

**SIGNATURES**

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

**ADESTO TECHNOLOGIES CORPORATION**

Date: July 9, 2018

By: /s/ Ron Shelton  
Name: Ron Shelton  
Title: Chief Financial Officer and Secretary

**Consent of Armanino LLP, Independent Registered Public Accounting Firm**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-224790) of our reports dated March 1, 2017 and March 27, 2018, relating to the consolidated financial statements and financial statement schedule of Echelon Corporation, which appears in the Current Report on Form 8-K of Adesto Technologies Corporation dated July 9, 2018.

We also consent to the reference to us under the caption “Experts” in the Prospectus Supplement to the Registration Statement on Form S-3 (No. 333-224790).

/s/ ARMANINO LLP

San Jose, California  
July 9, 2018

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**POWER OF ATTORNEY**

***KNOW ALL PERSONS BY THESE PRESENTS***, that each person whose signature appears below hereby constitutes and appoints Narbeh Derhacobian and Ron Shelton, or each one of them individually, as the undersigned's true and lawful attorney-in-fact and agents, with full power of substitution and resubstitution for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments, exhibits thereto, and other documents in connection therewith) to the Registration Statement on Form S-3 of Adesto Technologies Corporation (Registration No. 333-224790) (and any later registration statement filed by the registrant under Rule 462(b) of the Securities Act of 1933, as amended, which relates to such Registration Statement), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that each of said attorney-in-fact and agent, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

This Power of Attorney may be executed in counterparts and all such duly executed counterparts shall together constitute the same instrument. This Power of Attorney shall not revoke any powers of attorney previously executed by the undersigned. This Power of Attorney shall not be revoked by any subsequent power of attorney that the undersigned may execute, unless such subsequent power of attorney specifically provides that it revokes this Power of Attorney by referring to the date of the undersigned's execution of this Power of Attorney.

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*IN WITNESS WHEREOF*, each of the undersigned has executed this instrument on the date indicated opposite his or her name.

By:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Narbeh Derhacobian</u> Narbeh Derhacobian	President, Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	July 6, 2018
<u>/s/ Ron Shelton</u> Ron Shelton	Chief Financial Officer <i>(Principal Accounting and Financial Officer)</i>	July 6, 2018
<u>/s/ Nelson Chan</u> Nelson Chan	Chairman of the Board of Directors	July 6, 2018
<u>/s/ Keith Crandell</u> Keith Crandell	Director	July 6, 2018
<u>/s/ Francis Lee</u> Francis Lee	Director	July 6, 2018
<u>/s/ Kevin Palatnik</u> Kevin Palatnik	Director	July 6, 2018

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## ADESTO TECHNOLOGIES CORPORATION

## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On June 28, 2018, Adesto Technologies Corporation, a Delaware corporation (the “Company” or “Adesto”), Circuit Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Adesto, (“Merger Sub”) and Echelon Corporation (“Echelon”), entered into an Agreement and Plan of Merger (the “Merger Agreement”). Pursuant to the terms of the Merger Agreement, Merger Sub will merge with and into Echelon (the “Merger”), with Echelon continuing as the surviving corporation in the Merger. Upon completion of the Merger, each issued and outstanding share of common stock, par value \$0.001 per share, of Echelon will be converted into the right to receive \$8.50 in cash. We estimate that the total consideration to be paid in connection with the Merger will be approximately \$44.1 million. The Merger is expected to close in the third quarter of 2018, subject to various contingencies.

On May 9, 2018, Adesto completed its acquisition of 100% of the issued capital of S3 Asic Semiconductors Limited, a private company limited by shares and incorporated in Ireland (“S3”), pursuant to the Share Purchase Agreement dated as of May 9, 2018. S3 is headquartered in Ireland and its subsidiaries are in the United States, Portugal and the Czech Republic. S3 and its subsidiaries are engaged in the business of providing advanced mixed signal semiconductor devices and intellectual property to customers in the industrial and communications markets.

The following unaudited pro forma condensed combined financial statements are based on the historical consolidated financial statements of Adesto and Echelon after giving effect to the Merger and the S3 acquisition, including the assumed sale of \$40 million of shares of our common stock in a public offering, the aggregate net proceeds of which will be used to finance the Merger consideration, and applying the assumptions and adjustments described in the accompanying notes. The unaudited pro forma condensed combined balance sheet has been prepared to reflect the Merger and the S3 acquisition as if the Merger and the S3 acquisition had occurred on March 31, 2018, plus pro forma adjustments. The unaudited pro forma condensed combined statements of operations combine the results of operations of Adesto and Echelon for the fiscal year ended December 31, 2017 and the quarter ended March 31, 2018, respectively, as if the Merger had occurred on January 1, 2017, plus pro forma adjustments.

The unaudited pro forma condensed combined financial information should be read in conjunction with:

- The accompanying notes to the unaudited condensed combined pro forma financial information;
- The separate audited consolidated financial statements of Adesto as of and for the year ended December 31, 2017 and the related notes, included in Adesto’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017;
- The separate unaudited condensed consolidated financial statements of Adesto as of and for the three months ended March 31, 2018 and the related notes, included in Adesto’s Quarterly Report on Form 10-Q for the period ended March 31, 2018;
- The separate audited consolidated financial statements of Echelon as of and for the year ended December 31, 2017 and the related notes, included in Echelon’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017;
- The separate unaudited condensed consolidated financial statements of Echelon as of and for the three months ended March 31, 2018 and the related notes, included in Echelon’s Quarterly Report on Form 10-Q for the period ended March 31, 2018; and
- The separate audited consolidated statement of assets acquired and liabilities assumed of S3 Asic Semiconductors Limited as of May 9, 2018 and the related notes, included in Adesto’s report on Form 8-K/A filed on June 27, 2018.

The unaudited pro forma condensed combined financial information has been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. The unaudited pro forma condensed combined financial information presented is for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have been realized if the Merger and the S3 acquisition had been completed on the dates indicated, nor is it indicative of future operating results or financial position. The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the Merger and the S3 acquisition, the costs to integrate the operations of Adesto, Echelon and S3 or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements. The unaudited pro forma condensed combined financial information also reflects the common stock contemplated to be issued in connection with the Merger. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company. There were no transactions between Adesto and Echelon during the periods presented in the unaudited pro forma condensed combined financial statements that would need to be eliminated. The pro forma adjustments represent Adesto’s best estimates and are based upon current available information and certain assumptions that Adesto believes is reasonable under the circumstances. The transaction is being accounted for as a business combination using the acquisition method with

Adesto as the accounting acquirer in accordance with Accounting Standards Codification (“ASC”) Topic 805, Business Combinations (“ASC 805”). Under this method of accounting the purchase price will be allocated to Echelon’s assets acquired and liabilities assumed based upon their estimated fair values at the date of completion of the Merger. The process of valuing the tangible and intangible assets and liabilities of Echelon immediately prior to the Merger, as well as evaluating accounting policies for conformity, is preliminary. The final valuation may materially change the allocation of the merger consideration, which could materially affect the fair values assigned to the assets acquired and liabilities assumed and could result in a material change to the unaudited pro forma condensed combined financial information. Refer to Note 2 of the “Notes to Unaudited Pro Forma Condensed Combined Financial Information” for more information on the basis of presentation.

**ADESTO TECHNOLOGIES CORPORATION**  
**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**  
**As of March 31, 2018**  
**(In thousands)**

	Adesto Historical	Echelon Historical	S3 Acquisition Adjustments (Note 8)	Pro Forma Adjustments (Note 5)	Pro Forma Combined
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 29,546	\$ 5,846	\$ 267	\$ (22,258) <sup>a,f</sup>	\$ 13,401
Restricted investments	—	1,250	—	—	1,250
Short-term investments	—	11,960	—	—	11,960
Accounts receivable, net	12,188	2,556	192	—	14,936
Inventories	7,554	3,566	—	4,449 <sup>b</sup>	15,569
Prepaid expenses (1)	1,153	—	—	723 <sup>g</sup>	1,876
Deferred cost of revenues	—	529	—	—	529
Other current assets	55	1,516	883	(723) <sup>g</sup>	1,731
Total current assets	<u>50,496</u>	<u>27,223</u>	<u>1,342</u>	<u>(17,809)</u>	<u>61,252</u>
Property and equipment, net	7,632	453	191	—	8,276
Intangible assets, net	6,808	668	15,340	17,762 <sup>c</sup>	40,578
Other non-current assets	1,029	558	—	—	1,587
Goodwill	22	—	34,352	2,936 <sup>d</sup>	37,310
Total assets	<u>\$ 65,987</u>	<u>\$ 28,902</u>	<u>\$ 51,225</u>	<u>\$ 2,889</u>	<u>\$ 149,003</u>
<b>Liabilities and Stockholders' Equity</b>					
Current liabilities:					
Accounts payable	\$ 7,845	\$ 2,570	37	\$ (1,004) <sup>h</sup>	\$ 9,448
Accrued compensation and benefits (2)	2,819	—	—	1,156 <sup>i</sup>	3,975
Accrued expenses and other current liabilities	2,506	2,256	761	(152) <sup>h,i</sup>	5,371
Price adjustments and other revenue reserves	4,545	—	—	—	4,545
Earn-out liability, current	—	—	10,218	—	10,218
Deferred revenues	—	849	129	(243) <sup>e</sup>	735
Line of credit, current	1,500	—	—	(1,500)	—
Term loan, current	1,929	—	—	(1,225) <sup>l</sup>	704
Total current liabilities	<u>21,144</u>	<u>5,675</u>	<u>11,145</u>	<u>(2,968)</u>	<u>34,996</u>
Term loan, non-current	9,924	—	—	24,255 <sup>l</sup>	34,179
Earn-out liability, non-current	—	—	3,279	—	3,279
Other non-current liabilities (3)	75	616	—	(397) <sup>j,k</sup>	294
Deferred rent, non-current (3)	2,294	—	—	32 <sup>j</sup>	2,326
Deferred tax liability, non-current (3)	2	—	1,918	4,256 <sup>e,k</sup>	6,176
Total liabilities	<u>33,439</u>	<u>6,291</u>	<u>16,342</u>	<u>25,178</u>	<u>81,250</u>
Commitments and contingencies (See Note 8)					
Stockholders' equity:					
Common stock	2	49	—	(48)	3
Additional paid-in capital	133,804	359,715	34,883	(357,309)	171,093
Treasury stock	—	(28,130)	—	28,130	—
Accumulated other comprehensive loss	(312)	(1,681)	—	1,681	(312)
Accumulated deficit	(100,946)	(307,342)	—	305,257	(103,031)
Total stockholders' equity	<u>32,548</u>	<u>22,611</u>	<u>34,883</u>	<u>(22,289)</u>	<u>67,753</u>
Total liabilities and stockholders' equity	<u>\$ 65,987</u>	<u>\$ 28,902</u>	<u>\$ 51,225</u>	<u>\$ 2,889</u>	<u>\$ 149,003</u>

(1) Presented as "Other current assets" in Echelon's Form 10-Q as of March 31, 2018

(2) Presented as "Accrued liabilities" in Echelon's Form 10-Q as of March 31, 2018

(3) Presented as "Other long-term liabilities" in Echelon's Form 10-Q as of March 31, 2018

See accompanying notes to unaudited pro forma condensed combined financial statements.

**ADESTO TECHNOLOGIES CORPORATION**  
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**  
**For the Year Ended December 31, 2017**  
**(In thousands, except share and per share amounts)**

	Adesto Historical	Echelon Historical	Pro Forma Adjustments (Note 6)	Pro Forma Combined
Revenue, net	\$ 56,112	\$ 31,667	\$ 274d	\$ 88,053
Cost of revenue	28,637	14,016	(52)a,d	42,601
Gross profit	<u>27,475</u>	<u>17,651</u>	<u>326</u>	<u>45,452</u>
Operating expenses:				
Research and development	14,094	9,313	1,910b	25,317
Sales and marketing	11,064	5,532	520c	17,116
General and administrative	7,148	6,959	2,085e	16,192
Total operating expenses	<u>32,306</u>	<u>21,804</u>	<u>4,515</u>	<u>58,625</u>
Loss from operations	(4,831)	(4,153)	(4,189)	(13,173)
Interest and other income (expense), net	(756)	(498)	—	(1,254)
Loss before provision for income taxes	(5,587)	(4,651)	(4,189)	(14,427)
Income tax expense (benefit)	101	(28)	—	73
Net loss	<u>\$ (5,688)</u>	<u>\$ (4,623)</u>	<u>\$ (4,189)</u>	<u>\$ (14,500)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.31)</u>	<u>\$ (1.04)</u>	<u>\$ —</u>	<u>\$ (0.62)</u>
Weighted average number of shares used in computing net loss per share:				
Basic and diluted	18,591,308	4,465,000	240,882f	23,297,190

See accompanying notes to unaudited pro forma condensed combined financial statements.

**ADESTO TECHNOLOGIES CORPORATION**  
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**  
**For the Three Months Ended March 31, 2018**  
**(In thousands, except share and per share amounts)**

	Adesto Historical	Echelon Historical	Pro Forma Adjustments (Note 6)	Pro Forma Combined
Revenue, net	\$ 15,302	\$ 7,837	\$ —	\$ 23,139
Cost of revenue	8,122	3,460	(30) <sup>a</sup>	11,552
Gross profit	<u>7,180</u>	<u>4,377</u>	<u>30</u>	<u>11,587</u>
Operating expenses:				
Research and development	3,665	3,005	478 <sup>b</sup>	7,148
Sales and marketing	2,752	1,310	131 <sup>c</sup>	4,193
General and administrative	1,713	1,705	2,085 <sup>e</sup>	5,503
Total operating expenses	<u>8,130</u>	<u>6,020</u>	<u>2,694</u>	<u>16,844</u>
Loss from operations	(950)	(1,643)	(2,664)	(5,257)
Interest and other income (expense), net	(131)	258	—	127
Loss before provision for income taxes	(1,081)	(1,385)	(2,664)	(5,130)
Income tax expense (benefit)	21	(6)	—	15
Net loss	<u>\$ (1,102)</u>	<u>\$ (1,379)</u>	<u>\$ (2,664)</u>	<u>\$ (5,145)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.05)</u>	<u>\$ (0.30)</u>	<u>\$ —</u>	<u>\$ (0.20)</u>
Weighted average number of shares used in computing net loss per share:				
Basic and diluted	21,370,927	4,527,000	178,882 <sup>f</sup>	26,076,809

See accompanying notes to unaudited pro forma condensed combined financial statements.

**ADESTO TECHNOLOGIES CORPORATION**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**  
**(All tabular dollar amounts in thousands except per share amounts)**

**NOTE 1 — DESCRIPTION OF THE TRANSACTION.**

On June 28, 2018, Adesto Technologies Corporation, a Delaware corporation (the “Company” or “Adesto”), Circuit Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Adesto, (“Merger Sub”) and Echelon Corporation (“Echelon”), entered into an Agreement and Plan of Merger (the “Merger Agreement”). Pursuant to the terms of the Merger Agreement, Merger Sub will merge with and into Echelon (the “Merger”), with Echelon continuing as the surviving corporation in the Merger. Upon completion of the Merger, each issued and outstanding share of common stock, par value \$0.001 per share, of Echelon will be converted into the right to receive \$8.50 in cash. Merger consideration is estimated to be \$44.1 million and will be funded with a combination of cash on hand and a sale of shares of common stock in an underwritten public offering, such shares to be issued and sold by Adesto.

Under the terms of the Merger Agreement, at the effective time, each outstanding and unexercised option to purchase Echelon common stock (each, an “Echelon Option”), whether or not vested, that is outstanding immediately prior to the effective time, will be canceled, and the holder thereof will be entitled to receive (subject to any applicable withholding or other taxes, or other amounts required by applicable legal requirements to be withheld) an amount in cash equal to the product of (i) the positive difference (if any) between (A) \$8.50, minus (B) the exercise price applicable to such Echelon Option, multiplied by (ii) the number of shares of Echelon common stock subject to such Echelon Option.

Under the terms of the Merger Agreement, at the effective time, each restricted stock unit of Echelon (each, an “Echelon RSU”) that is outstanding immediately prior to the effective time, whether vested or unvested (which awards will vest in full as of immediately prior to the effective time), will be canceled and extinguished, and the holder thereof will be entitled to receive (subject to applicable withholding or other taxes, which withholding will first be applied against the cash portion of the consideration paid in respect of such restricted stock units): an amount in cash equal to the product of \$8.50, multiplied by the total number of shares of Echelon common stock subject to such Echelon RSU.

To finance a portion of the Merger consideration, Adesto expects to sell and issue 4,705,882 shares of Adesto common stock. Solely for purposes of the unaudited pro forma condensed combined financial information, it has been assumed that the per share price of the common stock will be \$8.50 per share (based on the closing price on July 6, 2018), with net proceeds of \$37.3 million after estimated underwriting discounts and commissions and offering expenses of approximately \$2.7 million.

Adesto intends to use the net proceeds from an underwritten public offering, along with any new borrowing it may enter into, to fund the cash consideration payable in connection with the Merger, which Adesto estimates at \$44.1 million and for general corporate purposes. This offering of common stock is not conditioned upon the completion of the Merger and there can be no assurance that the Merger will be completed.

**NOTE 2 — BASIS OF PRESENTATION.**

The accompanying unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of Regulation S-X and gives effect to events that are (1) directly attributable to the Merger, (2) factually supportable and (3) with respect to the condensed combined statements of operations, expected to have a continuing impact on the combined company’s results.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting in accordance with ASC 805, with Adesto as the accounting acquirer, using the fair value concepts defined in ASC Topic 820, Fair Value Measurement, and based on the historical consolidated financial statements of Adesto and Echelon. Under ASC 805, all assets acquired and liabilities assumed in a business combination are recognized and measured at their assumed acquisition date fair value, while transaction costs and restructuring costs associated with the business combination are expensed as incurred. The excess of merger consideration over the fair value of assets acquired and liabilities assumed, if any, is allocated to goodwill.

The allocation of the purchase consideration for the Merger depends upon certain estimates and assumptions, all of which are preliminary. The allocation of the purchase consideration has been made for the purpose of developing the unaudited pro forma condensed combined financial information. A final determination of fair values of assets acquired and liabilities assumed relating to the acquisition could differ materially from the preliminary allocation of purchase consideration. This final valuation will be based on the actual net tangible and intangible assets of Echelon existing at the acquisition date. The final valuation may materially change the allocation of purchase consideration, which could materially affect the fair values assigned to the assets acquired and liabilities assumed and could result in a material change to the unaudited pro forma condensed combined financial information.

The pro forma adjustments represent Adesto management’s best estimates and are based upon currently available information and certain assumptions that Adesto believes are reasonable under the circumstances. Adesto is not aware of any material transactions between Adesto and Echelon (prior to the announcement of the Merger) during the periods presented, hence adjustments to eliminate transactions between Adesto and Echelon have not been reflected in the unaudited pro forma condensed combined financial information.

Upon completion of the Merger, Adesto will perform a comprehensive review of Echelon’s accounting policies. As a result of the review, Adesto may identify additional differences between the accounting policies of the two companies, which when conformed, could have a material impact on the unaudited pro forma condensed combined financial information. Based on a preliminary analysis, Adesto did not identify any differences that would have a material impact on the unaudited pro forma condensed combined financial information. As a result, the unaudited pro forma condensed combined financial information assumes there are no differences in accounting policies.

The unaudited pro forma condensed combined financial information presented is for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have been realized if the Merger had been completed on the dates indicated, nor is it indicative of future operating results or financial position. The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the Merger, the costs to integrate the operations of Adesto and Echelon or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

**NOTE 3 — PRELIMINARY ESTIMATED ACQUISITION CONSIDERATION.**

The preliminary fair value of consideration to acquire Echelon was approximately \$44.1 million and consisted of the following:

<u>(in thousands)</u>	<u>Amount</u>
Cash consideration to Echelon’s shareholders	\$ 38,610
Cash consideration for Echelon Option and Echelon RSU	5,500
Total preliminary estimated acquisition consideration	<u>\$ 44,110</u>

**NOTE 4 — PRELIMINARY ESTIMATED PURCHASE PRICE ALLOCATION AND INTANGIBLE ASSETS.**

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed of Echelon are recognized and measured as of the acquisition date at fair value and added to those of Adesto. The determination of fair value used in the pro forma adjustments presented herein are preliminary and based on management estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the Merger. The final determination of the purchase price allocation, upon the completion of the Merger, will be based on Echelon’s net assets acquired as of that date and will depend on a number of factors that cannot be predicted with certainty at this time. Therefore, the actual allocations will differ from the pro forma adjustments presented. The allocation is dependent upon certain valuation and other studies that have not yet been completed. Accordingly, the pro forma purchase price allocation is subject to further adjustment as additional information becomes available and as additional analyses and final valuations are completed. There can be no assurances that these additional analyses and final valuations will not result in significant changes to the estimates of fair value set forth below.

The following table sets forth a preliminary allocation of the estimated merger consideration to the identifiable tangible and intangible assets acquired and liabilities assumed of Echelon:

(in thousands)	Amount
Cash and cash equivalents, restricted investments and short-term investments	\$ 19,056
Accounts receivable	2,556
Inventory	8,015
Deferred cost of revenues	529
Other current assets	1,516
Total current assets	31,672
Property and equipment, net	453
Other long term assets	558
Total assets	32,683
Accounts payable	(2,570)
Accrued liabilities	(2,256)
Deferred revenue	(606)
Total current liabilities	(5,432)
Deferred tax liability, non-current	(3,891)
Other long term liabilities	(616)
Total liabilities	(9,939)
Fair value of net assets acquired	\$ 22,744

Preliminary goodwill and identifiable intangible assets identified in connection with the acquisition consist of the following:

(in thousands)	Fair Value	Useful Life (in Years)
Developed technology	\$ 11,460	4 - 6
Customer relationships	6,510	9 - 11
Trademarks	460	11 - 13
Goodwill	2,936	
Total	\$ 21,366	

The goodwill is primarily attributable to the assembled workforce of Echelon, new product development capabilities and synergies and economies of scale expected from combining the operations of Adesto and Echelon. Goodwill is tested for impairment on an annual basis as of November 1 of each year or whenever events or changes in circumstances indicate that the asset might be impaired. Factors that we consider in deciding when to perform an impairment test include significant negative industry or economic trends or significant changes or planned changes in our use of the intangible assets. Goodwill will be deductible for tax purposes over 15 years.

**NOTE 5 — PRO FORMA ADJUSTMENTS FOR CONDENSED COMBINED BALANCE SHEET.**

a) Reflects the payment of estimated merger consideration and transaction costs.

(in thousands)	Amount
Cash consideration to Echelon's shareholders	\$ (38,610)
Cash consideration for Echelon Option and Echelon RSU	(5,500)
Transaction costs paid (exclusive of debt financing fees paid)	(2,085)
Net adjustment to cash and cash equivalents	\$ (46,195)

b) Reflects the purchase accounting adjustment for inventories based on the acquisition method of accounting.

(in thousands)	Amount
Elimination of Echelon's inventories - carrying value	\$ (3,566)
Inventories - fair value (1)	8,015
Net adjustment to inventories	\$ 4,449



- c) Reflects the preliminary purchase accounting adjustment for estimated intangible assets based on the acquisition method of accounting. Refer to Note 4 of the “Notes to Unaudited Pro Forma Condensed Combined Financial Information” for additional information on the acquired intangible assets expected to be recognized.

(in thousands)	Amount
Elimination of Echelon’s intangibles - carrying value	\$ (668)
Intangible assets - fair value	18,430
Net adjustment to intangibles, net	<u>\$ 17,762</u>

- d) Reflects the purchase accounting adjustment for goodwill based on the acquisition method of accounting.

(in thousands)	Amount
Elimination of Echelon’s goodwill - carrying value	\$ —
Goodwill- fair value	2,936
Net adjustment to goodwill	<u>\$ 2,936</u>

- e) Reflects the purchase accounting adjustment for deferred revenue based on the acquisition method of accounting.

(in thousands)	Amount
Elimination of Echelon’s deferred revenue - carrying value	\$ (849)
Deferred revenue - fair value	606
Net adjustment to deferred revenue	<u>\$ (243)</u>

- f) This adjustment reflects the originating deferred tax liabilities (“DTLs”) resulting from pro forma fair value adjustments of the acquired assets and assumed liabilities based on applicable statutory tax rates for the jurisdictions associated with the respective estimated purchase price allocation. The originating DTLs are primarily related to the preliminary purchase price allocation associated with acquired intangible assets. The estimate of DTLs is preliminary and is subject to change based upon Adesto’s final determination of the fair value of assets acquired and liabilities assumed, by jurisdiction including the final allocation across such legal entities and related jurisdictions.

(in thousands)	Amount
Elimination of Echelon’s deferred tax liability - carrying value	\$ —
Deferred tax liability - fair value (1)	3,891
Net adjustment to deferred tax liability	<u>\$ 3,891</u>

- (1) DTLs have been recognized based on applicable statutory tax rates for the jurisdictions associated with the respective net increase in estimated amortizable identifiable intangible assets. The statutory tax rate was applied, as appropriate, to each adjustment based on the jurisdiction in which the adjustment is expected to occur. Furthermore, tax related adjustments included in the unaudited pro forma condensed combined financial information are based on the current tax law and do not consider or contemplate effects of proposed U.S. tax reform.

- g) To reflect the following equity transactions in connection with the Merger.

(in thousands)	Amount
Estimated gross proceeds from sale of common stock	\$ 40,000
Estimated underwriter discounts and commissions	(2,560)
Estimated other offering expenses of sale of common stock	(150)
Total	<u>\$ 37,290</u>

- h) To reclassify Echelon’s prepaid expenses from other current assets.

(in thousands)	Amount
Prepaid expenses	\$ 723
Other current assets	\$ (723)

i) To reclassify Echelon's accrued expenses from accounts payable.

<b>(in thousands)</b>	<b>Amount</b>
Accrued expenses and other current liabilities	\$ 1,004
Accounts payable	\$ (1,004)

j) To reclassify Echelon's accrued compensation and benefits from accrued liabilities.

<b>(in thousands)</b>	<b>Amount</b>
Accrued compensation and benefits	\$ 1,156
Accrued expenses and other current liabilities	\$ (1,156)

k) To reclassify Echelon's deferred rent liability from other non-current liabilities.

<b>(in thousands)</b>	<b>Amount</b>
Deferred rent, non-current	\$ 32
Other non-current liabilities	\$ (32)

l) To reclassify Echelon's deferred tax liability from other non-current liabilities.

<b>(in thousands)</b>	<b>Amount</b>
Deferred tax liability, non-current	\$ 365
Other non-current liabilities	\$ (365)

m) Reflects debt financing incurred in connection with S3 acquisition.

<b>(in thousands)</b>	<b>Amount</b>
Gross borrowings	\$ 35,000
Debt discount	(117)
	<u>34,883</u>

(n) Reflects payoff of term loan and line of credit with Western Alliance Bank.

<b>(in thousands)</b>	<b>Amount</b>
Cash	\$ (13,353)
Line of credit	\$ 1,500
Term loan payoff	\$ 11,853

**NOTE 6 — PRO FORMA ADJUSTMENTS FOR CONDENSED COMBINED STATEMENTS OF OPERATIONS.**

- a) Reflects the adjustments to eliminate historical amortization expense and record new amortization expense based on the fair value of the identifiable acquired intangible assets.

<u>(in thousands)</u>	<b>Pro Forma Year Ended December 31, 2017</b>	<b>Pro Forma Three Months Ended March 31, 2018</b>
Elimination of Echelon's amortization of intangible assets	\$ (122)	\$ (30)
Net adjustment to cost of goods sold	<u>\$ (122)</u>	<u>\$ (30)</u>

- b) Reflects the adjustments to eliminate historical amortization expense and record new amortization expense based on the fair value of the identifiable acquired intangible assets.

<u>(in thousands)</u>	<b>Pro Forma Year Ended December 31, 2017</b>	<b>Pro Forma Three Months Ended March 31, 2018</b>
Amortization after fair value adjustment (1)	1,910	478
Net adjustment to research and development expenses	<u>\$ 1,910</u>	<u>\$ 478</u>

- (1) The amortization of intangible assets is based on the periods over which the economic benefits of the intangible assets are expected to be realized. Amortization expense is allocated among cost of goods sold, research and development and selling, general and administrative expense based on the nature of the activities associated with the intangible assets acquired. Refer to Note 4 of the "Notes to Unaudited Pro Forma Condensed Combined Financial Information" for additional information on the useful lives of the acquired intangible assets expected to be recognized.

- c) Reflects the adjustments to eliminate historical amortization expense and record new amortization expense based on the fair value of the identifiable acquired intangible assets.

<u>(in thousands)</u>	<b>Pro Forma Year Ended December 31, 2017</b>	<b>Pro Forma Three Months Ended March 31, 2018</b>
Elimination of Echelon's amortization of intangible assets	(107)	(26)
Amortization after fair value adjustment (1)	627	157
Net adjustment to sales and marketing expenses	<u>\$ 520</u>	<u>\$ 131</u>

- (1) The amortization of intangible assets is based on the periods over which the economic benefits of the intangible assets are expected to be realized. Amortization expense is allocated among cost of goods sold, research and development and selling, general and administrative expense based on the nature of the activities associated with the intangible assets acquired. Refer to Note 4 of the "Notes to Unaudited Pro Forma Condensed Combined Financial Information" for additional information on the useful lives of the acquired intangible assets expected to be recognized.

- d) Reflects adoption under the full retrospective method of the new revenue recognition guidance of ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606).

- e) Reflects estimated transaction costs for both Adesto and Echelon.

- f) For the purpose of computing pro forma basic and diluted earnings per share, the \$40.0 million sale of common stock was assumed to be at a price per share of \$8.50 (based on the closing price on July 6, 2018), resulting in the issuance of 4,705,882 shares. In addition, Echelon's basic and diluted weighted average shares have been eliminated.

**NOTE 7 — PRO FORMA NET INCOME PER SHARE.**

The pro forma basic and diluted net income per share presented in our unaudited pro forma condensed combined statement of operations is computed based on the weighted-average number of shares outstanding.

**Year Ended December 31, 2017**

Net loss from continuing operations, basic and diluted	\$	(14,500)
Pro forma weighted average shares outstanding, basic		23,297,190
Net effect of dilutive equity shares		—
Pro forma weighted average shares outstanding, diluted		23,297,190
Pro forma net loss from continuing operations per share:		
Basic and diluted	\$	(0.62)

**Three Months Ended March 31, 2018**

Net loss from continuing operations, basic and diluted	\$	(5,145)
Pro forma weighted average shares outstanding, basic		26,076,809
Net effect of dilutive equity shares		—
Pro forma weighted average shares outstanding, diluted		26,076,809
Pro forma net loss from continuing operations per share:		
Basic and diluted	\$	(0.20)

**NOTE 8 — DESCRIPTION OF THE S3 ACQUISITION.**

On May 9, 2018, Adesto completed its acquisition of 100% of the issued capital of S3, a private company limited by shares and incorporated in Ireland, pursuant to the Share Purchase Agreement dated as of May 9, 2018. S3 is headquartered in Ireland and its subsidiaries are in the United States, Portugal and the Czech Republic. S3 and its subsidiaries are engaged in the business of providing advanced mixed signal semiconductor devices and intellectual property to customers in the industrial and communications markets.

The aggregate consideration was approximately \$35.0 million in cash and contingent consideration in the form of a \$15.0 million earn-out. The earn-out is based on achievement of certain milestones through 2019, including minimum total revenue targets, revenue derived from sales of semiconductor devices and new customer engagements with minimum value thresholds. We financed the acquisition with cash and a new \$35.0 million term loan under our new credit facility.

In May 2018, we entered into and borrowed \$35.0 million under the new credit facility described above that matures in May 2022. In connection with our entry into the new credit facility, we terminated our credit facility with Western Alliance Bank, which included paying off the outstanding term loan with a principal amount owed of \$12.0 million.

## RISK FACTORS

### 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 \$5.7 million, \$11.6 million, and \$8.4 million for the years ended December 31, 2017, 2016 and 2015, respectively, and \$1.1 million during the first three months of 2018. As of March 31, 2018, we had an accumulated deficit of \$100.9 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 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 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, and rely on a limited number of, third-party foundries and assembly and testing service providers. For example, 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 (acquired by X-FAB Silicon Foundries in 2016), 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.
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Any of the foregoing risks may affect our ability to meet customer demand. For example, a former silicon wafer supplier 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 the products we sell to generate the bulk of our revenue, our DataFlash and Fusion Serial 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, 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 production to a new contract manufacturer 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. During 2017, one of our foundry partners increased the costs of wafers to us. Although such increase did not have a material impact on our results of operations for the three months ended March 31, 2018 and is not expected to have a material impact in the near term, there can be no assurances that such additional increases will not have a material adverse impact on our future operating results. Such increases could also damage our customer relationships, result in lost revenue, cause a loss in market share or damage our reputation.

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***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;
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- 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 original equipment manufacturers and original design manufacturers, OEMs and ODMs, respectively, who incorporate our 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 and integration 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 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 may experience difficulties in realizing the expected benefits of the acquisition of S3 Semiconductors and, if completed, Echelon Corporation and may continue to incur significant acquisition-related costs and transition costs in connection with these completed or proposed acquisitions.***

We completed the Semiconductor acquisition on May 9, 2018. The integration is expected to result in substantial financial costs and require the investment of personnel time and attention and other resources. Similarly, if we complete our proposed acquisition of Echelon Corporation, or Echelon, we expect to invest significant resources to integrate our two companies. The success of each acquisition depends in part on our ability to realize the anticipated business opportunities, including

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certain cost savings and operational efficiencies or synergies, and growth prospects from combining the respective companies with Adesto in an efficient and effective manner. We may never realize these business opportunities and growth prospects and, in the case of Echelon, we may not complete the acquisition. We may incur additional costs to maintain employee morale and to retain key employees. Management cannot ensure that the elimination of duplicative costs or the realization of other efficiencies will offset the transaction and integration costs in the near term or at all.

Additionally, we may encounter difficulties surrounding the integration of these companies following acquisition, which could delay or prevent our achievement of the expected benefits from the respective acquisition. Moreover, risks specific to the acquired businesses and the sectors of the semiconductor market in which they compete could also delay or prevent our achievement of the expected benefits from the respective acquisition.

***The market for semiconductor 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 flash memory products have experienced declining average selling prices over their life cycle. The prices of the products sold by S3 Semiconductors and Echelon have reflected a similar pattern. 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 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.

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***Our prospects for 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 semiconductor 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 or otherwise made significant investments to acquire, 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.

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***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 have developed and are continuing to develop next-generation products, such as our Moneta and EcoXiP products, which we expect to be one of the drivers of our future revenue growth. 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 products to date. While we expect revenue from our Mavriq 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, such as Moneta and EcoXiP, 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 products 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.

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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 semiconductor 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.

***Our business is dependent on selling through distributors.***

Sales through distributors accounted for approximately 74% of our revenues in 2017 and 75% during the first three months of 2018. We do not have long-term agreements with our distributors, and we and our distributors may each terminate our relationship with little or no advance notice.

Any future adverse conditions in the U.S. or global economies or in the U.S. or global credit markets could materially impact the operations of our distributors. Any deterioration in the financial condition of our distributors or any disruption in the operations of our distributors could adversely impact the flow of our products to our end customers and adversely impact our results of operation. In addition, during an industry or economic downturn, it is possible there will be an oversupply of products and a decrease in demand for our products from our distributors, which could reduce our revenues in a given period. Violations of the Foreign Corrupt Practices Act and similar regulations, or similar laws, by our distributors could have a material adverse impact on our business.

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***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 Joint Electron Device Engineering Council, 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.

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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 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 IoT semiconductor 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 GigaDevice Semiconductor, Macronix International Co. Ltd., Microchip Technology Inc., Micron Technology, Inc., Cypress Semiconductor Corporation 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.
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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 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

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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

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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 retain qualified 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.***

Our ability to timely and accurately report our financial results or comply with the requirements of being a public company depends on our maintaining adequate numbers of accounting and finance staff with technical accounting, SEC reporting and Sarbanes-Oxley Act compliance expertise. Any inability to recruit or retain qualified accounting and finance staff would have an adverse impact on our ability to accurately and timely prepare our financial statements. We may be unable to 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 meet the demands of 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. 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.

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***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.

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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 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.
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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.

**We have expanded in the past and expect to 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.**

We have grown our business through acquisitions and we expect to continue to evaluate and enter into discussions regarding potential strategic transactions. We completed the acquisition of S3 Semiconductors in May 2018 and announced our proposed acquisition of Echelon Corporation in June 2018. These transactions are and any new acquisitions or investments could be material to our financial condition and results of operations. The process of integrating businesses and technology can create unforeseen operating difficulties and expenditures as could the integration of any future acquisitions. Such transactions 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.
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Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities and harm our business generally. Future acquisitions could also result in the use of substantial amounts of our cash and cash equivalents, dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses or the write-off of goodwill, any of which could harm our financial condition. We do not have an extensive history of acquiring other companies and managing integrations, and the risk of failing to achieve the anticipated benefits and synergies of our acquisition of S3 Semiconductors or the proposed acquisition of Echelon may be increased by the risks inherent to managing concurrent integrations. Also, the anticipated benefits of any acquisitions may not materialize, may be less beneficial, or may develop more slowly, than we expect. If we do not receive the benefits anticipated from these acquisitions and investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected and our stock price could decline.

**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. 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.***

We expect to increase headcount and the overall size of our operations to support our growth. 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

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

With the acquisition of S3 Semiconductors, we expanded our global footprint beyond the limited operations we once had in Europe and Asia. We intend to expand our operations in Asia and, if completed, the proposed Echelon acquisition would significantly expand our global operations. 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;
  - adverse tax consequences, including potential additional tax costs, resulting from the new tax legislation signed into law on December 22, 2017, that imposes a minimum domestic tax on the earnings of foreign subsidiaries;
  - 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.
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Our failure to manage any of these risks successfully could harm our operations and reduce our revenue.

***Because our business is highly dependent on growth in the electronics manufacturing supply chain in China, any slowdown in this growth could adversely affect our business and operating results.***

Our business is highly dependent upon the economy and the business environment in China. In particular, our growth strategy is based upon the assumption that demand in China for devices that use semiconductors will continue to grow. Therefore, any slowdown in the growth of consumer demand in China for products that use semiconductors, such as computers, mobile phones or other consumer electronics, could have a serious adverse effect on our business. In addition, our business plan assumes that an increasing number of non-Chinese integrated device manufacturers, or IDMs, fabless semiconductor companies and systems companies will establish operations in China. Any decline in the rate of migration to China of semiconductor design companies or companies that require semiconductors as components for their products could adversely affect our business and operating results.

If significant tariffs or other restrictions are placed on Chinese imports or any related counter-measures are taken by China, our revenue and results of operations may be materially harmed. The Trump Administration has signaled that it may alter trade agreements and terms between China and the United States, including limiting trade with China and/or imposing a tariff on imports from China. In March 2018, President Trump imposed a 25% tariff on steel imports and a 10% tariff on aluminum imports and announced additional tariffs on goods imported from China specifically, as well as certain other countries. The materials subject to these tariffs to date do not constitute a significant percentage of our raw material costs. However, if retaliatory trade measures taken by China or other countries in response to the tariffs cause the cost of our products to increase, we may be required to raise our prices, which may result in the loss of customers and harm to our reputation and operating performance.

***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 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

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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.

***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.

***Our substantial level of indebtedness could adversely affect our financial condition.***

We have a substantial amount of indebtedness, which will require significant interest payments. After giving effect to the term loan we received in May 2018, we would have had approximately \$35 million aggregate principal amount of indebtedness outstanding as of March 31, 2018. Our substantial level of indebtedness could have important consequences, including the following:

- we must use a substantial portion of our cash flow from operations to pay interest and principal on the term loan, which will reduce funds available to us for other purposes such as working capital, capital expenditures, other general corporate purposes and potential acquisitions;
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- our ability to refinance such indebtedness or to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;
- we will be exposed to fluctuations in interest rates;
- our leverage may be greater than that of some of our competitors, which may put us at a competitive disadvantage and reduce our flexibility in responding to current and changing industry and financial market conditions;
- we may be more vulnerable to the current economic downturn and adverse developments in our business;
- we may be unable to comply with financial and other restrictive covenants in our debt agreements, which could result in an event of default that, if not cured or waived, may result in acceleration of certain of our debt and would have an adverse effect on our business and prospects and could force us into bankruptcy or liquidation; and
- in the event of the insolvency, liquidation, reorganization, dissolution or other winding up of our business, if there are not sufficient assets remaining to pay all creditors, then all or a portion of the amounts due on the notes then outstanding would remain unpaid.

We may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in our existing credit facility and the terms of any of our other indebtedness. For example, we may incur additional debt to fund our business and strategic initiatives, and may utilize additional debt to fund a portion of the purchase price for the Echelon acquisition. If we incur additional debt and other obligations, the risks associated with our substantial leverage and the ability to service such debt would increase.

Our ability to meet expenses, to remain in compliance with our covenants under our debt arrangements and to make future principal and interest payments in respect of our debt arrangements depends on, among other things, our operating performance, competitive developments and financial market conditions, all of which are significantly affected by financial, business, economic and other factors. We are not able to control many of these factors. Accordingly, our cash flow may not be sufficient to allow us to pay principal and interest on our debt and meet our other obligations.

***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 public offerings in October 2015 and June 2017. 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.

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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 \$35 million credit facility are collateralized by substantially all of our assets excluding our intellectual property. 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 comply with certain financial covenants. 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, among other things (unless such default is waived by the lender), all or a portion of the outstanding indebtedness thereunder to become immediately due and payable and subject to an increase by 2% of the interest rate charged during the period of the unremedied breach. In addition, the lender would be able to sell or lease our assets in satisfaction of our outstanding indebtedness.

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***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, 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. If and when we no longer meet the definition of an “emerging growth company” as defined by the JOBS Act, we would be required under Section 404 of the Sarbanes-Oxley Act to evaluate and determine the effectiveness of our internal control over financial reporting and, beginning with our annual report for the applicable fiscal year, provide a management report on our internal control over financial reporting, which must be attested to by our independent registered public accounting firm. 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

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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.

### **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 elsewhere herein, 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

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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 rely 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 credit 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;
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- 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.

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