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

**FORM 20-F**

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

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

For the fiscal year ended December 31, 2016

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**OR**

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

Date of event requiring this shell company report \_\_\_\_\_

Commission file number 001-35135

**SEQUANS COMMUNICATIONS S.A.**

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**French Republic**

(Jurisdiction of incorporation or organization)

**15-55 Boulevard Charles de Gaulle**

**92700 Colombes, France**

(Address of principal executive offices)

**Georges Karam**

**Chairman and Chief Executive Officer**

**Sequans Communications S.A.**

**15-55 Boulevard Charles de Gaulle**

**92700 Colombes, France**

**Telephone: +33 1 70 72 16 00**

**Facsimile: +33 1 70 72 16 09**

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

| Title of each class   | Name of each exchange on which registered                         |
|---|---|
| <b>American Depositary Shares, each representing one ordinary share, nominal value €0.02 per share</b><br><b>Ordinary shares, nominal value €0.02 per share</b> | <b>New York Stock Exchange</b><br><b>New York Stock Exchange*</b> |

\* Not for trading, but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**Not Applicable**  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**Not Applicable**  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**Ordinary shares, nominal value €0.02 per share: 75,030,078 as of December 31, 2016**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Indicate by check mark which basis for accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting Standards as issued by the International Accounting Standards Board ☒

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

SEQUANS COMMUNICATIONS S.A.

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FORM 20-F

ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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## INTRODUCTION

Unless otherwise indicated, “Sequans Communications S.A.”, “Sequans Communications”, “the Company”, “we”, “us” and “our” refer to Sequans Communications S.A. and its consolidated subsidiaries.

In this annual report, references to the “euro” or “€” are to the euro currency of the European Union and references to “U.S. dollars” or “\$” are to United States dollars.

Reference to the “the Shares” are references to Sequans Communications’ Ordinary Shares, nominal value €0.02 per share, and references to “the ADSs” are to Sequans Communications’ American Depositary Shares (each representing one Ordinary Share), which are evidenced by American Depositary Receipts (ADRs).

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are based on our management’s beliefs and assumptions and on information currently available to our management. All statements other than present and historical facts and conditions contained in this annual report on Form 20-F, including statements regarding our future results of operations and financial positions, business strategy, plans and our objectives for future operations, are forward looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, but are not limited to, those concerning the following:

- forecasts and trends in the markets in which we compete and in which our products are sold, including statements regarding the LTE markets and the expansion of the Internet of Things market;
- our expectations regarding our expenses, sales and operations;
- our expectations regarding our operating results;
- our expectations regarding our customer concentration;
- trends and challenges in the markets in which we operate, including average selling price reductions, cyclicity in the wireless communications industry and transitions to new process technologies;
- our ability to anticipate the future market demands and future needs of our customers;
- our ability to keep pace with and anticipate evolving industry standards;
- our ability to achieve new design wins or for design wins to result in shipments of our products at levels and in the timeframes we currently expect;
- our plans for future products and enhancements of existing products;
- anticipated features and benefits of our current and future products;
- the sources of future demand for our products;
- our growth strategy elements and our growth rate;
- our ability to enter into strategic alliances or partnerships;
- our ability to develop or acquire complementary technologies or partner with others to bring to market solutions that integrate enhanced functionalities;
- our ability to protect and defend our intellectual property against potential third party intellectual property infringement claims;
- general economic conditions in our domestic and international markets; and
- our future cash needs and our estimates regarding our capital requirements and our need for additional financing.

In some cases, you can identify forward-looking statements by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would” as well as similar expressions. Forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks, uncertainties and other important factors. We operate in a very competitive and rapidly changing environment. New risks emerge from time to time. We cannot assure you that our plans, intentions or expectations will be achieved. Our actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this annual report, including, but not limited to, those factors described in “Item 3.D—Risk Factors”, “Item 4—Information on the Company” and “Item 5—Operating and Financial Review and Prospects”. Given these risks, uncertainties and other important factors, you should not place undue reliance on these forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this annual report. Also, these forward-looking statements represent our estimates and assumptions only as of the date such forward-looking statements are made. Except as required by

law, we assume no obligation to update any forward-looking statements publicly, whether as a result of new information, future events or otherwise.

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

### **Item 2. Offer Statistics and Expected Timetable**

Not applicable.

### **Item 3. Key Information**

#### **A. Selected Financial Data**

The following tables set forth our selected consolidated financial and other data. You should read the following selected consolidated financial data in conjunction with “Item 5 — Operating and Financial Review and Prospects” and our consolidated financial statements and the related notes appearing elsewhere in this annual report. Our historical results are not necessarily indicative of results to be expected for future periods. The consolidated statements of operations data for the years ended December 31, 2014, 2015 and 2016, the consolidated statements of financial position data at December 31, 2014, 2015 and 2016, and the consolidated statements of cash flow data for the years ended December 31, 2014, 2015 and 2016 have been derived from our audited Consolidated Financial Statements included elsewhere in this annual report. The consolidated statement of operations data for the years ended December 31, 2012 and 2013, consolidated statement of financial position data at December 31, 2012 and 2013, and the consolidated statement of cash flow data for the year ended December 31, 2012 and 2013, have been derived from our audited Consolidated Financial Statements not included in this annual report.

Our financial statements included in this annual report were prepared in U.S. dollars in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

|  | Years ended December 31, |             |             |             |             |
|--|--------------------------|-------------|-------------|-------------|-------------|
|  | 2012                     | 2013        | 2014        | 2015        | 2016        |
| (in thousands, except per share data)              |                          |             |             |             |             |
| <b>Consolidated Statements of Operations Data:</b> |                          |             |             |             |             |
| Revenue:   |                          |             |             |             |             |
| Product revenue                                    | \$ 19,600                | \$ 10,708   | \$ 19,836   | \$ 24,669   | \$ 34,581   |
| Other revenue                                      | 2,654                    | 3,004       | 2,766       | 7,863       | 10,998      |
| Total revenue                                      | 22,254                   | 13,712      | 22,602      | 32,532      | 45,579      |
| Cost of revenue <sup>(1)</sup> :                   |                          |             |             |             |             |
| Cost of product revenue                            | 11,781                   | 8,616       | 15,435      | 17,970      | 22,574      |
| Cost of other revenue                              | 176                      | 205         | 346         | 1,481       | 3,022       |
| Total cost of revenue                              | 11,957                   | 8,821       | 15,781      | 19,451      | 25,596      |
| Gross profit                                       | 10,297                   | 4,891       | 6,821       | 13,081      | 19,983      |
| % of revenue                                       | 46%                      | 36%         | 30%         | 40%         | 44%         |
| Operating expenses <sup>(1)</sup> :                |                          |             |             |             |             |
| Research and development                           | 28,365                   | 28,357      | 28,634      | 25,305      | 26,334      |
| Sales and marketing                                | 6,562                    | 4,449       | 5,278       | 5,985       | 7,126       |
| General and administrative                         | 8,093                    | 7,528       | 6,969       | 5,428       | 6,267       |
| Total operating expenses                           | 43,020                   | 40,334      | 40,881      | 36,718      | 39,727      |
| Operating income (loss)                            | (32,723)                 | (35,443)    | (34,060)    | (23,637)    | (19,744)    |
| Financial income (expense)                         | (21)                     | (1)         | 98          | (3,448)     | (4,759)     |
| Profit (Loss) before income taxes                  | (32,744)                 | (35,444)    | (33,962)    | (27,085)    | (24,503)    |
| Income tax expense (benefit)                       | 234                      | 142         | 162         | 317         | 284         |
| Profit (Loss)                                      | \$ (32,978)              | \$ (35,586) | \$ (34,124) | \$ (27,402) | \$ (24,787) |
| Basic earnings (loss) per share                    | \$ (0.95)                | \$ (0.78)   | \$ (0.58)   | \$ (0.46)   | \$ (0.39)   |
| Diluted earnings (loss) per share                  | \$ (0.95)                | \$ (0.78)   | \$ (0.58)   | \$ (0.46)   | \$ (0.39)   |
| Number of shares used for computing:               |                          |             |             |             |             |
| Basic  | 34,680                   | 45,456      | 59,142      | 59,145      | 63,805      |
| Diluted  | 34,680                   | 45,456      | 59,142      | 59,145      | 63,805      |

|  | At December 31, |           |           |          |           |
|--|-----------------|-----------|-----------|----------|-----------|
|  | 2012            | 2013      | 2014      | 2015     | 2016      |
| (in thousands)   |                 |           |           |          |           |
| <b>Consolidated Statements of Financial Position Data:</b> |                 |           |           |          |           |
| Cash, cash equivalents and short-term investments          | \$ 28,751       | \$ 37,244 | \$ 12,489 | \$ 8,681 | \$ 20,547 |
| Total current assets                                       | 49,539          | 60,658    | 36,315    | 35,819   | 50,069    |
| Total assets   | 68,402          | 73,528    | 49,415    | 48,856   | 65,077    |
| Current and non-current loans and borrowings               | —               | —         | 5,846     | 26,482   | 29,310    |
| Total current liabilities                                  | 11,954          | 13,258    | 19,048    | 31,072   | 33,196    |
| Total equity   | 55,471          | 58,929    | 25,115    | (1,248)  | 8,860     |

|   | Year ended December 31, |             |             |             |             |
|---|-------------------------|-------------|-------------|-------------|-------------|
|   | 2012                    | 2013        | 2014        | 2015        | 2016        |
|   | (in thousands)          |             |             |             |             |
| Consolidated Statements of Cash Flow Data:        |                         |             |             |             |             |
| Net cash flow from (used in) operating activities | \$ (22,848)             | \$ (24,345) | \$ (24,406) | \$ (16,401) | \$ (15,589) |
| Net cash flow used in investments activities      | (5,511)                 | (3,956)     | (5,625)     | (5,345)     | (5,270)     |
| Net cash flow from financing activities           | (119)                   | 36,791      | 5,121       | 17,710      | 32,778      |
| Net foreign exchange difference                   | 9                       | 3           | (5)         | (5)         | (5)         |
| Cash and cash equivalents at January 1            | 57,220                  | 28,751      | 37,244      | 12,329      | 8,288       |
| Cash and cash equivalents at December 31          | 28,751                  | 37,244      | 12,329      | 8,288       | 20,202      |

(1) Includes share-based compensation as follows:

|                          | Year ended December 31, |          |          |        |          |
|--------------------------|-------------------------|----------|----------|--------|----------|
|                          | 2012                    | 2013     | 2014     | 2015   | 2016     |
|                          | (in thousands)          |          |          |        |          |
| Cost of revenue          | \$ 156                  | \$ 112   | \$ 47    | \$ 17  | \$ 11    |
| Operating expenses       | 3,033                   | 2,052    | 1,230    | 850    | 1,111    |
| Share-based compensation | \$ 3,189                | \$ 2,164 | \$ 1,277 | \$ 867 | \$ 1,122 |

## Exchange Rate Information

In this annual report, for convenience only, we have translated the euro amounts reflected in our financial statements as of and for the year ended December 31, 2016 into U.S. dollars at the rate of €1.00 = \$1.0552, the noon buying rate for euros in New York City, as certified for customs purposes by the Federal Reserve Bank of New York, on December 31, 2016. You should not assume that, on that or on any other date, one could have converted these amounts of euros into U.S. dollars at that or any other exchange rate.

The following table sets forth, for each period indicated, the low and high exchange rates for euros expressed in U.S. dollars, the exchange rate at the end of such period and the average of such exchange rates on the last day of each month during such period, based on the noon buying rate in the City of New York for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York. The source of the exchange rate is the H.10 statistical release of the Federal Reserve Board. The exchange rates set forth below demonstrate trends in exchange rates, but the actual exchange rates used throughout this annual report may vary.

|              | Year ended December 31, |        |        |        |        |
|--------------|-------------------------|--------|--------|--------|--------|
|              | 2012                    | 2013   | 2014   | 2015   | 2016   |
| High         | 1.3463                  | 1.3816 | 1.3927 | 1.2015 | 1.1516 |
| Low          | 1.2062                  | 1.2774 | 1.2101 | 1.0524 | 1.0375 |
| Period End   | 1.3186                  | 1.3779 | 1.2101 | 1.0859 | 1.0552 |
| Average Rate | 1.2859                  | 1.3281 | 1.3297 | 1.1096 | 1.1072 |

The following table sets forth, for each of the last six months, the low and high exchange rates for euros expressed in U.S. Dollars and the exchange rate at the end of the month based on the noon buying rate as described above. The source of the exchange rate is the H.10 statistical release of the Federal Reserve Board.

|              | Last Six Months |         |          |          |         |          |
|--------------|-----------------|---------|----------|----------|---------|----------|
|              | September       | October | November | December | January | February |
| High         | 1.1271          | 1.1212  | 1.1121   | 1.0758   | 1.0794  | 1.0802   |
| Low          | 1.1158          | 1.0866  | 1.0560   | 1.0375   | 1.0416  | 1.0551   |
| End of Month | 1.1238          | 1.0962  | 1.0578   | 1.0552   | 1.0794  | 1.0618   |

On March 24, 2017, the noon buying rate for euros in New York City, as certified for customs purposes by the Federal Reserve Bank of New York, was €1.00 = \$1.0806.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

*Our business faces significant risks. You should carefully consider all of the information set forth in this annual report and in our other filings with the United States Securities and Exchange Commission ("SEC"), including the following risk factors which we face and which are faced by our industry. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. This report also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements, as a result of certain factors including the risks described below and elsewhere in this report and our other SEC filings. See "Special Note Regarding Forward-Looking Statements" on page 1.*

**Risks Related to Our Business and Industry**

***We have a history of losses and have experienced a significant decline in revenue from 2011, and we may not achieve or sustain profitability in the future, on a quarterly or annual basis.***

We were established in 2003 and began operations in 2004, and have incurred losses on an annual basis since inception. We experienced net losses of \$34.1 million, \$27.4 million and \$24.8 million in 2014, 2015 and 2016, respectively. At December 31, 2016, our accumulated deficit was \$209.6 million. We expect to continue to incur significant expense related to the development of our LTE products and expansion of our business, including research and development and sales and administrative expenses. Additionally, we may encounter unforeseen difficulties, complications, product delays and other unknown factors that require additional expense. As a result of these expenditures, we will have to generate and sustain substantially increased revenue to achieve profitability. If we do not, we may not be able to achieve or maintain profitability, and we may continue to incur significant losses in the future.

***Our industry is subject to rapid technological change that could result in decreased demand for our products and those of our customers or result in new specifications or requirements on our products, each of which could negatively affect our revenues, margins and operating results.***

The markets in which we and our customers compete or plan to compete are characterized by rapidly changing technologies and industry standards and technological obsolescence. Our ability to compete successfully depends on our ability to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. A fundamental shift in technologies in any of our target markets could harm our competitive position within these markets. In addition, such shifts can cause a significant decrease in our revenues and adversely affect our operating results. Our failure to anticipate these shifts, to develop new technologies or to react to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenue and a loss of design wins. The development of new technologies and products generally requires substantial investment before they are commercially viable. We intend to continue to make substantial investments in developing new technologies and products, including our LTE products, and it is possible that our development efforts will not be successful and that our new technologies and products will not be accepted by customers or result in meaningful revenue. If the semiconductor solutions we develop fail to meet market or customer requirements or do not achieve market acceptance, our operating results and competitive position would suffer.

Our success and the success of our new products will depend on accurate forecasts of future technological developments, customer and consumer requirements and long-term market demand, as well as on a variety of specific implementation factors, including:

- accurate prediction of the size and growth of the LTE markets, and in particular the market for LTE-only, also referred to as single-mode LTE, products where no fall back to 2G or 3G technology is required;
- accurate prediction of changes in device manufacturer requirements, technology, industry standards or consumer expectations, demands and preferences;
- accurate prediction of the growth of the Internet of Things market and the adoption of industry standards allowing devices to connect and communicate with each other;
- timely and efficient completion of process design and transfer to manufacturing, assembly and test, and securing sufficient manufacturing capacity to allow us to continue to timely and cost-effectively deliver products to our customers;
- market acceptance, adequate consumer demand and commercial production of the products in which our semiconductor solutions are incorporated;
- the quality, performance, functionality and reliability of our products as compared to competing products and technologies; and
- effective marketing, sales and customer service.

The markets for our semiconductor solutions are characterized by frequent introduction of next generation and new products with new features and functionalities, short product life cycles and significant price competition. If we or our customers are unable to manage product transitions in a timely and cost-effective manner, our business and results of operations would suffer. In addition, frequent technology changes and introduction of next generation products may result in inventory obsolescence, which could reduce our gross margins and harm our operating performance. If we fail to timely introduce new products that meet the demands of our customers or our target markets, or if we fail to penetrate new markets, our revenue will decrease and our financial condition would suffer.

***If we fail to successfully develop, commercialize, produce and sell our module product line, our business, revenue and operating results may be harmed.***

In 2013, we introduced a new product module line. Our modules incorporate many components in addition to our chipsets. We may lack the purchasing power to acquire at competitive prices certain components required to produce modules, and we do not expect to be able to command selling prices for those modules that allow us to maintain traditional semiconductor-only margins for the full module. In the near future, modules could represent a large portion of our revenue mix, which could negatively impact our overall gross margin. Certain large customers may decide to buy the modules directly from the manufacturers who purchase our chipsets, rather than us, in order to reduce their costs. This may result in a reduction of our revenue and gross profit, but an improvement of overall gross margin percentage, compared to the case where we sell the modules ourselves.

Module components may be sourced from numerous different suppliers. Some of these components may periodically be in short supply or be subject to long lead times, which could affect our ability to meet customer demand for our modules, therefore delaying our revenue. In addition, we rely on various contract manufacturers to produce our modules. If these manufacturers encounter any issues with production capacity, quality or reliability of their products, it could adversely affect our revenue and our reputation in the market. If our ability to expand our product platform is significantly delayed or if we are unable to leverage our module as expected, our business and financial condition could be materially and adversely affected.

If customers request from us, and we agree to provide, a wide variety of module variants or stock-keeping units, or SKUs, to support different operators or different end-applications, our expenses associated with developing, sourcing and certifying our module products would increase. In addition, managing supply and demand across multiple SKUs may increase the possibility that we will under or over-forecast a given SKU, resulting in either delayed revenue or excess inventory.

Participating in the module business could create a perception among our customers that we are competing with them if they are also in the module business, which could impair our chipset business prospects with such customers. The module can be considered an end product with full LTE functionality; therefore, there is market pressure from manufacturers of products not normally incorporating a communication function for us to sell the module with essential IP indemnification. We intend to negotiate license agreements for the module in order to offer standard indemnification to our manufacturing partners, but there can be no assurance that we will be successful in obtaining licenses on acceptable terms.

***Our LTE semiconductor solutions do not incorporate support for 2G or 3G protocols, and we currently focus on selling our solutions into the market for LTE-only devices. If the market for LTE-only devices materializes more slowly or at a lower volume level than we anticipate, our results of operations may be harmed.***

Our semiconductor solutions currently support only 4G protocols. As a result, our LTE strategy focuses primarily on selling into the LTE-only device market. The growth rate and size of the market for LTE-only devices is dependent on a number of factors, including the degree of geographic and population coverage by LTE networks. If this coverage does not materialize as quickly as we expect, if fewer LTE carriers than we expect offer comprehensive LTE coverage in their geographic operating areas, or if these LTE carriers require support for 2G or 3G protocols in a larger proportion of their overall device portfolio than we expect, then demand for LTE-only semiconductor solutions like ours would be lower and our results of operations would be harmed.

If we are unsuccessful in developing and selling new products on a timely and cost-effective basis or in penetrating new markets, in particular the single-mode LTE market, our business and operating results would suffer.

***We or our customers may be required to obtain licenses for certain so-called “essential patents” in order to comply with applicable standards, which could require us to pay additional royalties on certain of our products. If we or our customers are unable to obtain such licenses, our business, results of operations, financial condition and prospects would be harmed.***

We or our customers may be required to obtain licenses for third-party intellectual property. In particular, we may be required to obtain licenses to certain third-party patents, so-called “essential patents”, that claim features or functions that are incorporated into applicable industry standards and that we are required to provide in order to comply with the standard. If we need to license any third-party intellectual property, essential patents or other technology, we could be required to pay royalties on certain of our products. In addition, while the industry standards bodies and the antitrust laws in certain countries may require participating companies to license their essential patents on fair, reasonable, and nondiscriminatory terms, there can be no assurances that we will be able to obtain such licenses on commercially reasonable terms or at all. Although we have implemented a dedicated standard essential patents licensing-in reference policy, our inability to obtain required third-party intellectual property licenses on commercially reasonable terms or at all could harm our business, results of operations, financial condition or prospects. If our customers are required to obtain such licenses, there can be no assurances that their businesses will not be adversely affected. In addition, if our competitors have significant numbers of essential patents and/or patent license rights, they could be at an advantage in negotiating with our customers or potential customers, which could influence our ability to win new business or could result in downward pressure on our average selling prices.

***We depend on the commercial deployment of 4G wireless communications equipment, products and services to grow our business, and our business may be harmed if wireless carriers delay or are unsuccessful in the commercial deployment of 4G technology or if they deploy technologies that are not supported by our solutions.***

We depend upon the continued commercial deployment of 4G wireless communications equipment, products and services based on our technology. Deployment of new networks by wireless carriers requires significant capital expenditures, well in advance of any revenue from such networks. In the past, wireless carriers have cancelled or delayed planned deployments of new networks, including, for example, commercial retail service in the Indian market. If existing deployments are not commercially successful or do not continue to grow their subscriber base, or if new commercial deployments of 4G networks are delayed or unsuccessful, our business and financial results would be harmed.

During network deployment, wireless carriers often anticipate a certain rate of subscriber additions and, in response, operators typically procure devices to satisfy this forecasted demand. If the rate of deployment of new networks by wireless carriers is slower than we expect or if 4G technology is not as widely adopted by consumers as we expect, the rate of subscriber additions may be slower than expected, which will reduce the sales of our products and cause OEMs and ODMs to hold excess inventory. This would harm our sales and our financial results.

As we expand into the broader Internet of Things market, we will similarly depend on the commercial deployment of narrow band LTE variants, beginning with Cat M and, later, Cat NB-1. The adoption of the Cat M and Cat NB-1 standards is expected to expand the market for Internet of Things devices. If the Cat M or Cat NB-1 standards are not successfully adopted and deployed, or if competing standards for Internet of Things devices become favored by wireless carriers, we may not be able to successfully commercialize our Cat M (and, later, Cat NB-1) chipsets, which would harm our sales and our financial results.

In addition, wireless carriers may choose to deploy technologies not supported by our solutions. If a technology that is not supported by our semiconductor solutions gains significant market share or is favored by a significant wireless carrier, we could be required to expend a significant amount of time and capital to develop a solution that is compatible with that alternative

technology. If we are not successful, we could lose design wins with respect to that technology and our business and financial results would be harmed. Moreover, once a competitor's solution is chosen by a wireless carrier, OEM or ODM we will have difficulty supplanting those solutions with ours.

***We have significant ongoing capital requirements that could have a material effect on our business and financial condition if we are unable to generate sufficient cash from operations.***

Our business requires significant capital investment to carry out extensive research and development in order to remain competitive. At the same time, demand for our products is highly variable and there have been downturns. If our cash on hand, net proceeds from financing activities and cash generated from operations are not sufficient to fund our operations and capital requirements, we may be required to limit our growth, or enter into financing arrangements at unfavorable terms, any of which could harm our business and financial condition.

Additionally, we anticipate that that strategic alliances and partnerships will be an important source of revenue and possible financing for us going forward. If we are unable to develop alliances with or otherwise attract investment from strategic partners, or if strategic partners are not willing to enter into transactions with us on favorable terms, our business and financial condition could be harmed.

***A portion of our software development and testing activity is outsourced to a third-party provider based in Kiev, Ukraine. If political developments in Ukraine and Russia escalate to open hostilities, some of our product development activities and some customer software support activities could be adversely affected.***

While we have our key engineering competencies in-house, primarily in France, the United Kingdom and the United States, we outsource some software development and testing activities to an independent third-party provider of engineering services. We work with a dedicated team of 24 software engineers based in Kiev, Ukraine. As a result of the decision of the Russian government to annex the Crimea region of Ukraine, the United States and the European Community have imposed economic sanctions on Russia. If Ukraine experiences further political instability, these engineers may be unable to work for a sustained period of time, which could adversely impact our research and development operations. We also have our own electronic equipment physically in place in Kiev which could be at risk in the event of violence in the region. We have developed a contingency plan to trigger if the engineers in Kiev are unable to continue working on their projects for us, but if our contingency plan is not effective, we could suffer delays in product introduction or delays in resolution of customer software bugs, which could have a negative impact on our revenues.

***We depend on a small number of customers for a significant portion of our revenue. If we fail to retain or expand customer relationships, our business could be harmed.***

A significant amount of our total revenue is attributable to a small number of customers, and we anticipate that this will continue to be the case for the foreseeable future. These customers may decide not to purchase our semiconductor solutions at all, to purchase fewer semiconductor solutions than they did in the past or to alter the terms on which they purchase our products. In addition, to the extent that any customer represents a disproportionately high percentage of our accounts receivable, our exposure to that customer is further increased should they be unable or choose not to pay such accounts receivable on a timely basis or at all.

Our top ten customers accounted 96%, 92% and 86% of our total revenue in 2014, 2015 and 2016, respectively. The following table summarizes customers representing a significant portion of total revenue:

| Customer                  | % of total revenues for the year ended December 31, |               |               | % of our accounts receivable at December 31, |
|---------------------------|---|---------------|---------------|--|
|                           | 2014  | 2015          | 2016          | 2016   |
| Comtech                   | —   | —             | 29%           | 35%  |
| Gemtek                    | 39%   | 14%           | 15%           | Less than 10%                                |
| Customer A (Taiwan-based) | Less than 10%                                       | 27%           | Less than 10% | Less than 10%                                |
| AIT                       | 12%   | 16%           | —             | —  |
| Huawei                    | 25%   | Less than 10% | —             | —  |

Comtech is a distributor who serves multiple customers in China and Taiwan. We expect that some of these customers, particularly those above 10% during 2016, could each continue to represent at least 10% of our revenue in 2017 as the market for single-mode LTE devices is in its early stages and still concentrated in a relatively small number of device makers. The loss of any significant customer, a significant reduction in sales we make to them in general or during any period, or any issues with collection of receivables from customers would harm our financial condition and results of operations. Furthermore, we must obtain orders from new customers on an ongoing basis to increase our revenue and grow our business. If we fail to expand our customer relationships, our business could be harmed.

***We depend on one independent foundry to manufacture our products and do not have a long-term agreement with such foundry, and loss of this foundry or our failure to obtain sufficient foundry capacity would significantly delay our ability to ship our products, cause us to lose revenue and market share and damage our customer relationships.***

Access to foundry capacity is critical to our business because we are a fabless semiconductor company. We depend on a sole independent foundry, Taiwan Semiconductor Manufacturing Company Limited, or TSMC, in Taiwan to manufacture our semiconductor wafers. Because we outsource our manufacturing to a single foundry, we face several significant risks, including:

- constraints in or unavailability of manufacturing capacity;
- limited control over delivery schedules, quality assurance and control, manufacturing yields and production costs; and
- the unavailability of, or potential delays in obtaining access to, key process technologies.

If we do not accurately forecast our capacity needs, TSMC may not have available capacity to meet our immediate needs or we may be required to pay higher costs to fulfill those needs, either of which could harm our business, results of operations or financial condition.

The ability of TSMC to provide us with semiconductor wafers is limited at any given time by their available capacity and we do not have a guaranteed level of manufacturing capacity. We do not have any agreement with TSMC and place our orders on a purchase order basis. As a result, if TSMC raises its prices or is not able to satisfy our required capacity for any reason, including natural or other disasters, allocates capacity to larger customers or to different sectors of the semiconductor industry, experiences labor issues or shortages or delays in shipment of semiconductor equipment or materials used in the manufacture of our semiconductors, or if our business relationship with TSMC deteriorates, we may not be able to obtain the required capacity and would have to seek alternative foundries, which may not be available on commercially reasonable terms, in a timely manner, or at all.

Locating and qualifying a new foundry would require a significant amount of time, which would result in a delay in production of our products. In addition, using foundries with which we have no established relationship could expose us to unfavorable pricing and terms, delays in developing and qualifying new products, unsatisfactory quality or insufficient capacity allocation. We place our orders on the basis of our customers' purchase orders and sales forecasts; however, foundries can allocate capacity to the production of other companies' products and reduce deliveries to us on short notice. Many of the customers of TSMC, or foundries that we may use in the future, are larger than we are, or have long-term agreements with such foundries, and as a result those customers may receive preferential treatment from the foundries in terms of price, capacity allocation and payment terms. Any delay in qualifying a new foundry or production issues with any new foundry would result in lost sales and could damage our relationship with existing and future customers as well as our reputation in the market.

***If our foundry vendor does not achieve satisfactory yields or quality, our reputation and customer relationships could be harmed.***

The fabrication of semiconductor solutions such as ours is a complex and technically demanding process. Minor deviations in the manufacturing process can cause substantial decreases in yields, and in some cases, cause production to be suspended. TSMC, or foundries that we may use in the future, could, from time to time, experience manufacturing defects and reduced manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundry vendor could result in lower than anticipated manufacturing yields or unacceptable performance. Many of these problems are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. Poor yields from our foundry vendor, or defects, integration issues or other performance problems in our semiconductor solutions could cause us significant customer relations and business reputation problems, harm our financial results and result in financial or other damages to our customers. In addition, because we have a sole source of wafer supply, these risks are magnified because we do not have an alternative source to purchase from should these risks materialize. If TSMC fails to provide satisfactory product to us, we would be required to identify and qualify other sources, which could take a significant amount of time and would result in lost sales. In addition, we indemnify our customers for losses resulting from defects in our products, which costs could be substantial. A product liability or other indemnification claim brought against us, even if unsuccessful, would likely be time-consuming and costly to defend.

***Our customers may cancel their orders, change production quantities or delay production, and if we fail to forecast demand for our products accurately, we may incur product shortages, delays in product shipments or excess or insufficient product inventory, which could harm our business.***

We do not have firm, long-term purchase commitments from our customers. Substantially all of our sales are made on a purchase order basis, and in most cases our customers are not contractually committed to buy any quantity of products from us beyond firm purchase orders. Additionally, customers may cancel, change or delay purchase orders already in place with little or no notice to us. Because production lead times often exceed the amount of time required to fulfill orders, we often must manufacture in advance of orders, relying on an imperfect demand forecast to project volumes and product mix. Our ability to accurately forecast demand can be harmed by a number of factors, including inaccurate forecasting by our customers, changes in market conditions, changes in our product order mix and demand for our customers' products. Even after an order is received, our customers may cancel these orders or request a decrease in production quantities. Any such cancellation or decrease subjects us to a number of risks, most notably that our projected sales will not materialize on schedule or at all, leading to unanticipated revenue shortfalls and excess or obsolete inventory, which we may be unable to sell to other customers. Alternatively, if we are unable to project customer requirements accurately, we may not manufacture enough semiconductor solutions, which could lead to delays in product shipments and lost sales opportunities in the near term, as well as force our customers to identify alternative sources, which could affect our ongoing relationships with these customers. We have in the past had customers significantly increase their requested production quantities with little or no advance notice. If we do not fulfill customer demands in a timely manner, our customers may cancel their orders and we may be subject to customer claims for cost of replacement. Underestimating or overestimating demand would lead to insufficient, excess or obsolete inventory and could harm our operating results, cash flow and financial condition, as well as our relationships with our customers and our reputation in the marketplace.

***If customers do not design our semiconductor solutions into their product offerings or if our customers' product offerings are not commercially successful, our revenue and our business would be harmed.***

We sell our semiconductor solutions directly to OEMs who include them in their products, and to ODMs who include them in their products they supply to OEMs. As a result, we rely on OEMs to design our semiconductor solutions into the products they sell. Because our semiconductor solutions are generally a critical component of our customers' products, they are typically incorporated into our customers' products at the design stage and the sales cycle typically takes 12 months or more to complete. Without these design wins, our revenue and our business would be significantly harmed. We often incur significant expenditures on the development of a new semiconductor solution without any assurance that an OEM will select our semiconductor solution for design into its own product. Because the types of semiconductor solutions we sell are a critical aspect of an OEM's product, once an OEM designs a competitor's semiconductor into its product offering, it becomes significantly more difficult for us to sell our semiconductor solutions to that customer for a particular product offering because changing suppliers involves significant cost, time, effort and risk for the customer. Further, if we are unable to develop new products in a timely manner for inclusion in such products, or if major defects or errors that might significantly impair performance or standards compliance are found in our products after inclusion by an OEM, OEMs will be unlikely to include our semiconductor solutions into their products and our reputation in the market and future prospects would be harmed.

Furthermore, even if an OEM designs one of our semiconductor solutions into its product offering, we cannot be assured that its product will be commercially successful and that we will receive any revenue from that OEM. This risk is heightened because 4G technology is rapidly emerging and many of our customers, particularly in the Internet of Things market, do not have significant experience designing products utilizing 4G technology. If our customers' products incorporating our semiconductor solutions fail to meet the demands of their customers or otherwise fail to achieve market acceptance, our revenue and business would be harmed.

***If we are unable to compete effectively, we may not increase or maintain our revenue or market share, which would harm our business.***

We may not be able to compete successfully against current or potential competitors. If we do not compete successfully, our revenue and market share may decline. In the LTE market, we face or expect to face competition from established semiconductor companies such as HiSilicon Technologies, Intel Corporation, Mediatek, Qualcomm Incorporated, Samsung Electronics Co. Ltd., Sony Corporation (after its acquisition of Altair Semiconductor in 2016) and Spreadtrum, as well as smaller actors in the market such as GCT Semiconductor. Many of our competitors have longer operating histories, significantly greater resources and name recognition, and a larger base of existing customers than us. In addition, recently there has been consolidation within the industry, notably the acquisition of smaller competitors by larger competitors. The significant resources of these larger competitors may allow them to respond more quickly than us to new or emerging technologies or changes in customer requirements or to bring new products to market in a more timely manner than us. For example, some competitors may have greater access or rights to complementary technologies, including GNSS (GPS), blue tooth, sensors, graphic processing, etc., and we may need to develop or acquire complementary technologies or partner with others to bring to market solutions that integrate enhanced functionalities. We expect to pursue such transactions or partnerships if appropriate opportunities arise. However, we may not be able to identify suitable transactions or partners in the future, or if we do identify such transactions or partners, we may not be able to complete them on commercially acceptable terms, or at all. In addition, these competitors may have greater credibility with our existing and potential customers. Further, many of these competitors are located in Asia or have a significant presence and operating history in Asia and, as a result, may be in a better position than we are to work with manufacturers and customers located in Asia. Moreover, many of our competitors have been doing business with customers for a longer period of time and have well-established relationships, which may provide them with advantages, including access to information regarding future trends and requirements that may not be available to us. In addition, some of our competitors may provide incentives to customers or offer bundled solutions with complementary products, which could be attractive to some customers, or adopt more aggressive pricing policies, which may make it difficult for us to gain or maintain market share.

Our ability to compete effectively will depend on a number of factors, including:

- our ability to anticipate market and technology trends and successfully develop products that meet market needs;
- our ability to deliver products in large volume on a timely basis at competitive prices;
- our success in identifying and penetrating new markets, applications and customers;
- our ability to accurately understand the price points and performance metrics of competing products in the market;
- our products' performance and cost-effectiveness relative to those of our competitors;
- our ability to develop and maintain relationships with key customers, wireless carriers, OEMs and ODMs;
- our ability to secure sufficient high quality supply for our products;
- our ability to conform to industry standards while developing new and proprietary technologies to offer products and features previously not available in the 4G market;
- our ability to develop or acquire complementary technologies or to partner with others to bring to market products with enhanced functionalities; and
- our ability to recruit design and application engineers with expertise in wireless broadband communications technologies and sales and marketing personnel.

***If we experience material changes to the competitive structure of our industry due to cooperation or consolidation among our competitors, we may not increase or sustain our revenue or market share, which would harm our business.***

Our current or future competitors may establish cooperative relationships among themselves or with third parties. In addition, there has recently been consolidation within our industry, notably the acquisition of smaller competitors by larger competitors with significantly greater resources than ours. These events may result in the emergence of new competitors with greater resources and scale than ours that could acquire significant market share, which could result in a decline of our revenue and market share. Our ability to maintain our revenue and market share will depend on our ability to compete effectively despite material changes in industry structure. If we are unable to do so, we may not increase or sustain our revenue or market share, which would harm our business.

***If we are unable to effectively manage our business through periods of economic or market slow-down and any subsequent future growth, we may not be able to execute our business plan and our operating results could suffer.***

Our future operating results depend to a large extent on our ability to successfully manage our business through periods of economic or market slow-down and periods of subsequent expansion and growth. To manage our growth successfully and handle the responsibilities of being a public company, we believe we must, among other things, effectively:

- recruit, hire, train and manage additional qualified engineers for our research and development activities, especially in the positions of design engineering, product and test engineering, and applications engineering;
- add additional sales personnel and expand sales offices;
- add additional finance and accounting personnel;
- implement and improve our administrative, financial and operational systems, procedures and controls; and
- enhance our information technology support for enterprise resource planning and design engineering by adapting and expanding our systems and tool capabilities, and properly training new hires as to their use.

Furthermore, to remain competitive and manage future expansion and growth, we must carry out extensive research and development, which requires significant capital investment. During periods of economic or market slow-down, we must also effectively manage our expenses to preserve our ability to carry out such research and development. We kept our operating expenses fairly flat in 2014 and decreased them in 2015, but with our initial success in introducing new LTE products and gaining design wins during 2015, we increased our investment in research and development in 2016, as well as sales and marketing, general and administrative and other functions to support the growth of our business. As our customer base broadens and as our customers launch products on more operators worldwide, we expect that operating expenses will increase somewhat in 2017. We are likely to incur these costs earlier than some of the anticipated benefits and the return on these investments, if any, may be lower, may develop more slowly than we expect, or may not materialize at all, which could harm our operating results.

If we are unable to manage our business during both periods of economic or market slow-down and growth effectively, we may not be able to take advantage of market opportunities or develop new products and we may fail to satisfy customer requirements, maintain product quality, execute our business plan or respond to competitive pressures, any of which could harm our operating results.

***The average selling prices of our semiconductor solutions have historically decreased over time and will likely do so in the future, which could harm our gross profits and financial results.***

Average selling prices of our semiconductor solutions have historically decreased over time, and we expect such declines to continue to occur. Our gross profits and financial results will suffer if we are unable to offset reductions in our average selling prices by reducing our costs, developing new or enhanced semiconductor solutions on a timely basis with higher selling prices or gross profits, or increasing our sales volumes. Even if we are successful in reducing our costs or improving sales volumes, such improvements may not be sufficient to offset declines in average selling prices in the future. Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs and our costs may even increase, either of which would reduce our margins. We have reduced the prices of our semiconductor solutions in line with and at times in advance of competitive pricing pressures, new product introductions by us or our competitors and other factors. We expect that we will have to do so again in the future.

***Any increase in the manufacturing cost of our products would reduce our gross margins and operating profit.***

The semiconductor business is characterized by ongoing competitive pricing pressure from customers and competitors. Accordingly, any increase in the cost of our products, whether by adverse purchase price or manufacturing cost variances or due to other factors, will reduce our gross margins and operating profit. We do not have long-term supply agreements with our manufacturing, test or assembly suppliers and we typically negotiate pricing on a purchase order by purchase order basis. Consequently, we may not be able to obtain price reductions or anticipate or prevent future price increases from our suppliers. Because we have a sole source of wafer supply and limited sources of test and assembly, we may not be able to negotiate favorable pricing terms from our suppliers. These and other related factors could impair our ability to control our costs and could harm our operating results.

***The semiconductor and communications industries have historically experienced significant fluctuations with prolonged downturns, which could impact our operating results, financial condition and cash flows.***

The semiconductor industry has historically been cyclical, experiencing significant downturns in customer demand. Because a significant portion of our expenses is fixed in the near term or is incurred in advance of anticipated sales, we may not

be able to decrease our expenses rapidly enough to offset any unanticipated shortfall in revenue. If this situation occurs, it could harm our operating results, cash flow and financial condition. Furthermore, the semiconductor industry has periodically experienced periods of increased demand and production constraints. If this occurs, we may not be able to obtain sufficient quantities of our semiconductor solutions to meet the increased demand, resulting in lost sales, loss of market share and harm to our customer relationships. We may also have difficulty in obtaining sufficient assembly and test resources from our subcontract manufacturers. Any factor adversely affecting the semiconductor industry in general, or the particular segments of the industry that we target, may harm our ability to generate revenue and could negatively impact our operating results.

The communications industry has experienced pronounced downturns, and these cycles may continue in the future. A future decline in global economic conditions could have adverse, wide-ranging effects on demand for our semiconductor solutions and for the products of our customers, particularly wireless communications equipment manufacturers or other participants in the wireless industry, such as wireless carriers. Inflation, deflation and economic recessions that harm the global economy and capital markets also harm our customers and our end consumers. Specifically, the continued deployment of new 4G networks requires significant capital expenditures and wireless carriers may choose not to undertake network expansion efforts during an economic downturn or time of other economic uncertainty. Our customers' ability to purchase or pay for our semiconductor solutions and services, obtain financing and upgrade wireless networks could be harmed, and networking equipment providers may slow their research and development activities, cancel or delay new product development, reduce their inventories and take a cautious approach to acquiring our products, which would have a significant negative impact on our business. If such economic situations were to occur, our operating results, cash flow and financial condition could be harmed. In the future, any of these trends may also cause our operating results to fluctuate significantly from year to year, which may increase the volatility of the price of the ADSs.

***Though we rely to a significant extent on proprietary intellectual property, we may not be able to obtain, or may choose not to obtain, sufficient intellectual property rights to provide us with meaningful protection or commercial advantage.***

We depend significantly on intellectual property rights to protect our products and proprietary technologies against misappropriation by others. We generally rely on the patent, trademark, copyright and trade secret laws in Europe, the United States and certain other countries in which we operate or in which our products are produced or sold, as well as licenses and nondisclosure and confidentiality agreements, to protect our intellectual property rights.

We may have difficulty obtaining patents and other intellectual property rights, and the patents and other intellectual property rights we have and obtain may be insufficient to provide us with meaningful protection or commercial advantage. We currently do not apply for patent protection in all countries in which we operate. Instead we select and focus on key countries for each patent family. In addition, the protection offered by patents and other intellectual property rights may be inadequate or weakened for reasons or circumstances that are out of our control. For instance, we may not be able to obtain patent protection or secure other intellectual property rights in all the countries in which we have filed patent applications or in which we operate, and under the laws of such countries, patents and other intellectual property rights may be or become unavailable or limited in scope.

We may not be able to adequately protect or enforce our intellectual property against improper use by our competitors or others and our efforts to do so may be costly to us, which may harm our business, financial condition and results of operations.

Our patents and patent applications, or those of our licensors, could face challenges, such as interference proceedings, opposition proceedings, nullification proceedings and re-examination proceedings. Any such challenge, if successful, could result in the invalidation or narrowing of the scope of any such patents and patent applications. Any such challenges, regardless of their success, would also likely be time-consuming and expensive to defend and resolve, and would divert management time and attention. Further, our unpatented proprietary processes, software, designs and trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and other persons. While we generally enter into confidentiality agreements with such persons to protect our intellectual property, we cannot assure you that our confidentiality agreements will not be breached, that they will provide meaningful protection for our proprietary technology and trade secrets or that adequate remedies will be available in the event they are used or disclosed without our authorization. Also, intellectual property rights are difficult to enforce in the People's Republic of China, or PRC, and certain other countries, particularly in Asia, where the application and enforcement of the laws governing such rights may not have reached the same level as compared to other jurisdictions where we operate, such as Europe and the United States. Consequently, because we operate in these countries and all of our manufacturing, test and assembly takes place in Taiwan and Singapore, we may be subject to an increased risk that unauthorized parties may attempt to copy or otherwise use our intellectual property or the intellectual property of our suppliers or other parties with whom we engage or have licenses.

There can be no assurance that we will be able to protect our intellectual property rights, that our intellectual property rights will not be challenged, invalidated, circumvented or rendered unenforceable, or that we will have adequate legal recourse in the event that we seek legal or judicial enforcement of our intellectual property rights. Any inability on our part to adequately protect or enforce our intellectual property may harm our business, financial condition and results of operations. We may in the future initiate claims or litigation against third parties for infringement of our intellectual property rights to protect these rights or to determine the scope and validity of our proprietary rights or the proprietary rights of competitors. These claims could result in costly litigation and the diversion of our technical and management personnel, and we may not prevail in making these claims.

***Assertions by third parties of infringement by us or our customers of their intellectual property rights could result in significant costs and cause our operating results to suffer.***

The markets in which we compete are characterized by rapidly changing products and technologies and there is intense competition to establish intellectual property protection and proprietary rights to these new products and the related technologies. The semiconductor and wireless communications industries, in particular, are characterized by vigorous protection and pursuit of intellectual property rights and positions, which has resulted in protracted and expensive litigation for many companies.

We may be unaware of the intellectual property rights of others that may cover some of our technology, products and services. In addition, third parties may claim that we or our customers are infringing or contributing to the infringement of their intellectual property rights.

We have in the past received and, particularly as a public company operating in a highly competitive marketplace, we expect that in the future we will receive communications and offers from various industry participants and others alleging that we infringe or have misappropriated their patents, trade secrets or other intellectual property rights and/or inviting us to license their technology and intellectual property. Any lawsuits resulting from such allegations of infringement or invitations to license, including suits challenging LTE standards, could subject us to significant liability for damages and/or challenge our activities. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling products or using technology that contain the allegedly infringing intellectual property;
- lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others;
- incur significant legal expenses;
- pay substantial damages to the party whose intellectual property rights we may be found to be infringing;
- redesign those products that contain the allegedly infringing intellectual property; or
- attempt to obtain a license to the relevant intellectual property from third parties, which may not be available on reasonable terms or at all.

Our customers could also become the target of litigation relating to the patents and other intellectual property rights of others. This could, in turn, trigger an obligation for us to provide technical support and/or indemnify such customers. These obligations could result in substantial expenses, including the payment by us of costs and damages relating to claims of intellectual property infringement. In addition to the time and expense required for us to provide support or indemnification to our customers, any such litigation could disrupt the businesses of our customers, which in turn could hurt our relationships with our customers and cause the sale of our products to decrease. We cannot assure you that claims for indemnification will not be made or that if made, such claims would not materially harm our business, operating results or financial conditions.

***Any potential dispute involving our patents or other intellectual property could also include our industry partners and customers, which could trigger our indemnification obligations to them and result in substantial expense to us.***

In any potential dispute involving our patents or other intellectual property, our licensees could also become the target of litigation, and certain customers have received notices of written offers from our competitors and others claiming to have patent rights in certain technology and inviting our customers to license this technology. Because we indemnify our licensees and customers for intellectual property claims made against them for products incorporating our technology, any litigation could trigger technical support and indemnification obligations in some of our license agreements, which could result in substantial payments and expenses by us. In addition to the time and expense required for us to supply support or indemnification to our licensees and customers, any such litigation could severely disrupt or shut down the business of our customers, which in turn could hurt our relations with our customers and cause the sale of our proprietary technologies and products to decrease.

***Our failure to comply with obligations under open source licenses could require us to release our source code to the public or cease distribution of our products, which could harm our business, financial condition and results of operations.***

Some of the software used with our products, as well as that of some of our customers, may be derived from so-called “open source” software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available to us under licenses, such as the GNU General Public License, which impose certain obligations on us in the event we were to make available derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the licenses we customarily use to protect our intellectual property. In addition, there is little or no legal precedent for interpreting the terms of certain of these open source licenses, including the determination of which works are subject to the terms of such licenses. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work.

***The complexity of our semiconductor solutions could result in unforeseen delays or expenses from undetected defects or design errors in hardware or software, which could reduce the market acceptance for our semiconductor solutions, damage our reputation with current or prospective customers and increase our costs.***

Highly complex semiconductor solutions such as ours can contain defects and design errors, which, if significant, could impair performance or prevent compliance with industry standards. We have not in the past, but may in the future, experience such significant defects or design errors. In addition, our semiconductor solutions must be certified by individual wireless carriers that such solutions function properly on the carrier’s network before our solutions can be designed into a particular product. If any of our semiconductor solutions have reliability, quality or compatibility problems from defects or design errors we may not be able to successfully correct these problems in a timely manner, or at all. Furthermore, we may experience production delays and increased costs correcting such problems. Issues in the carrier certification process, which varies among carriers, may also create delays. Consequently, and because our semiconductor solutions are a critical component of our customers’ products, our reputation may be irreparably damaged and customers may be reluctant to buy our semiconductor solutions, which could harm our ability to retain existing customers and attract new customers and harm our financial results. In addition, these defects or design errors or delays in the carrier certification process could interrupt or delay sales to our customers. If any of these problems are not found until after we have commenced commercial production of a new semiconductor solution, we may be required to incur additional development costs and product recalls, repairs or replacement costs. Furthermore, we provide warranties on our products ranging from one to two years, and thus may be obligated to refund sales with respect to products containing defects, errors or bugs. These problems may also result in claims against us by our customers or others, all of which could damage our reputation and increase our costs.

***The loss of any of our key personnel could seriously harm our business, and our failure to attract or retain specialized technical, management or sales and marketing employees could impair our ability to grow our business.***

We believe our future success will depend in large part upon our ability to attract, retain and motivate highly skilled management, engineering and sales and marketing personnel. The loss of any key employees or the inability to attract, retain or motivate qualified personnel, including engineers and sales and marketing personnel could delay the development and introduction of and harm our ability to sell our semiconductor solutions. We believe that our future success is dependent on the contributions of Georges Karam, our co-founder and chief executive officer, and Bertrand Debray, our co-founder and chief operating officer. The loss of the services of Dr. Karam, Mr. Debray, other executive officers or certain other key personnel could materially harm our business, financial condition and results of operations. For example, if any of these individuals were to leave unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity during the search for any such successor and while any successor is integrated into our business and operations.

Our key technical and engineering personnel represent a significant asset and serve as the source of our technological and product innovations. We plan to recruit additional design and application engineers with expertise in wireless broadband communications technologies. We may not be successful in attracting, retaining and motivating sufficient technical and engineering personnel to support our anticipated growth. In addition, to expand our customer base and increase sales to existing customers, we will need to hire additional qualified sales personnel. The competition for qualified marketing, sales, technical and engineering personnel in our industry is very intense. If we are unable to hire, train and retain qualified marketing, sales, technical and engineering personnel in a timely manner, our ability to grow our business will be impaired. In addition, if we are unable to retain our existing sales personnel, our ability to maintain or grow our current level of revenue will be harmed.

***Rapidly changing standards could make our semiconductor solutions obsolete, which would cause our operating results to suffer.***

We design our semiconductor solutions to conform to standards set by industry standards bodies such as the Institute of Electrical and Electronics Engineers, Inc. (IEEE), the 3rd Generation Partnership Project (3GPP) and Open Mobile Alliance (OMA). We also depend on industry groups such as the Global Certification Forum (GCF) and the PTS Type Certification Review Board (PTCRB) to help certify and maintain certification of our semiconductor solutions. If our customers adopt new or competing industry standards that are not compatible with our semiconductor solutions, if industry groups fail to adopt standards compatible with our semiconductor solutions or if our customers are requiring chip certifications that we did not design our products for, our existing semiconductor solutions would become less desirable to our customers and our sales would suffer. The emergence of markets for our products is affected by a variety of factors beyond our control. In particular, our semiconductor solutions are designed to conform to current specific industry standards. Competing standards may emerge that are preferred by our customers, which could also reduce our sales and require us to make significant expenditures to develop new semiconductor solutions. For example, as we expand into the Internet of Things market, we expect to face additional competition from companies such as SIGFOX or others using LoRa Wireless RF technology, a long range, low power consumption and data transmission protocol for Internet of Things devices. Wireless carriers have recently started testing 5G technology, the next phase of mobile telecommunications standards, which is expected to be introduced to the market by 2020. If we are unable to successfully develop or commercialize products for the 5G standard, our semiconductor solutions could become obsolete, which would cause our sales and financial results to suffer. Governments and foreign regulators may adopt standards that are incompatible with our semiconductor solutions, favor alternative technologies or adopt stringent regulations that would impair or make commercially unviable the deployment of our semiconductor solutions. In addition, existing standards may be challenged as infringing upon the intellectual property rights of other companies or may become obsolete.

***We outsource our assembly, testing, warehousing and shipping operations to third parties, and if these parties fail to produce and deliver our products in a timely manner and in accordance with our specifications, our reputation, customer relationships and operating results could suffer.***

We rely on third parties for the assembly, testing, warehousing and shipping of our products. We rely on United Test and Assembly Center Ltd., or UTAC; Siliconware Precision Industries Limited, or SPIL; StatschipPac Limited, or SPC; and other third-party assembly and test subcontractors for assembly and testing. We further rely on a single company for logistics and storage. We depend on these parties to supply us with material of a requested quantity in a timely manner that meets our standards for yield, cost and manufacturing quality. We are unable to maintain the same level of oversight and control of these outsourced operations as we would if we were to conduct them internally.

The services provided by these vendors could be subject to disruption for a variety of reasons, including natural disasters, such as earthquakes, labor disputes, power outages, or if our relationship with a vendor is damaged. If we experience problems at a particular location, we would be required to transfer the impacted services to a backup vendor, which could be costly and require a significant amount of time. During such a transition, we would be required to meet customer demand from our then-existing inventory, as well as any partially finished goods that can be modified to the required product specifications, which may not be possible or cost effective. Further, we do not have any long-term agreements with any of these vendors. If one or more of these vendors terminates its relationship with us, allocates capacity to other customers or if we encounter any problems with our supply chain, it could harm our ability to ship our products to our customers on time and in the quantity required, which in turn could cause an unanticipated decline in our sales and possibly damage our customer relationships.

***Certain natural disasters, such as coastal flooding, large earthquakes or volcanic eruptions, may negatively impact our business. Any disruption to the operations of our foundry and assembly and test subcontractors could cause significant delays in the production or shipment of our products.***

If coastal flooding, a large earthquake, volcanic eruption or other natural disaster were to directly damage, destroy or disrupt TSMC's manufacturing facilities or the facilities of our test and assembly contractors, it could disrupt our operations, delay new production and shipments of existing inventory or result in costly repairs, replacements or other costs, all of which would negatively impact our business. For example, substantially all of our semiconductor solutions are manufactured and assembled by third-party contractors located in Taiwan and Singapore. The risk of an earthquake or tsunami in Taiwan or Singapore, such as the major earthquakes that occurred in Taiwan in June 2003, December 2006 and February 2016, and elsewhere in the Pacific Rim region is significant due to the proximity of major earthquake fault lines to the facilities of our foundry vendor and assembly and test subcontractors. Even if these facilities are not directly damaged, a large natural disaster may result in disruptions in distribution channels or supply chains. Although our third-party contractors did not suffer any significant damage as a result of the most recent earthquakes, the February 2016 earthquake caused shipment delays in the first

and second quarter of 2016, and the occurrence of additional earthquakes or other natural disasters could result in the disruption of our foundry vendor or assembly and test capacity. For instance, the recent earthquake and tsunami in Japan, though it did not directly cause damage to any of our third-party contractors, may impair the ability of such contractors to procure components from vendors in Japan, and alternative suppliers may not be available in a timely manner or at all, and may impair the ability of our customers to procure components other than ours that are necessary to their production process, which in turn could result in a slowing of their production and consequently of purchases of our products. Any disruption resulting from such events could cause significant delays in the production or shipment of our semiconductor solutions as well as significant increases in our transportation costs until we are able to shift our manufacturing, assembling or testing from an affected contractor to an alternative vendor.

***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 costs.***

To remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller geometries and to achieve higher levels of design integration. These ongoing efforts require us from time to time to modify the manufacturing processes for our semiconductor solutions and to redesign some solutions, which in turn may result in delays in product deliveries. We periodically evaluate the benefits of migrating to new process technologies to reduce cost and improve performance. We may face difficulties, delays and increased expenses as we transition our products to new processes. We depend on our relationship with TSMC and our test and assembly subcontractors to transition to new processes successfully. We cannot assure you that TSMC or our test and assembly subcontractors will be able to effectively manage the transition or that we will be able to maintain our relationship with TSMC or our test and assembly vendors or develop relationships with new foundries and vendors if necessary. If TSMC, any of our subcontractors or we experience significant delays in transitioning to smaller geometries or fail to efficiently implement transitions, we could experience reduced manufacturing yields, or delays in product deliveries and increased costs, all of which could harm our relationships with our customers, our margins and our operating results. As new processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as end-customer and third-party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely or cost-effective basis.

***Changes in current laws or regulations or the imposition of new laws or regulations could impede the sale of our products or otherwise harm our business.***

Wireless networks can only operate in the spectrum allowed by regulators and in accordance with rules governing how that spectrum can be used. Regulators in various countries have broad jurisdiction over the allocation of spectrum for wireless networks, and we therefore rely on these regulators to provide sufficient spectrum and usage rules. For example, countries such as China, India, Japan or Korea heavily regulate all aspects of their wireless communication industries, and may restrict spectrum allocation or usage. If further restrictions were to be imposed over the frequency bands where our semiconductor solutions are designed to operate, we may have difficulty selling our products in those regions. In addition, our semiconductor solutions operate in the 2.5 and 3.5 gigahertz, or GHz, bands, which in some countries is also used by government and commercial services such as military and commercial aviation. European and United States regulators have traditionally protected government uses of the 2.5 and 3.5 GHz bands by setting power limits and indoor and outdoor designation and requiring that wireless local area networking devices not interfere with other users of the band such as government and civilian satellite services. Changes in current laws or regulations or the imposition of new laws and regulations in the markets in which we operate regarding the allocation and usage of the 2.5 and 3.5 GHz band may harm the sale of our products and our business, financial condition and results of operations.

***Adverse outcomes in tax disputes could subject us to tax assessments and potential penalties.***

From time to time, we are subject to tax audits that could result in tax assessments and potential penalties, particularly with respect to claimed research tax credits due to the judgment involved in determining which projects meet the tax code's criteria for innovation and fundamental research. For example, in May 2015, we received notification from the United Kingdom tax authorities that they made inquiries regarding the calculation method used in 2014 UK research tax credit and discussions with the authorities are ongoing. We disagreed with the tax authorities' position and defended our position, but ultimately the tax authorities' position prevailed and we settled the matter in 2016 for approximately the amount of the provision recorded in 2015: £170,000 (\$252,000). Our actual costs for any disputes in the future may be materially different from the provisions recorded if we are not successful in our appeal of any assessment, which could have a material adverse effect on our business.

***Regulations related to "conflict minerals" may force us to incur additional expenses, may result in damage to our business reputation and may adversely impact our ability to conduct our business.***

In August 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted requirements for companies that use certain minerals and derivative metals (referred to as “conflict minerals,” regardless of their actual country of origin) in their products. Some of these metals are commonly used in electronic equipment and devices, including our products. Depending on various circumstances, these new requirements will require companies to investigate, disclose and report whether or not such metals originated from the Democratic Republic of Congo or adjoining countries. We have an extremely complex supply chain, with numerous suppliers (many of whom are not obligated by the new law to investigate their own supply chains) for the components and parts used in each of our products. As a result, we may incur significant costs to comply with the diligence and disclosure requirements, including costs related to determining the source of any of the relevant metals used in our products. In addition, because our supply chain is so complex, we may not be able to sufficiently verify the origin of all the relevant metals used in our products through the due diligence procedures that we implement, which may harm our business reputation. We may also face difficulties in satisfying customers if they require that we prove or certify that our products are “conflict free.” Key components and parts that can be shown to be “conflict free” may not be available to us in sufficient quantity, or at all, or may only be available at significantly higher cost to us. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier. Any of these outcomes could adversely impact our business, financial condition or results of operations.

***Fluctuations in foreign exchange rates may harm our financial results.***

Our functional currency is the U.S. dollar. Substantially all of our sales are denominated in U.S. dollars and the payment terms of all of our significant supply chain vendors are also denominated in U.S. dollars. We incur operating expenses and hold assets and liabilities denominated in currencies other than the U.S. dollar, principally the euro, and to a lesser extent the British pound sterling, the Chinese yuan and the New Israeli shekel. As a result, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, primarily the U.S. dollar to euro exchange rate. As we grow our operations, our exposure to foreign currency risk could become more significant. If there had been a 10% increase or decrease in the exchange rate of the U.S. dollar to the euro, we estimate the impact, in absolute terms, on operating expenses for the year ended December 31, 2016 would have been \$2.2 million. Our exposure to foreign currency risk may change over time as business practices evolve and economic conditions change, including, for example, sudden global economic conditions resulting from measures like the referendum in the United Kingdom in June 2016, which resulted in a vote in favor of exiting the European Union, commonly referred to as “Brexit.”

We enter into foreign currency hedging contracts primarily to reduce the impact of variations in the U.S. dollar to euro exchange rate on our operating expenses denominated in euros. However, hedging at best reduces volatility and helps to lock in a target rate for the following six to twelve months but cannot eliminate the fundamental exposure and may not be effective.

***Our business and operations could suffer in the event of security breaches.***

Attempts by others to gain unauthorized access to our information technology systems are becoming more sophisticated. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. Hackers may also develop and deploy viruses, worms and other malicious software programs that attack or otherwise exploit security vulnerabilities in our systems or products. Attacks may create system disruptions, cause shutdowns or result in the corruption of our engineering data, which could result in delays in product development or software updates and harm our business. Additionally, the theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers’ or business partners’ confidential information, we may incur liability as a result. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. While we have identified some incidents involving attempts at unauthorized access, we are not aware of any that have succeeded. We expect to continue to devote resources to the security of our information technology systems.

***Our global operations are subject to risks for which we may not be adequately insured.***

Our global operations are subject to many risks including errors and omissions, infrastructure disruptions, such as large-scale outages or interruptions of service from utilities or telecommunications providers, supply chain interruptions, third-party liabilities and fires or natural disasters. No assurance can be given that we will not incur losses beyond the limits or outside the scope of coverage of our insurance policies. From time-to-time, various types of insurance may not be available on commercially acceptable terms or, in some cases, at all. We cannot assure you that in the future we will be able to maintain existing insurance coverage or that premiums will not increase substantially. We maintain limited insurance coverage and in some cases no coverage for natural disasters and sudden and accidental environmental damages as these types of insurance are

sometimes not available or available only at a prohibitive cost. Accordingly, we may be subject to an uninsured or under-insured loss in such situations.

### **Risks Related to Ownership of Our Shares and ADSs**

***Fluctuations in our operating results on a quarterly or annual basis and difficulty predicting our quarterly operating results could cause the market price of the ADSs to decline.***

Our revenue and operating results have fluctuated significantly from period to period in the past and will do so in the future. As a result, you should not rely on period-to-period comparisons of our operating results as an indication of our future performance. In future periods, our revenue and results of operations may be below the expectations of analysts and investors, which could cause the market price of the ADSs to decline.

Factors that may cause our operating results to fluctuate include:

- reductions in orders or cancellations by our customers;
- changes in the size, growth or growth prospects of the LTE and Internet of Things markets;
- changes in the competitive dynamics of our market, including new entrants or pricing pressures, and our ability to compete in the LTE market;
- timing and success of commercial deployments of and upgrades to 4G wireless networks;
- timely availability, at a reasonable cost, of adequate manufacturing capacity with the sole foundry that manufactures our products;
- our ability to successfully define, design and release new products in a timely manner that meet our customers' needs;
- timing and growth rate of revenues from the LTE market;
- changes in manufacturing costs, including wafer, test and assembly costs, mask costs and manufacturing yields;
- the timing of product announcements by competitors or us; and
- costs associated with litigation, especially related to intellectual property.

Moreover, sales of our semiconductor solutions fluctuate from period to period due to cyclicity in the semiconductor industry and the short product life cycles and wide fluctuations in product supply and demand characteristic of this industry. We expect these cyclical conditions to continue. Due to our limited operating history, we have yet to experience an established pattern of seasonality. However, business activities in Asia generally slow down in the first quarter of each year during the lunar new year period, which could harm our sales and results of operations during the period. Our expense levels are relatively fixed in the short-term and are based, in part, on our future revenue projections. If revenue levels are below our expectations, we may experience declines in margins and profitability or incur a loss from our operations. As a result, our quarterly operating results are difficult to predict, even in the near term, which may result in our revenue and results of operations being below the expectations of analysts and investors and which could cause the market price of the ADSs to decline.

***If securities or industry analysts cease to publish research reports about us or our industry, or if they adversely change their recommendations regarding the ADSs, the market price for the ADSs and trading volume could decline.***

The trading market for the ADSs is influenced by research reports that industry or securities analysts publish about us or our industry. If one or more analysts who cover us downgrade the ADSs, the market price for the ADSs would likely decline. If one or more of these analysts ceases coverage of us or fails to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

***We have no present intention to pay dividends on our ordinary shares in the foreseeable future and, consequently, your only opportunity to achieve a return on your investment during that time is if the price of the ADSs appreciates.***

We have no present intention to pay dividends on our ordinary shares in the foreseeable future. Any recommendation by our board of directors to pay dividends will depend on many factors, including our financial condition, results of operations, legal requirements and other factors. Accordingly, if the price of the ADSs falls in the foreseeable future, you will incur a loss on your investment, without the likelihood that this loss will be offset in part or at all by potential future cash dividends. In addition, even if we were to pay a dividend on our ordinary shares, French law may prohibit paying such dividends to holders of the ADSs or the tax implications of such payments may significantly diminish what you receive.

***French law may limit the amount of dividends we are able to distribute and exchange rate fluctuations may reduce the amount of U.S. dollars you receive in respect of any dividends or other distributions we may pay in the future in connection with your ADSs.***

Although our consolidated financial statements are denominated in U.S. dollars, under French law, the determination of whether we have been sufficiently profitable to pay dividends is made on the basis of our unconsolidated annual financial statements under the French commercial code in accordance with generally accepted accounting principles in France, which we refer to as French GAAP. Therefore, we may be more restricted in our ability to declare dividends than companies not based in France. In addition, exchange rate fluctuations may affect the amount of euros that we are able to distribute, and the amount in U.S. dollars that our shareholders receive upon the payment of cash dividends or other distributions we declare and pay in euros, if any. These factors could harm the value of the ADSs, and, in turn, the U.S. dollar proceeds that holders receive from the sale of the ADSs.

***You may not be able to exercise your right to vote the ordinary shares underlying your ADSs.***

Holders of ADSs may exercise voting rights with respect to the ordinary shares represented by the ADSs only in accordance with the provisions of the deposit agreement. The deposit agreement provides that, upon receipt of notice of any meeting of holders of our ordinary shares, the depositary will, as soon as practicable thereafter, fix a record date for the determination of ADS holders who shall be entitled to give instructions for the exercise of voting rights. Upon timely receipt of notice from us, if we so request, the depositary shall distribute to the holders as of the record date (i) the notice of the meeting or solicitation of consent or proxy sent by us and (ii) a statement as to the manner in which instructions may be given by the holders.

You may instruct the depositary of your ADSs to vote the ordinary shares underlying your ADSs. Otherwise, you will not be able to exercise your right to vote, unless you withdraw the ordinary shares underlying the ADSs you hold. However, you may not know about the meeting far enough in advance to withdraw those ordinary shares. If we ask for your instructions, the depositary, upon timely notice from us, will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot guarantee you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ordinary shares or to withdraw your ordinary share so that you can vote them yourself. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote, and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you requested.

***You may be subject to limitations on the transfer of your ADSs.***

Your ADSs, which may be evidenced by ADRs, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may refuse to deliver, transfer or register transfers of your ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary think it is advisable to do so because of any requirement of law, government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***As a foreign private issuer, we are exempt from a number of rules under the U.S. securities laws and are permitted to file less information with the SEC than a U.S. company; our ordinary shares are not listed, and we do not intend to list our shares, on any market in France, our home country. This may limit the information available to holders of the ADSs.***

We are a “foreign private issuer”, as defined in the SEC’s rules and regulations and, consequently, we are not subject to all of the disclosure requirements applicable to public companies organized within the United States. For example, we are exempt from certain rules under the Exchange Act that regulate disclosure obligations and procedural requirements related to the solicitation of proxies, consents or authorizations applicable to a security registered under the Exchange Act, including the U.S. proxy rules under Section 14 of the Exchange Act. In addition, our officers and directors are exempt from the reporting and “short-swing” profit recovery provisions of Section 16 of the Exchange Act and related rules with respect to their purchases and sales of our securities. Moreover, while we have and expect to continue to submit quarterly interim consolidated financial data to the SEC under cover of the SEC’s Form 6-K, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. public companies and are not required to file quarterly reports on Form 10-Q or current reports on Form 8-K under the Exchange Act. Furthermore, our ordinary shares are not listed and we do not currently intend to list our ordinary shares on any market in France, our home country. As a result, we are not subject to the reporting and other requirements of listed companies in France. For instance, we are not required to publish quarterly or semi-annual financial statements. Accordingly, there is less publicly available information concerning our company than there would be if we were a U.S. public company.

***As a foreign private issuer, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from NYSE corporate governance listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with NYSE corporate governance listing standards.***

As a foreign private issuer listed on the NYSE, we are subject to NYSE corporate governance listing standards. However, NYSE rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in France, which is our home country, may differ significantly from NYSE corporate governance listing standards. For example, neither the corporate laws of France nor our by-laws require a majority of our directors to be independent and we could include non-independent directors as members of our compensation committee and nominating committee, and our independent directors would not necessarily hold regularly scheduled meetings at which only independent directors are present. Currently, we intend to comply with the NYSE corporate governance listing standards to the extent possible under French law. However, if we choose to change such practice to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would under NYSE corporate governance listing standards applicable to U.S. domestic issuers.

***U.S. holders of the ADSs may suffer adverse tax consequences if we are characterized as a Passive Foreign Investment Company.***

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of our assets are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. To determine if at least 50% of our assets are held for the production of, or produce, passive income, we may use the market capitalization method for certain periods. Under the market capitalization method, the total asset value of a company would be considered to equal the fair market value of its outstanding shares plus outstanding indebtedness on a relevant testing date. Because the market price of the ADSs has fluctuated substantially and is likely to fluctuate in the future, and the market price may affect the determination of whether we will be considered a PFIC, there can be no assurance that we will not be considered a PFIC for any taxable year. While we do not believe we were a PFIC for 2016, there is no assurance that we will not be a PFIC in 2017 or later years. If we are characterized as a PFIC, U.S. holders of the ADSs may suffer adverse tax consequences, including having gains realized on the sale of the ADSs treated as ordinary income, rather than capital gain, the loss of the preferential rate applicable to dividends received on the ADSs by individuals who are U.S. holders, having interest charges apply to distributions by us and the proceeds of ADS sales and additional reporting requirements. We do not expect to provide to U.S. holders the information needed to report income and gain pursuant to a “qualified electing fund” election, which election would alleviate some of the adverse tax consequences of PFIC status, and we make no undertaking to provide such information in the event that we are a PFIC. See “Item 10.E—Taxation—Material United States Federal Income Tax Consequences.”

***You may be unable to recover in civil proceedings for U.S. securities laws violations.***

We are a corporation organized under the laws of France. The majority of our directors are citizens and residents of countries other than the United States, and the majority of our assets are located outside of the United States. Accordingly, it may be difficult for investors to obtain jurisdiction over us or our directors in courts in the United States and enforce against us or them judgments obtained against us or them. In addition, we cannot assure you that civil liabilities predicated upon the federal securities laws of the United States will be enforceable in France.

***The rights of shareholders in companies subject to French corporate law differ in material respects from the rights of shareholders of corporations incorporated in the United States.***

We are a French company with limited liability. Our corporate affairs are governed by our by-laws and by the laws governing companies incorporated in France. The rights of shareholders and the responsibilities of members of our board of directors are in many ways different from the rights and obligations of shareholders in companies governed by the laws of U.S. jurisdictions. For example, in the performance of its duties, our board of directors is required by French law to consider the interests of our company, its shareholders, its employees and other stakeholders, rather than solely our shareholders and/or creditors. It is possible that some of these parties will have interests that are different from, or in addition to, your interests as a stockholder.

***Our by-laws and French corporate law contain provisions that may delay or discourage a takeover attempt.***

Provisions contained in our by-laws and the corporate laws of France, the country in which we are incorporated, could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders. In addition,

provisions of our by-laws impose various procedural and other requirements, which could make it more difficult for shareholders to effect certain corporate actions. These provisions include the following:

- our shares are in registered form only and we must be notified of any transfer of our shares in order for such transfer to be validly registered;
- our by-laws provide for directors to be elected for three year terms, and we intend to elect one third of the directors every year;
- our shareholders may grant our board of directors broad authorizations to increase our share capital;
- our board of directors has the right to appoint directors to fill a vacancy created by the resignation, death or removal of a director, subject to the approval by the shareholders of such appointment at the next shareholders' meeting, which prevents shareholders from having the sole right to fill vacancies on our board of directors;
- our board of directors can only be convened by its chairman except when no board meeting has been held for more than two consecutive months;
- our board of directors meetings can only be regularly held if at least half of the directors attend either physically or by way of secured telecommunications;
- approval of at least a majority of the shares entitled to vote at an ordinary shareholders' general meeting is required to remove directors with or without cause;
- advance notice is required for nominations for election to the board of directors or for proposing matters that can be acted upon at a shareholders' meeting; and
- the sections of the by-laws relating to the number of directors and election and removal of a director from office may only be modified by a resolution adopted by 66 2/3% of our shareholders present or represented at the meeting.

***The exercise or conversion of outstanding stock options, founders warrants, restricted shares, warrants and convertible notes into ordinary shares will dilute the percentage ownership of our other shareholders and the sale of such shares may adversely affect the market price of the ADSs.***

As of December 31, 2016, there were outstanding stock options, founders warrants, restricted shares and warrants to purchase an aggregate of approximately 7.8 million of our ordinary shares, and more restricted shares, options and warrants will likely be granted in the future to our officers, directors, employees and consultants. We also have outstanding two issuances of convertible notes, the first of which may be converted into 7.3 million ADSs at a conversion price of \$1.85 per ADS and the second of which may be converted into 2.8 million ADSs at a conversion price of \$2.7126 per ADS. We may issue additional warrants or convertible notes in connection with acquisitions, borrowing arrangement or other strategic or financial transactions. The exercise of outstanding stock options, warrants, or convertible notes, and the vesting of restricted shares, will dilute the percentage ownership of our other shareholders. The exercise of these options, warrants and convertible notes and the vesting of restricted shares, with the subsequent sale of the underlying ordinary shares could cause a decline in the market price of the ADSs.

***If we raise additional capital in the future, your ownership in us could be diluted.***

Any issuance of equity we may undertake in the future to raise additional capital could cause the price of the ADSs to decline, or require us to issue shares or ADSs at a price that is lower than that paid by holders of our shares or ADSs in the past, which would result in those newly issued shares or ADSs being dilutive. If we obtain funds through a credit facility or through the issuance of debt or preferred securities, these securities would likely have rights senior to your rights as an ADS holder, which could impair the value of the ADSs.

#### **Item 4. Information on the Company**

##### **A. *History and Development of the Company***

##### **Our History**

Sequans Communications S.A. was incorporated as a *société anonyme* under the laws of the French Republic on October 7, 2003, for a period of 99 years. We are registered at the Nanterre Commerce and Companies Register under the number 450 249 677. Our principal executive offices are located at 15-55 boulevard Charles de Gaulle, 92700 Colombes, France, and our telephone number is +33 1 70 72 16 00. Our agent for service of process in the U.S. is GKL Corporate/Search, Inc., One Capitol Mall, Suite 660, Sacramento, California 95814.

Our website is [www.sequans.com](http://www.sequans.com). The information on, or that can be accessed through, our website is not part of this annual report.

As of the date of this annual report, there has been no indication of any public takeover offers by third parties in respect of our ADSs or ordinary shares or by the Company in respect of other companies' shares.

### **Principal Capital Expenditures**

Our capital expenditures for the years ended December 31, 2014, 2015 and 2016 amounted to \$6.2 million, \$5.5 million and \$5.4 million, respectively. These investments in property and equipment and intangible assets primarily consisted of purchases related to LTE product development and, to a lesser extent in 2014, leasehold improvements and furnishing for our new corporate office. We anticipate our capital expenditures in the year ended December 31, 2017 to be for ongoing LTE product development. We anticipate our capital expenditure in 2017 to be financed from our cash on hand plus financing from strategic alliances, R&D project financing and/or debt. Should we decide to broaden our product range by acquiring or developing complementary technologies, we would need additional capital expenditures in order to support development of multi-mode products.

### **B. *Business Overview***

#### **Overview**

We are a fabless designer, developer and supplier of 4G LTE semiconductor solutions for wireless mobile broadband applications, with a specific focus on the single-mode device market. Our solutions incorporate baseband processor and radio frequency, or RF, transceiver integrated circuits, or ICs, along with our proprietary signal processing techniques, algorithms and software stacks. Our high performance ICs deliver high throughput, low power consumption and high reliability in a small form factor and at a competitive price.

We believe the single-mode LTE, or LTE-only, device market is a potentially large and under served segment of the overall LTE device market, and that these devices are characterized by attractive attributes not typically found in the traditional multi-mode device market, which include legacy 2G and 3G wireless technologies. Specifically, we believe there are significant advantages in size, power consumption, product cost, development costs and certification costs for our customers producing LTE-only devices compared to their more expensive, larger, more power hungry and more complex multi-mode counterparts. Furthermore, we believe a growing proportion of cellular-connected "Internet of Things" (IoT) devices, such as industrial machine-to-machine (M2M) devices, will integrate 4G LTE connectivity solutions as result of the announced or expected shutdowns of many 2G networks and the longevity and technical advantages of 4G LTE in this market. In addition, the completion of 3GPP Release 13 in 2016 ratified two new LTE categories targeting low complexity, low data-use machine-type communications. LTE-M (also known as LTE Cat M) and NB-IoT (also known as Cat NB1) enable dramatically better power efficiency, reduced module costs and better coverage for M2M and IoT devices compared to traditional LTE or even 2G or 3G solutions. As a result, we believe that the LTE-only market will continue to increase, especially as operators fully deploy their LTE networks, as the volume of data traffic continues to grow, and as the IoT market adopts the new connectivity technologies. We believe our LTE solutions are among the most highly optimized, efficient and mature solutions in the industry, and that they are differentiated from those of both the multi-mode solutions providers and from rivals providing single-mode 4G LTE solutions.

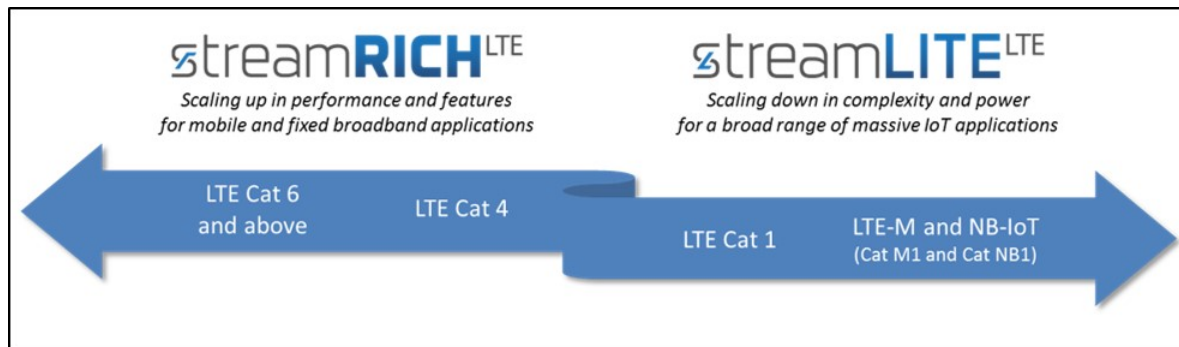
We have successfully brought to market seven generations of 4G wireless chipsets, including four generations of LTE chipsets. The cost, size and power efficiency of our LTE chip designs, coupled with our deep understanding of system-level architecture, our advanced wireless signal processing intellectual property and our RF expertise, enable us to provide high-performance, low-power and cost-efficient 4G semiconductor solutions, allowing us to target a wide range of wireless broadband and IoT devices. In the broadband data device market, our solutions serve as the core wireless communications platform in these devices, including USB dongles; portable routers; embedded wireless modems for computing and multimedia devices; and customer-premises equipment, such as fixed wireless broadband access modems, routers and residential gateways. In the Internet of Things device markets, our solutions provide connectivity for machine-to-machine devices and sensors in transportation, security, asset tracking, retail, smart energy, smart city, agriculture, healthcare and other applications. We also expect to see strong growth in the IoT market in consumer applications such as wearables and personal and property trackers.

From 2005 through December 31, 2016, we shipped approximately 22.9 million 4G baseband-based semiconductor solutions, which have been deployed by leading wireless carriers around the world. Until the end of 2012, our shipments were primarily 4G WiMAX products. Since 2012, shipments of our LTE products exceeded our WiMAX shipments, and we ceased shipments of WiMAX in 2015.

Given that LTE and WiMAX share a common technology platform, we leveraged our leadership in WiMAX to successfully develop highly competitive LTE semiconductor solutions that are being deployed globally. Our LTE solutions are

currently in commercial deployments in the United States, Canada, Italy, United Kingdom, Indonesia, Malaysia, Philippines, China, South Korea, India, Australia, Brazil and elsewhere.

Our LTE product line comprises two families: our StreamrichLTE™ family addresses the high-performance, feature-rich broadband device segment, while the StreamliteLTE™ family is designed specifically to address the unique price/performance requirements of the “Internet of Things” market, including connected consumer electronics and machine-to-machine devices. The figure below highlights our portfolio strategy, which allows us to target a variety of applications with purpose-built, price/performance-optimized chipset solutions.



In 2013, we introduced the EZLinkLTE™ family of LTE modules, which provide all-in-one connectivity solutions designed to simplify the task, and reduce the cost, of embedding LTE into mobile computers, tablets, and machine-to-machine devices. Several different EZLinkLTE modules have been certified by Verizon Wireless for use on their LTE network, and are shipping in various commercial devices for the Verizon Wireless LTE network. In addition, EZLinkLTE modules have been approved for use by AT&T and T-Mobile US. The module strategy was put in place primarily to seed the market with our technology and accelerate time-to-market for us and our customers during a period when traditional cellular module vendors were not providing LTE-only solutions. We have seen this shift significantly over the past two years, with multiple module vendors now offering LTE-only modules. It is our goal to increasingly rely on module vendors to provide these solutions, allowing us to focus our sales on chipsets.

The research firm Strategy Analytics projects that the number of LTE devices shipped annually will increase from 1.24 billion in 2016 to 2.1 billion in 2021, representing a CAGR of approximately 11%. Over 9.9 billion LTE devices are expected to ship over this timeframe, and according to Strategy Analytics, more than 1.3 billion of them will be single-mode LTE devices, about one quarter of them in the Internet of Things market. The firm goes on to project that the single-mode LTE device market will grow at a CAGR of nearly 88% in this period to reach annual shipments of 563 million units in 2021, with nearly half of the 2021 shipments coming in devices for the Internet of Things market.

Our LTE solutions are incorporated into devices sold by many leading OEMs and ODMs, including in the Verizon Wireless Ellipsis Jetpack MHS800L and MHS815L portable routers, the Gemalto Cinterion® ELS31 LTE Category 1 industrial M2M module, the Encore Networks EN-1000 industrial router and in a variety of devices and modules produced by Autonet, Baicells, Fibocom, Gemtek, Geotab, Huawei, LinkLabs, Netcomm, Nimbelinek, Orion Labs, USI, Wistron NeWeb, Wivity, ZMTel, ZTEWeLink and others.

Our total revenue increased from \$22.6 million in 2014 to \$32.5 million in 2015 to \$45.6 million in 2016, and our annual net loss decreased from \$34.1 million in 2014 to \$27.4 million in 2015 to \$24.8 million in 2016.

## Industry Background

### *Evolution of Wireless Networks*

The use of wireless communications devices has increased dramatically in the past decade, and mobile phones and wireless data services have become an integral part of day-to-day communication. According to the February 2017 Cisco® Visual Networking Index, mobile data traffic is expected to grow more than seven-fold from 2016 to 2021, a compound annual growth rate of 47%, and by 2021 over 79% of this data will run on 4G networks.

This increase in wireless data traffic is driven by two primary trends. First, the pervasiveness of the Internet with its vast array of rich media content and applications along with users' desire to be connected anywhere and anytime using a variety of different wireless devices is driving a fundamental change in wireless data usage models and increasing demand for high speed

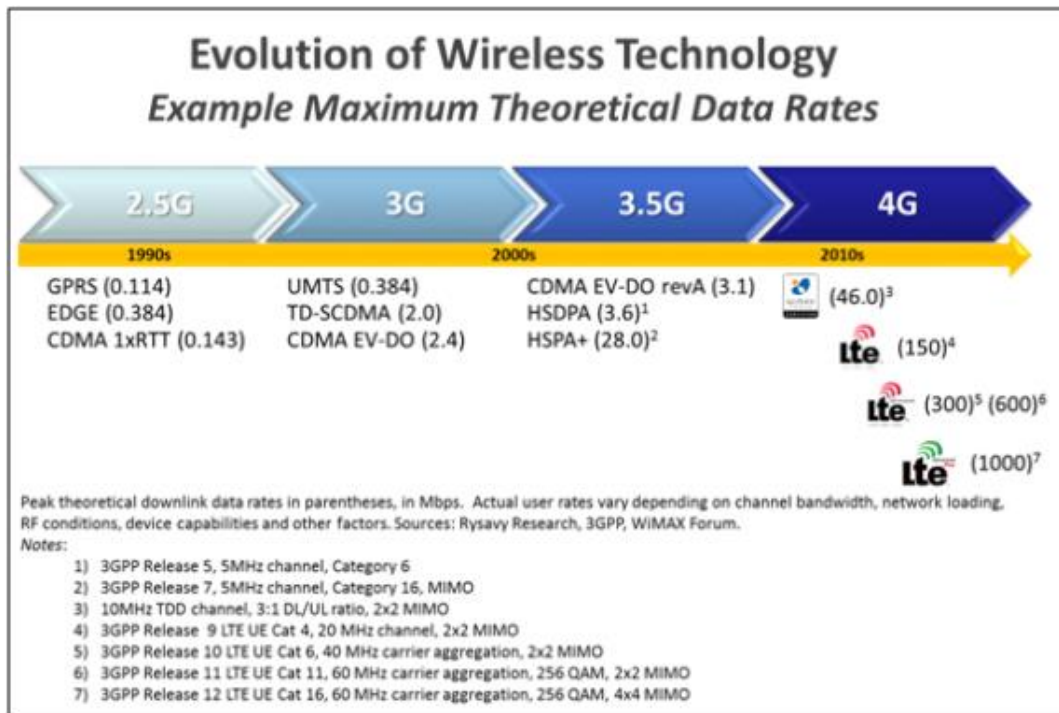
wireless data connectivity. Second, rapid advances in performance and functionality have resulted in mobile phones evolving from solely voice-centric communications devices into data-intensive devices, such as smartphones and tablets, that support high-definition video, bandwidth-intensive Internet applications and streaming multimedia content, all of which require additional wireless network throughput. As a result, wireless carrier networks using 2G or 3G technology, originally designed primarily for voice traffic, strained to reliably handle the dramatic increase in wireless broadband data demand. This has been a major driver of the rapid shift by operators in many regions to 4G LTE technology to better meet this demand.

Wireless technologies have evolved through successive generations of protocols driven by the need for more efficient networks with greater bandwidth and capacity to handle a rising number of subscribers and increasing usage of broadband data services. Launched in 1991, 2G wireless networks, based on the Global System for Mobile Communications, or GSM, standard, and later the IS-95 standard based on Code Division Multiple Access, or CDMA, technology, were the first mobile telephone networks to use digital technology to digitize and compress voice traffic for more efficient use of spectrum bandwidth. These networks were designed primarily to support voice traffic, although ultimately they were capable of supporting data rates up to 64 kilobits per second, or Kbps, using a circuit-switched data connection.

In the late 1990s, 3rd Generation Partnership Project, or 3GPP, began defining 3G networks based on the Universal Mobile Telecommunications System, or UMTS, standard. The first UMTS networks were established in the early 2000s and ultimately supported peak downlink data rates of 28 Mbps and higher. In parallel to these 3GPP efforts, 3rd Generation Partnership Project 2, or 3GPP2, defined the specifications for CDMA2000, which supported 1xEV-DO (Evolution Data Only) implementations capable of up to 3.1 Mbps downlink speeds.

Despite the advances in data rates provided by these improvements on both the 3GPP and 3GPP2 paths, these 2G and 3G networks remain constrained by legacy technologies that were designed primarily for voice traffic, which are characterized by limited throughput and inefficient utilization of spectrum. Unable to effectively address the fast growing demand for wireless broadband data services in a cost effective manner using legacy 2G and 3G networks, most wireless carriers have moved to what are commonly referred to as ‘4G’ networks using LTE technology, which provide much higher peak downlink and uplink speeds in a more spectrally-efficient manner. The first version of the 3GPP LTE specification, Release 8, defined four User Equipment (UE) categories, or performance levels. UE Category 1 provides peak downlink speeds of 10 Mbps, and uplink of 5 Mbps. UE Category 2 provides 50 Mbps downlink and 25 Mbps uplink, while Categories 3 and 4 deliver 100 Mbps and 150 Mbps downlink, respectively, each with a peak uplink speed of 50 Mbps. In subsequent releases of the 3GPP LTE specifications, Releases 10 and later), called LTE-Advanced, additional improvements in features and performance were specified. These LTE-Advanced networks are already deployed by at least 187 operators worldwide, according to a February 2017 report by the Global Mobile Suppliers Association. The initial versions of LTE-Advanced can provide as much as 300 Mbps of downlink speed (3GPP Release 10 UE Category 6), with subsequent versions providing downlink speeds of up to 600 Mbps and peak uplink speeds of up to 100 Mbps (3GPP Release 12 User Equipment Category 12). More recently several UE Categories (16 and above, introduced as part of 3GPP Release 12 and 13) have specified speeds up to or exceeding 1 gigabit per second (Gbps). These higher speed categories involve aggregating multiple carriers, applying higher-order MIMO antenna technology, and more advanced modulation techniques.

The figure below provides a simplified perspective on the evolution of wireless technologies providing ever-increasing performance:



Wireless carriers are seeking to quickly deploy and transition existing wireless data services to more efficient 4G networks, which require less capital expenditure for a given amount of data throughput. At the same time, potential average revenue per account, or ARPA, can be increased by providing value-added mobile broadband services and solutions that are better enabled by the speed and performance of 4G networks. According to the February 2017 Cisco® Visual Networking Index, mobile video will increase 8.7-fold between 2016 and 2021, accounting for 78% of total mobile data traffic, which is particularly problematic for legacy networks to support economically. These factors are key drivers of the move by mobile network operators to LTE technology.

Additionally, carriers in developing regions are increasingly embracing 4G wireless technology as a cost-effective and easier-to-deploy alternative to wireline networks for delivering broadband capability to subscribers. According to a 2016 report by the International Telecommunications Union, developing regions of the world had only 8.2 wired broadband subscriptions per 100 inhabitants, about 72% below that of developed regions. 4G wireless technology is being deployed in many of these developing regions to increase access to broadband services. This trend is expected to continue, especially as the higher UE category implementations approach gigabit per second performance levels.

While increasing demand for mobile and fixed broadband connectivity is driving LTE technology along a performance vector, the emerging IoT market is pushing wireless technology along a different vector. Many M2M and IoT applications are moving to LTE connectivity for its expected longevity, and because the technology is being optimized for improved coverage, reduced power consumption and lower cost. Many machine-to-machine connections are of the “set it and forget it” variety, and are expected to remain operational for ten or more years, sometimes powered by a battery. According to the February 2017 Cisco® Visual Networking Index, global M2M traffic is expected to grow at a 70% CAGR from 2016 to 2021, and over 3.3 billion M2M modules are expected to be connected by 2021. The overall surge in the number of mobile and M2M connections and the traffic they produce, coupled with the relative scarcity of available wireless spectrum, has prompted a number of operators, including AT&T in the United States and others in South Korea and Japan, to shut down their aging 2G networks so they can re-farm the spectrum for use with 4G LTE technology. As a result, many new machine-to-machine and “Internet of Things” device deployments are incorporating LTE technology, despite the fact that some may not need the throughput performance provided by traditional LTE UE Categories.

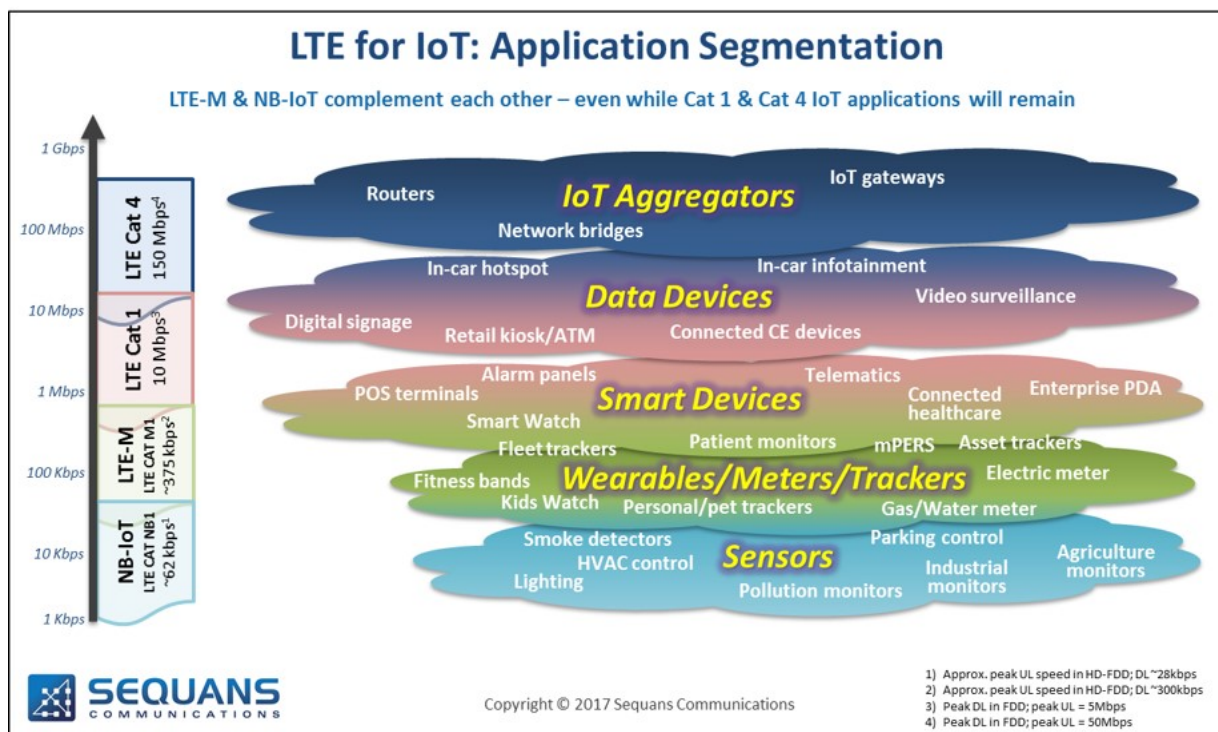
Recently, the industry has introduced new variants of LTE which optimize for low power consumption and reduced complexity, rather than high speed, in order to address the needs of machine-to-machine and other connected objects in the Internet of Things. Specifically, in 2015 and 2016, LTE Category 1, with a peak downlink speed of 10 Mbps, was deployed by

operators such as Verizon, T-Mobile, AT&T and NTT DoCoMo to enable their IoT and M2M customers to move from legacy 2G and 3G technology to LTE.

Meanwhile, 3GPP has defined LTE-based standards for Machine-Type Communications (MTC), introducing narrower bandwidths, reduced complexity, reduced throughput, improved coverage and reduced power modes to the LTE standard. These new MTC features began to be introduced in 3GPP Release 12, with further additions and optimizations in Release 13. The optimizations are summarized in the graphic below.



3GPP Release 13, completed in mid-2016, introduced LTE-M, also called LTE Category M1, featuring 1.4 MHz bandwidth and peak speeds under 1 Mbps; and it also introduced a narrowband IoT (NB-IoT) category, also called Category NB1, with 200 kHz bandwidth and peak speeds under 200 kbps. These new categories provide excellent power efficiency, enabling years-long battery life for the devices they connect. They also provide superior network coverage and reduced module costs compared to their predecessor technologies, including traditional LTE, 2G and 3G. In addition, these new technologies are compatible with existing LTE networks, generally via a software upgrade to the network infrastructure already deployed, and they can operate on the same spectrum already deployed by LTE operators. This combination of attributes is expected to drive significant demand for these technologies in M2M and IoT applications. The graphic below depicts how various LTE categories might map to a range of IoT applications.



## **4G Wireless Networks**

4G architecture represents a fundamental technological change in the design of wireless communication networks. 2G and 3G networks were originally designed to support voice communications and utilize older circuit switching technology based on wireline telephone system design concepts. Circuit switching technology is inflexible as it requires a continuous dedicated connection between the source and destination of the communication, and is inefficient as network capacity is wasted on connections that are established but not in continuous use. 4G, which employs concepts such as packet switching and internet protocol, or IP, improves the scalability and performance of data networks. Packet switching technology makes more efficient use of network capacity for data communication by transmitting data in packets over multiple shared connections as compared to a dedicated connection. OFDMA and MIMO have emerged as key technologies that increase efficient use of spectrum, signal reliability, throughput and range in 4G networks compared to 2G and 3G networks.

- *OFDMA* is a digital modulation and access technique that achieves significantly higher throughput within a given frequency spectrum than the TDMA and CDMA techniques used in 2G and 3G wireless networks. OFDMA splits the wireless signal into multiple lower frequency sub-signals spread throughout available spectrum during transmission, effectively reducing the demands on the network for each sub-signal and enabling increased overall speed and performance.
- *MIMO* is a smart antenna technology that enables higher data throughput and signal range without requiring additional bandwidth or transmit power. MIMO employs multiple antennae to more efficiently transmit and receive wireless data.

The throughput and range extension capabilities of OFDMA and MIMO technologies also enable infrastructure installations to cover a larger service area and provide increased network capacity, thereby reducing capital expenditures for wireless carriers.

The commonly accepted 4G protocols, LTE and WiMAX, are IP-based, share the same OFDMA and MIMO technologies and have very similar radio designs, coding schemes and signal processing algorithms. WiMAX was defined as a standard and deployed ahead of LTE as carriers sought to monetize available frequency spectrum using a Time Division Duplexing, or TDD, RF technology. TDD transmits and receives signals on the same frequency using a time-sharing scheme, whereas Frequency Division Duplexing, or FDD, uses different, but 'paired' frequencies to transmit and receive signals simultaneously. While WiMAX is deployed almost exclusively in one of a limited number of TDD frequency bands, LTE is compatible with both TDD and FDD spectrum and can be deployed in many different frequency bands.

LTE has become the dominant technology for 4G wireless broadband access, particularly among large mobile operators who have historically deployed 3GPP or 3GPP2 technology. The Global Mobile Suppliers Association counted 581 commercial LTE networks in 186 countries as of January 31, 2017, making it the fastest developing mobile communications system technology ever. Worldwide subscribers were estimated at 1.74 billion at the end of 2016 by GSMA. Leading this trend, according to company reports, China Mobile had over 535 million LTE subscribers at the end of 2016, Reliance Jio in India had over 100 million LTE subscribers by February 2017, and Verizon Wireless in the U.S. had over 90 million active LTE connections at the end of 2016. According to GSMA, LTE subscribers will exceed 3.6 billion by 2020. This growth in subscribers accompanies an LTE device market that is expected to grow from 1.2 billion units shipped in 2016 to 2.1 billion units shipped in 2020, according to Strategy Analytics.

The rapid pace of deployment of LTE networks worldwide implies that in some regions, operators are preparing to achieve LTE coverage at parity or better compared to their 2G or 3G coverage footprint. Verizon Wireless for instance has said that it has substantially completed its LTE network build as of mid-2013, achieving population coverage parity with their 3G network of over 97%. Meanwhile, South Korean and Japanese LTE operators achieved 100% population coverage in 2012. In this environment, many devices will not require 2G or 3G support. Initially, this is especially true outside the handset market, in devices such as tablets, laptops, mobile hotspots, USB modems, consumer electronics devices, and M2M applications. In these data devices the usage models are data-centric rather than voice-centric, and there are significant advantages in size, power consumption, product cost, development costs and certification costs for LTE-only implementations compared to their more expensive, larger, more power hungry and more complex multi-mode equivalents. In some regions, LTE-only handsets will emerge as well, particularly for domestic use. These LTE-only device-level advantages, coupled with the network-level economic benefits to carriers, imply that a significant market exists for LTE-only devices. Strategy Analytics expects 9.9 billion total LTE devices will be shipped worldwide from 2016 to 2021, and that the LTE-only share of the total LTE device market is expected to exceed 25% by 2021.

### *Challenges Faced By 4G Wireless Semiconductor Providers*

Suppliers of 4G semiconductor solutions face significant challenges:

- *Execution Challenges.* The rapid evolution of wireless protocols, such as LTE to LTE Advanced, requires sustained product development excellence and ongoing collaboration with carriers to meet market technology needs. Subscriber demand and carriers' push to increase revenues by providing new and higher performance devices have driven OEM and ODM product life cycles to become shorter and require semiconductor solution providers to adhere to quick time-to-market schedules while providing fast and efficient transition from design-in to volume production. In addition, wireless carriers require semiconductor solutions to undergo extensive certification qualification and interoperability testing prior to mass production.
- *Technology Challenges.* In order to increase throughput with minimal cost, wireless carriers require more efficient use of spectrum through the implementation of complex signal processing algorithms, such as OFDMA and MIMO, that require a significant amount of system-level and software expertise in addition to IC design knowledge. In addition, OEM and ODM customers' desire for continuous improvements in power efficiency, reduced form factor and lower cost require rapid design cycles employing increasingly advanced silicon processes, improved RF transceiver performance and integration of additional features. Furthermore, until LTE networks are fully deployed by the carrier, the need to provide an optimal user experience in areas of poor network coverage or areas where coverage changes from 2G or 3G to 4G requires multi-mode system designs that are capable of seamlessly transitioning between the technologies.

## Our Competitive Strengths

We believe the following competitive strengths enable us to address the challenges faced by 4G wireless semiconductor providers:

- ***A strong track record of execution in 4G.*** We believe we are well positioned in the single-mode LTE market, with approximately 60 customers having already launched or in the development phase of products using Sequans LTE chipsets, and in particular we have become recognized as a market leader in LTE for IoT chipsets. We were an early provider of WiMAX products and have been shipping our wireless broadband semiconductor solutions since 2005. Since we commenced operations in 2004, we have accomplished the following milestones:
  - released seven generations of 4G semiconductor solutions – including four generations of LTE – that have been deployed in a variety of devices including smartphones, USB dongles, tablets, mobile routers, broadband access CPEs, in-car telematics devices and industrial IoT devices;
  - became the leading provider of WiMAX chipsets by 2010, having designed our WiMAX solution into multiple devices, including the highly successful HTC EVO 4G, the first mass-market 4G smartphone, followed by eight more HTC devices;
  - introduced our first generation LTE chipset in May 2010, a full 20MHz bandwidth TDD LTE solution, which was used by China Mobile in the first TDD LTE network demonstration and was launched in several commercial networks, including in Australia and Brazil;
  - at the end of 2011, introduced our StreamrichLTE™ family of second-generation LTE chipset solutions, one of the industry's first solutions to support Category 4 throughput of up to 150Mbps in the downlink. In 2012, this solution was certified on Verizon Wireless' network;
  - introduced our StreamliteLTE™ family of products in the fourth quarter of 2012, optimized for the price/performance requirements of the "Internet of Things" market, including connected consumer electronics and machine-to-machine devices;
  - introduced our third-generation LTE chipset solution in the first quarter of 2013, supporting LTE Advanced and 3GPP Release 10 features, including support for carrier aggregation up to a total of 40MHz bandwidth and 300 Mbps Category 6 performance, an industry-first capability;
  - introduced our EZLinkLTE™ family of LTE modules in the second quarter of 2013, designed to reduce time to market for LTE-only device manufacturers, and achieved Verizon Wireless certification of the first two members of the EZLinkLTE module family;
  - introduced our Colibri LTE chipset platform in June 2014, an all-new, cost-optimized Category 4 LTE solution and member of our StreamliteLTE family, designed for mobile computing and the Internet of Things markets. The chipset and two EZLinkLTE modules were certified by Verizon in 2015;
  - introduced the world's first LTE Category 1 chipset, Calliope, in January 2015, a cost- and power-optimized Category 1 LTE solution and member of our StreamliteLTE family, targeting M2M and Internet of Things

applications where high throughput is not a requirement. The chipset and an EZLinkLTE module were also certified by Verizon in 2015;

- announced a partnership with TCL Communication on 5G research in March 2015;
- announced in July 2015 that Gemalto M2M had selected Sequans' Calliope LTE Category 1 chipset to power a family of Cinterion® industrial M2M modules, and in February 2016 the extension of our strategic partnership with Gemalto choosing Sequans' LTE Release 13 Category M chipset for future IoT and M2M modules;
- disclosed in September 2015 that T-Mobile US had chosen our Calliope LTE Category 1 chipset for their M2M demonstration at CTIA's Super Mobility Week event;
- announced that Sequans' Colibri LTE Category 4 chipset is certified for use on AT&T's network, having passed their ADAPT chipset verification program in December 2015;
- announced in January 2016 a strategic partnership with Foxconn subsidiary Socle, aimed at creating system-on-chip solutions for the IoT market based on Sequans' LTE technology;
- announced in February 2016 a strategic partnership with Verizon wireless to accelerate availability of LTE for IoT chipsets supporting 3GPP Release 13 standards for narrowband LTE technology;
- announced a collaboration in February 2016 with Skyworks for developing IoT-optimized RF front-end solutions for Sequans LTE for IoT chipsets;
- introduced in February 2016 Sequans' fourth-generation LTE chip, Monarch, the world's first 3GPP Release 13 LTE Category M and narrowband IoT capable chipsets, targeting low data-use IoT applications;
- announced in March 2016 the certification of Sequans' Calliope LTE Cat 1 chipset with Japan's largest operator, NTT DoCoMo;
- introduced the US60L, an EZLinkLTE module designed for multiple US carrier networks, and disclosed that it has been certified by AT&T's Network Ready Labs in April 2016;
- announced in May 2016 the certification of Sequans' Calliope LTE Cat 1 chipset at AT&T;
- announced that Sequans' Cassiopeia LTE Advanced chipset was selected by ZTE WeLink in August 2016, and by Baicells in November 2016 for use in broadband wireless devices;
- demonstrated Sequans' Monarch LTE-M chip at CTIA's Mobility Week event in September 2016, marking what we believe was the world's first LTE-M live demonstration;
- completed what we believe was the world's first over-the-air LTE-M data call with Verizon in October 2016;
- in October 2016, announced four customer design wins for Sequans' Monarch LTE-M chip, including Gemalto, LinkLabs, Nimbelink and Encore Networks;
- demonstrated Sequans' Monarch LTE-M chip at NTT DoCoMo in November 2016;
- announced that Pycom selected Sequans' Monarch LTE-M chip;
- announced in December 2016 that SIMCom selected Sequans' Calliope LTE Cat 1 chipset for a family of IoT modules;
- in December 2016, announced that Fibocom chose Sequans' Monarch LTE-M chip for a family of IoT modules;
- disclosed in January 2017 that Verizon had certified Sequans' Monarch LTE-M chip in December 2016, making it the world's first carrier-certified LTE-M chip;
- announced in January 2017 that Geotab selected Sequans' Calliope LTE Cat 1 chipset for use in vehicle telematics devices;
- in February 2017, completed Europe's first LTE-M data call with Telefónica in Spain;
- announced in February 2017 a collaboration with STMicroelectronics on the creation of an LTE-M IoT design kit using Sequans' Monarch chip;
- in February 2017, introduced Monarch SX, a highly integrated LTE-M/NB-IoT system-on-chip for IoT;

- announced in February 2017 that Orion Labs selected Sequans' Monarch LTE-M chip for their voice-enabled wearables products; and
- in February 2017, announced that Huawei selected Sequans' Monarch LTE-M chip for a family of IoT modules, marking the eighth publicly announced Monarch customer.
- ***Understanding of wireless system-level architecture and expertise in signal processing.*** We have an end-to-end understanding of wireless system-level architectures and networks based on our team's experience in a broad range of wireless technologies including 2G, 3G, Wi-Fi, WiMAX and LTE. This enables us to serve as a trusted advisor to wireless carriers, OEMs and infrastructure vendors to optimize the performance of their 4G devices and networks. For example, our solutions offer improved standby-mode battery life in 4G devices as a result of our in-depth understanding of the interactions between the device and the network and of our implementation of advanced power-saving techniques in our solutions. For instance, we have implemented a proprietary technique called Dynamic Power Management in our Monarch chip that assures the longest possible battery life for IoT devices by dynamically adapting the chip's deep-sleep implementation to the traffic patterns of various IoT use cases.
- ***High performance solutions for 4G applications.*** Our solutions offer high performance for use in a wide array of 4G-enabled devices. The key performance characteristics of our solutions include:
  - high throughput with peak downlink data transfer rates of 150 Mbps in our LTE solutions and up to 300 Mbps in our LTE-Advanced solution;
  - high power efficiency in both active and idle modes using our patented idle mode optimization algorithms that improve standby time and help maximize device battery life;
  - support for an advanced technology called hybrid automatic repeat request, or hybrid ARQ, which significantly enhances RF link robustness and throughput, improving mobility and range;
  - inclusion of LTE broadcast support in our LTE solutions using a feature called evolved multimedia broadcast multicast service, or eMBMS, which enables carriers to deliver new multimedia services in an economical and spectrally efficient manner;
  - development and integration of a unique LTE interference mitigation technology, Sequans Active Interference Rejection (Sequans AIR™) into our LTE solutions for improved cell edge performance, enhanced network capacity and enhanced user experience;
  - support for LTE-Advanced features, including carrier aggregation, a capability of creating a single virtual wide channel from two different narrower channels, resulting in higher throughput; and
  - integration of complete on-chip support for Voice over LTE (VoLTE), including support for high-definition voice using wideband codecs.
- ***Highly optimized 4G solutions.*** We have successfully produced and ramped into commercial production seven generations of 4G system-on-chip, or SoC, semiconductor solutions. This experience has resulted in what we believe to be one of the industry's most efficient implementations, providing high performance at low cost and low power consumption. Some of our solutions have integrated the baseband processor and the RF transceiver into a single die, resulting in extremely high integration, small footprint and low cost. In addition, we successfully migrated our baseband processors from 130nm to 65nm CMOS technology in 2009, and again to 40nm CMOS technology with our second-generation LTE SoC which became available in 2012. With the introduction of our Monarch LTE-M/NB-IoT chip in 2016, we delivered a very high level of integration, providing baseband, RF transceiver, power management and memory all in a single chip of less than 50mm<sup>2</sup>. And in February 2017, we announced our Monarch SX LTE-M system-on-chip, with even more integration, including an application processor, graphics processor and display controller, sensor hub and media processing engine, along with our Monarch LTE-M/NB-IoT modem, all in a single chip, further reducing the design effort for makers of IoT devices. Furthermore, our comprehensive software solutions help our customers get to market quickly with an optimized, mature and field proven solution. Our highly optimized solutions offer key advantages for both ourselves and our end customers:
  - Lower overall system cost for our end customers, coupled with higher functionality and smaller form factor. Our ability to integrate digital and RF functions into a single device also allows us to maintain higher product margins as we believe device manufacturers are willing to pay a premium for our integrated 4G solutions, while also enabling us to reduce our manufacturing costs for wafer fabrication, assembly and testing.

- The implementation of advanced “known good die” and wafer-level chip-scale packaging (WLCSPP) technology, which reduces chip cost and design footprint, enables the creation of very small and cost-effective LTE modules
- Simplified product design for device manufacturers, as our solutions incorporate all key components required for a 4G device in a single die or package. For instance, our Monarch chip incorporates baseband processor, RF transceiver, power management and memory in a single 6.5 x 8 mm package. We believe these advantages enable our products to be incorporated into leading edge devices that offer a high quality user experience, as well as accelerate our end customers’ time-to-market.
- Proprietary embedded protocol software that has been exhaustively tested with major basestation vendors’ equipment to ensure reliable performance in the field. We also offer host software that facilitates rapid development of high performance device drivers, connection managers and other key application-layer software functionality.

## Our Strategy

Our goal is to be a leading provider of next-generation single-mode wireless semiconductors by providing best-in-class solutions that enable mass-market adoption of 4G technologies worldwide. Key elements of our strategy include:

- **Identifying and optimally serving LTE-only market segments.** As the LTE market grows and matures, and as operators aggressively build out their LTE networks and refarm their 2G and 3G spectrum to support demand for data capacity on LTE, we expect to see significant growth in the demand for single-mode LTE, or LTE-only, devices. In our estimation, this demand will come from three areas:
  - 1) **Broadband devices:** Mobile routers, also called mobile hotspots, provide convenient, on-the-go Internet access via WiFi for users in homes, offices, hotel rooms, vehicles and outdoor locations. Fixed-location (non-mobile) routers provide broadband Internet access for homes and businesses. Mobile routers are popular with customers of traditional mobile operators, and because of the favorable economics of LTE networks compared to 2G and 3G networks, and the potential for heavy data consumption by a mobile router user, LTE-only versions of this device type are expected to become more common. Fixed, or home, routers (also sometimes generically called broadband wireless CPE, or customer premise equipment) are increasingly being deployed as a ‘last-mile’ or wireless local loop solution by emerging operators to provide basic broadband access where it may be prohibitively expensive to deploy wireline broadband infrastructure using fiber, cable or DSL. Single mode LTE-only designs are a logical choice for these home routers for cost and performance reasons, and because the devices are not mobile and therefore do not need to ‘fall back’ to a 2G or 3G connection. Strategy Analytics projects that, together, shipment of LTE-only versions of these two device types will exceed 400 million units from 2016 to 2021. Solutions from both our StreamrichLTE family (Cassiopeia LTE-Advanced platform, for instance) and our StreamliteLTE family (Colibri LTE chipset platform) can ideally address these device types.
  - 2) **Internet of Things and M2M devices:** Increasingly, established mobile network operators are looking beyond the saturated smartphone marketplace to add the devices and users needed to maintain profitable growth. One area of particular interest to these operators is the opportunity to add connected ‘things’ (rather than people) to their networks. The traditional machine-to-machine market is considered a subset of this larger connected objects space, often called “The Internet of Things” (or IoT). While a large number of IoT connections are expected to use WiFi, Bluetooth or some other local-area or personal-area networking technology, there are many applications for wide-area connectivity which can be addressed by cellular networks. Applications for cellular connectivity include smart utility meters, asset tracking, industrial automation and monitoring, retail, smart cities, consumer wearables, agriculture and environmental monitoring, mobile/remote healthcare, security and more. Given the rapid move to LTE by network operators, the spectral efficiency and low latency of LTE networks, and the longer life cycles of some of these applications, the use of LTE in many of these applications is expected to increase, despite the fact many of them do not require high throughput. According to data from ABI Research and Strategy Analytics, over 500 million LTE-based M2M modules and wearable devices will ship from 2016 to 2021. This trend toward the use of LTE in the IoT market began with the arrival of cost- and power-optimized Category 1 LTE solutions in 2015, and is expected to accelerate with the arrival of machine type communications (MTC)-optimized 3GPP Release 13 LTE solutions, which define LTE-M and NB-IoT user equipment categories. Among other things, these new specifications simplify the LTE requirements, reducing cost and power even further, such that these Release 13 implementations are expected to rival 2G in terms of cost and power. Our StreamliteLTE family is targeted at the IoT market, and our world-first Calliope Category 1 LTE chipset platform, announced in January 2015, is certified and shipping in commercial products. Monarch, the world’s first LTE-M/NB-IoT chip, was announced in

February 2016, and is now certified and shipping in devices for Verizon. More carrier approvals are anticipated in 2017.

- 3) **Public safety and vertical applications:** The public safety and emergency responders equipment market is undergoing a technology transition that favors the use of LTE in terminals and handhelds. We have several products in both our StreamrichLTE family (Cassiopeia LTE-Advanced platform, for instance) and our StreamliteLTE family (Colibri LTE chipset platform) that can ideally address these device types. LTE is also being adopted for use in delivering ground-to-aircraft broadband Internet connectivity for commercial aircraft, and in other vertical markets in aviation and military applications.
- ***Accelerating our, and our customers', time to market and reducing our customers' development costs.*** In 2013, we introduced the EZLinkLTE™ family of LTE-only modules. By packaging our LTE semiconductor solutions in a complete, turnkey module form factor and certifying them with key wireless carriers, we expect to catalyze the market for LTE-only devices, speed time to market for customer wishing to incorporate LTE connectivity in their devices, and reduce the cost and complexity for our customers. And by pre-integrating and validating third-party WiFi chipset designs, we are able to help our mobile router customers get to market faster. In addition, our highly integrated, single-chip Monarch LTE-M solution minimizes the design effort for IoT device makers. And in February 2017, we announced our Monarch SX LTE-M system-on-chip, with even more integration, including an application processor, graphics processor and display controller, sensor hub and media processing engine, along with our Monarch LTE-M/NB-IoT modem, all in a single chip, further reducing the design effort for makers of IoT devices.
- ***Leveraging our multiple generations of 4G chip design experience to become a leader in advanced LTE technology and cost efficiency.*** We have more than ten years and seven generations of 4G chip design experience, resulting in highly optimized and cost-efficient chip implementations and deep technical expertise, allowing us to be among the first in the industry to deliver new capabilities to market, as well as to enable extremely cost-competitive solutions. For example, in February 2013, we announced Cassiopeia, a third generation LTE chipset platform with support for LTE Advanced features, including carrier aggregation support for up to 40MHz aggregated bandwidth and 300 Mbps Category 6 downlink performance, the only such capability in the industry at that time. In May 2013, we introduced our EZLinkLTE™ family of LTE-only modules, aimed at speeding time to market for our customers. In February 2014, we demonstrated a commercial-ready implementation of LTE Broadcast in Verizon Wireless' LTE Multicast demonstration in New York during Super Bowl week. Finally, the cost and power efficiency achieved from our multiple generations of 4G modem design has enabled us to deliver our StreamliteLTE family of products at attractive price points, enabling LTE connectivity to be embedded in a wide range of cost-sensitive IoT applications in both consumer and machine-to-machine applications. The most recent members of our StreamliteLTE family are the Colibri LTE Category 4 chipset platform, announced in 2014, the Calliope LTE Category 1 chipset platform, introduced in January 2015, and our fourth generation LTE chip, Monarch, an LTE-M/NB-IoT single-chip, announced in February 2016. A year later we announced Monarch SX, a highly-integrated SoC that integrates an application processor, media processor, sensor hub and display controller alongside the Monarch LTE-M/NB-IoT modem.
- ***Partnering with other leading technology companies to complement our technology offerings.*** We regularly collaborate with ecosystem partners who provide complementary technology or strengthen our capabilities to address customer needs and competitive pressure. For instance, we have worked closely with Skyworks Solutions to ensure the availability of RF front-end modules that are optimized for use with our LTE chipsets to simplify the RF design task for our customers. We have collaborated with STMicroelectronics to develop IoT design kits that help customers easily integrate our Monarch LTE-M/NB-IoT platform with a range of STMicroelectronics' microcontrollers. And we have partnered with TCL to jointly develop next generation 5G wireless technologies in order to accelerate their development.





## **Our Solutions**









We have developed a portfolio of 4G semiconductor solutions to address a variety of applications and market segments. We offer baseband solutions used to encode and decode data based on 4G protocols that serve as the core wireless processing platform for a 4G device; RF transceivers used to transmit and receive wireless transmissions; and highly integrated SoC solutions that combine these and other functions into a single die or package. Some of our SoC solutions integrate the baseband and RF transceiver functions, in some cases with an applications processor and memory. This advanced integration reduces the size, cost, design complexity and power consumption of the 4G solution. In 2013, we introduced a family of LTE modules that vastly simplify the task of embedding LTE connectivity in many computing, consumer and machine-to-machine devices.

All of our baseband, SoC products and modules are provided with comprehensive software, including relevant source code and tools, to enable manufacturers to easily integrate our solutions into their devices in a wide variety of environments, including Apple MAC OSX, Microsoft Windows, Chrome OS and embedded operating systems such as Android and Linux. In addition, we provide our customers with design support, in the form of reference designs that specify recommended methods for interconnecting our chips to surrounding devices, such as host processors, memory and RF front-end components as well as tools to integrate with products from major automatic test equipment vendors. Further, we provide our customers with a warranty, for a period of one to two years, that our solutions are free from defects in materials and workmanship and will operate in material conformance with the provided specifications, entitling the customer to have the defective product repaired or replaced at our expense.

Many of today's LTE-enabled devices, including smartphones, home routers, tablets, laptops and mobile hotspots, tend to require the highest performance and richest set of features in their LTE solution, driven by consumer demand for these attributes and by a highly competitive device market. For these performance segments, we typically propose our StreamrichLTE family of products, as these solutions deliver the required higher performance and comprehensive feature set. However, in the nascent market for connected devices in segments like consumer electronics and machine-to-machine modules, attributes like size, power consumption and cost are often much more important than raw performance. For these products, we typically propose our StreamliteLTE family of products, which provide performance levels suitable for these kinds of devices in a smaller, more power-efficient and more cost-effective implementation.

Our primary products during the last three financial years are summarized in the table below.

| Platform Name<br>Chipset ID<br>Family   | Description                             | Target Applications |                                 |                   |                |     | Key Features  |
|---|---|---------------------|---------------------------------|-------------------|----------------|-----|---|
|   |   | Hand<br>sets        | Tablets/<br>Embedded<br>Laptops | Mobile<br>Routers | IoT and<br>M2M | CPE |   |
| <b>Monarch</b><br>SQN3330<br>                | LTE Release<br>13<br>BB+RF+<br>PMIC+RAM |                     |                                 |                   | •              |     | LTE UE Category M1 and NB1 supported;<br>Baseband, RF transceiver, memory and power<br>management integrated in a single package;<br>power-optimized for Internet of Things and<br>M2M applications requiring lower throughput. |
| <b>Calliope</b><br>SQN3223<br>               | LTE Release<br>9/10<br>BB               |                     |                                 |                   | •              |     | 40nm technology, 10Mbps CAT1 peak<br>throughput, USB and HS UART interfaces,<br>integrated processor, cost- and power-<br>optimized for Internet of Things and M2M<br>applications requiring lower<br>throughput. WLCSP.        |
| <b>Colibri</b><br>SQN3221<br>                | LTE Release<br>9/10<br>BB               |                     | •                               | •                 | •              | •   | 40nm technology, 150Mbps CAT4 peak<br>throughput, USB and HS UART interfaces,<br>integrated processor, optimized price/<br>performance for mobile computing and high<br>performance M2M markets. WLCSP.                         |
| <b>Colibri /<br/>Calliope</b><br>SQN3241<br> | LTE<br>RF                               |                     | •                               | •                 | •              | •   | Supports 700-900MHz and 1.8-2.7GHz, up to<br>20 MHz bandwidth. WLCSP.   |

| Platform Name<br>Chipset ID<br>Family   | Description  | Target Applications |                                 |                   |                |     | Key Features  |
|---|--|---------------------|---------------------------------|-------------------|----------------|-----|---|
|   |  | Hand<br>sets        | Tablets/<br>Embedded<br>Laptops | Mobile<br>Routers | IoT and<br>M2M | CPE |   |
| VZ120Q<br>   | Calliope-based surface-mount all-in-one LTE module for Verizon Wireless network    |                     | •                               | •                 | •              |     | 20mm x 21mm x 1.5mm, surface-mountable module with integrated power management, clocks, Flash and DDR memories, and RF front-end supporting bands 4 and 13; Verizon Wireless and GCF certified. eMBMS and VoLTE capable |
| VZ22Q<br>  | Colibri-based surface-mount all-in-one LTE module for Verizon Wireless network     |                     | •                               | •                 | •              |     | 20mm x 21mm x 1.5mm, surface-mountable module with integrated power management, clocks, Flash and DDR memories, and RF front-end supporting bands 4 and 13; Verizon Wireless and GCF certified. eMBMS and VoLTE capable |
| VZ22M<br>  | Colibri-based M.2 form-factor LTE module for Verizon Wireless network              |                     | •                               |                   | •              | •   | M.2 module with integrated power management, clocks, Flash and DDR memories, and RF front-end supporting bands 4 and 13; Verizon Wireless and GCF certified. eMBMS and VoLTE capable                                    |
| US60L<br>  | Colibri-based surface-mount all-in-one LTE module for multiple US carrier networks |                     | •                               | •                 | •              |     | 31.5 x 22 x 1.85 mm, surface-mountable module with integrated power management, clocks, Flash and DDR memories, and RF front-end supporting bands 2, 4, 5, 12, 13 and 17; AT&T certified. eMBMS and VoLTE capable       |
| <i>Cassiopeia</i><br>SQN3220<br>                       | LTE-Advanced Release 10 BB   |                     | •                               |                   |                | •   | Carrier aggregation up to 20 + 20 MHz   |
| <i>Mont Blanc/</i><br><i>Cassiopeia</i><br>SQN3240<br> | LTE RF   | •                   | •                               | •                 | •              | •   | Supports FDD and TDD 700 MHz – 2.7 GHz, up to 20 MHz bandwidth  |
| <i>Mont Blanc</i><br>SQN3120<br>                       | LTE Release 9 BB   |                     | •                               | •                 | •              | •   | 40nm technology, 150Mbps Category 4 peak throughput, USB, SDIO and gigabit Ethernet interfaces, embedded SDRAM plus integrated processor.   |
| <i>Mont Blanc</i><br>SQN5120<br>                       | LTE Release 9 + WiMAX BB   |                     |                                 | •                 |                | •   | As in SQN3120, plus integrated WiMAX baseband, seamless WiMAX-LTE handover support  |

| Platform Name<br>Chipset ID<br>Family | Description | Target Applications |                                 |                   |                |     | Key Features  |
|---------------------------------------|-------------|---------------------|---------------------------------|-------------------|----------------|-----|---|
|                                       |             | Hand<br>sets        | Tablets/<br>Embedded<br>Laptops | Mobile<br>Routers | IoT and<br>M2M | CPE |   |
| <b>Mont Blanc</b><br>SQN3140          | LTE RF      | •                   | •                               | •                 | •              | •   | Supports 2.3—2.7 GHz and 3.3—3.8 GHz<br>TDD LTE bands, up to 20 MHz bandwidth |

stream**RICH**<sup>LTE</sup>

*Abbreviations used in this table: BB = baseband processor, CPE = customer premise equipment, EOL = product declared end-of-life, FDD = frequency division duplexing, IoT = Internet of Things, nm = nanometer, PMIC = power management IC, RF = radio frequency transceiver, SDRAM = Synchronous Dynamic Random Access Memory, SoC = system-on-chip, TDD = time division duplexing, VoIP = Voice over Internet Protocol.*

In June 2014, we announced a cost-optimized LTE chipset platform in our StreamliteLTE family of products, Colibri, based on the SQN3221 baseband and SQN3241 RFIC. Colibri provides up to Category 4 150Mbps peak downlink throughput, and is offered in a WLCSP known-good die format, which reduces cost and footprint compared to traditional packaged semiconductors.

In January 2015, we announced a cost- and power-optimized LTE chipset platform in our StreamliteLTE family of products, Calliope, based on the SQN3223 baseband and SQN3241 RFIC. Calliope is limited to Category 1 10Mbps peak downlink throughput, and is offered in a WLCSP known-good die format, which reduces cost and footprint compared to traditional packaged semiconductors. Because of the new die design, which is optimized for the lower throughput, the chip is smaller and consumes less power than higher-performance implementations, making it ideal for M2M and Internet of Things applications.

In February 2016, we announced a Release 13 chipset, Monarch, capable of supporting both LTE-M and NB-IoT. Monarch includes the baseband processor, RF transceiver and power management circuitry in a single package. It is targeted at lower data-use IoT applications, including sensors, wearables and utility meters.

In February 2017, we announced Monarch SX, a highly integrated system-on-chip that integrates an ARM Cortex M4 processor, a sensor hub, a media processing engine, a graphics processor and display controller alongside the Monarch LTE-M/NB-IoT modem, in a single chip.

## Competition

The wireless semiconductor business is very competitive. We believe that our competitive strengths will enable us to compete favorably in the LTE markets. The following are the primary elements on which companies in our industry compete:

- functionality, form factor and cost;
- product performance, as measured by network throughput, signal reach, latency and power consumption;
- track record of providing high-volume deployments in the industry; and
- systems knowledge.

In the LTE market, we expect to face competition from established semiconductor companies such as Intel Corporation, Mediatek, Qualcomm Incorporated, Samsung Electronics Co. Ltd., Sony Corporations (following the acquisition of Altair Semiconductor in January 2016) and Spreadtrum, as well as smaller actors in the market such as GCT Semiconductor.

Many of our competitors have longer operating histories, significantly greater resources and name recognition, and a larger base of existing customers than us. In addition, some of them may provide incentives to customers or offer bundled solutions with complementary products, which could be attractive to some customers, or adopt more aggressive pricing policies to offset what we believe are the performance and cost advantages of our solutions.

## Business Development, Sales and Marketing

Our business development efforts are focused on developing relationships with wireless carriers to identify the potential product opportunities at each carrier. Our sales efforts are then focused on determining which OEMs and ODMs are most likely to win in the various carrier product opportunities, and securing design wins for mobile broadband devices to be manufactured

by the OEMs and ODMs. We work closely with key players across the 4G wireless broadband industry to understand their requirements and enable them to certify and deploy 4G solutions in high volume.

Our business development team is organized regionally and by wireless carrier. In addition to identifying new business opportunities based on the wireless carriers product launch plan, the business development team also works to understand the wireless carriers' future technological requirements, so that we can incorporate appropriate features in our product roadmap. We have a business development team of both dedicated employees and outside contractors.

Our sales force is organized regionally to provide account management and customer support functions as close to customer physical locations as practical. As of December 31, 2016, we had a direct sales force serving our OEM and ODM customers in the Asia-Pacific region, including Taiwan, China, Korea and Japan; India; Europe; the Middle East and North and South America. In China, Japan and Korea we supplement our direct sales team with local distributors and/or sales representatives who handle certain customer communications, logistics and customer support functions.

Our sales force works closely with a team of technical support personnel, which previously was part of the engineering and product development department. This team assists customers in solving technical challenges during the design, manufacturing implementation and certification phases of a customer's product life cycle. The information obtained from customer support is then communicated back to the direct product development teams to be considered in future software releases or hardware development. This high-touch approach allows us to facilitate the successful certification and acceptance by the wireless carriers of our customers' products, which speeds time-to-market for our customers and reinforces our role as a trusted advisor to our customers.

Our sales cycles typically take 12 months or more to complete and our solutions are generally incorporated into our customers' products at the design stage. Prior to an end customer's selection and purchase of our solutions, our sales force and technical support engineers provide our end customers with technical assistance in the use of our solutions in their products. Once our solution is designed into a customer's product offering, it becomes more difficult for a competitor to sell its semiconductor solutions to that end customer for that particular product offering given the significant cost, time, effort and risk involved in changing suppliers. In addition, once we win a particular design with an end customer, we believe our ability to penetrate other product families at that end customer increases significantly.

Our marketing strategy is focused on enabling broad adoption of 4G solutions and communicating our technology advantages to the marketplace. This includes building awareness of and preference for our technology at wireless carriers who generate demand for 4G-enabled devices. By working to understand carrier services strategies, device roadmaps and technical requirements, we believe we are better positioned to drive our roadmap to meet these needs, to influence their choice of technology suppliers, and to identify manufacturers in the wireless industry who are best prepared to serve the needs of the wireless carrier. For example, by engaging early with China Mobile, we were able to understand their requirements and achieve aggressive timelines for delivering our LTE solution for their demonstration network. In addition, our collaboration with Sprint allowed us to understand their user experience goals, which led to the implementation of an optimized 3G-4G handover capability and reduced idle-mode power consumption for handsets incorporating our solutions. More recently, our technical and business relationships with Verizon Wireless, T-Mobile, AT&T and NTT DoCoMo have allowed us to anticipate requirements and develop solutions tailored for their respective networks, which helped us secure several design wins and launch multiple products. For instance, in 2014, the Verizon Ellipsis Jetpack MHS800L and the Best Buy Insignia Flex 8" LTE tablet was launched for Verizon; in 2015 the Encore Networks EN-1000 industrial router, the eFun Nextbook Ares 8L and Ares 10L tablets available at Walmart, and the Zubie GL700C In-Car WiFi and Vehicle Monitoring device available at Best Buy were all launched for Verizon; in 2016, Gemalto's ELS31 LTE Category 1 M2M module was certified at Verizon, our Calliope LTE Category 1 chipset was certified by AT&T, T-Mobile and NTT DoCoMo, D-Link launched an industrial IoT modem using our Colibri LTE Category 4 chipset, ZTEWelink introduced a CPE based on our Cassiopeia LTE-Advanced chipset, and Nimbelink, LinkLabs and Encore Networks all launched LTE-M devices based on Sequans' Monarch LTE-M chip.

Our marketing team is also responsible for product management, strategic planning, product roadmap creation, OEM, ODM and wireless carrier business development and corporate communications. All of these functions are aimed at strengthening the competitiveness of our solutions in response to evolving industry needs and competitive activities, and at articulating the value proposition of our technology throughout the 4G broadband wireless industry. Our business development, sales and marketing organizations work closely together to ensure that evolving industry requirements are reflected in our product plans, and that customers have early access to our roadmaps and can communicate the value of our technology to the wireless carriers. This end-to-end value chain management approach is designed to grow and preserve our market share in the segments we serve.

As of December 31, 2016, we had 41 employees and 1 outside contractor in our business development, sales, customer support and marketing team.

## **Customers**

We maintain relationships with 4G wireless carriers and with OEMs and ODMs who supply devices to those carriers and their end users. We do not typically sell directly to wireless carriers, except from time to time in the context of selling services to enable new technologies or markets being developed by the carrier. Our sales are conducted on a purchase order basis with OEMs, ODMs, contract manufacturers or system integrators, or to a lesser extent with distributors who provide certain customer communications, logistics and customer support functions.

Our top ten customers accounted for 96%, 92% and 86% of our total revenue in 2014, 2015 and 2016, respectively. Comtech, a new distributor serving multiple end customers in China and Taiwan, accounted for 29% of our revenue in 2016. Gemtek accounted for 39% in 2014, 14% in 2015 and 15% in 2016. Wistron accounted for 27% of our revenue in 2015 and less than 10% in 2016 and 2014. Asian Information Technology Inc., a distributor, accounted for 12% of total revenue in 2014 and 16% in 2015, but less than 10% in 2016 as we switched to other distributors. Huawei, through sales via dedicated distributors, accounted for 25% of our revenue in 2014, but was less than 10% of revenue in 2015 and 2016. The following is a list of our top ten customers, in alphabetical order, based on total revenue during 2016:

- |                         |                          |
|-------------------------|--------------------------|
| • ATM Electronic        | • TCL Communications Ltd |
| • Comtech               | • Thales Avionics        |
| • Gemalto               | • T Mobile               |
| • Gemtek Electronics Co | • Verizon Wireless       |
| • Netcomm Wireless, Ltd | • Wistron                |

## **Manufacturing**

We operate a fabless business model and use third-party foundries and assembly and test contractors to manufacture, assemble and test our semiconductor solutions. Our sole foundry vendor is TSMC. In our latest products, we use 65nm and 40nm standard RF, mixed-signal and digital CMOS production processes. The use of these commercially available standard processes is designed to enable us to produce our products more cost-effectively and, by migrating to lower process geometries, we expect to achieve advantages in cost, size and power consumption.

We use UTAC, STATShipPAC and Silicon Precision Industries for most of our assembly and testing. We rely on extensive simulation, practical application and standardized test bed studies to validate and verify our products.

We use USI (Universal Scientific Industrial (Shanghai) Company Limited) and AcSIP Technology for manufacturing of our modules.

We closely monitor the production cycle from wafer to finished goods by reviewing electrical parameters and manufacturing process and test yield data. We also run routine reliability monitoring programs to ensure long term product reliability. This enables us to operate certain test processes on demand to reduce the time-to-market for our products and to help ensure their quality and reliability. We are ISO 9001 certified, and all of our major suppliers and subcontractors are required to have quality management systems certified to ISO 9000 and ISO 14000 levels, as well as appropriate environmental control programs.

We do not have any manufacturing agreements with our foundry or with our testing and packaging or module vendors, other than a framework agreement with UTAC, and we place our orders with our foundry and other vendors on a purchase order basis. See “Risk Factors—Risks Related to Our Business and Industry”.

## **Intellectual Property**

We rely on a combination of intellectual property rights, or IPR, including patents, trade secrets, copyrights and trademarks, and contractual protections, to protect our core technology and intellectual property. At December 31, 2016, we had 34 issued and allowed United States patents, 20 European patents, and 31 pending United States and European patents. The first of our issued and allowed patents is not expected to expire until 2025.

In addition to our own intellectual property, we have also entered into a number of licensing arrangements pursuant to which we license third-party technologies and intellectual property. In particular, we have entered into such arrangements for certain technologies embedded in our semiconductor, hardware and software designs. These are typically non-exclusive contracts provided under royalty-accruing or paid-up licenses. These licenses are generally perpetual or automatically renewed for so long as we continue to pay any royalty that may be due and in the absence of any uncured material breach of the agreement. Certain licenses for technology used for development of a particular product are for a set term, generally at least two years, with a renewal option, and can be easily replaced with other currently available technology in subsequent product developments. In the event that such licenses are not renewed, they nevertheless continue with regard to products distributed in the field. Except for our licenses to the so called “essential patents” described below, we do not believe our business is dependent to any significant degree on any individual third-party license.

In the past, we have entered into licensing arrangements with respect to so called “essential patents” that claim features or functions that are incorporated into applicable industry standards and that we are required to provide in order to comply with the standard. We may be required to enter into such licensing arrangements in the future in order to comply with applicable industry standards, in particular with respect to the sales of our module products, which have full LTE functionality. We believe that general practice in the industry is that essential patent holders’ licensing policy is to license only to licensees selling a full LTE product, not to component vendors.

In 2015, we entered into an agreement to license the patent portfolio of Gemalto S.A., including at least one patent which may be considered essential for the LTE standard.

## **Facilities**

Our principal executive offices are located in Colombes, France, consisting of approximately 21,625 square feet under a lease that expires in December 2023, but which may be cancelled in December 2020. This facility accommodates our principal research and development, product marketing, and finance and administrative activities.

We have a 4,236 square-foot facility in Winnersh Triangle, England, which accommodates a research and development center under a lease expiring in October 2020, with the option to cancel in October 2017. We have a 1,973 square-foot facility in Petach Tikva, Israel, which houses a small research and development team, and sales and technical support personnel, under a lease that expires in December 2018. We have a 1,600 square foot office in Singapore under a lease expiring in February 2018. We have a 1,207 square-foot facility in Burnsville, Minnesota for engineering personnel under a lease that expires in June 2017. We have a 645 square-foot facility in Kista, Sweden under a lease that expires in April 2020. We rent additional office space in Sophia-Antipolis, France; Taipei, Taiwan; Shanghai and Shenzhen, China; Seoul, South Korea and in Bedminster, New Jersey under short-term lease agreements.

We do not own any real property. We believe that our leased facilities are adequate to meet our current needs and that additional facilities will be available on suitable, commercially reasonable terms to accommodate any future needs.

## **C. Organizational Structure**

The Company is the ultimate parent of the group comprised of the Sequans Communications S.A. and its subsidiaries at December 31, 2016:

| <b>Name</b>                          | <b>Country of incorporation</b> | <b>Year of incorporation</b> | <b>% equity interest</b> |
|--------------------------------------|---------------------------------|------------------------------|--------------------------|
| Sequans Communications Ltd.          | United Kingdom                  | 2005                         | 100                      |
| Sequans Communications Inc.          | United States                   | 2008                         | 100                      |
| Sequans Communications Ltd. Pte.     | Singapore                       | 2008                         | 100                      |
| Sequans Communications (Israel) Ltd. | Israel                          | 2010                         | 100                      |

## **D. Property, Plants and Equipment**

For a discussion of property, plants and equipment, see “Item 4.B—Business Overview—Facilities.”

#### Item 4A. Unresolved Staff Comments

Not applicable.

#### Item 5. Operating and Financial Review and Prospects

##### Summary

We are a leading fabless designer, developer and supplier of 4G LTE semiconductor solutions for wireless broadband applications. Our solutions incorporate baseband processor and RF transceiver ICs along with our proprietary signal processing techniques, algorithms and software stacks. Our high performance ICs deliver high throughput, low power consumption and high reliability in a small form factor and at a low cost.

We shipped 2.6 million semiconductor units during 2016, compared to 1.8 million units during 2015 and 1.5 million units during 2014. Our total revenue was \$45.6 million in 2016, compared to \$32.5 million in 2015 and \$22.6 million in 2014.

We currently have approximately 60 end customers worldwide, consisting primarily of OEMs and ODMs for CPE, home routers, mobile routers, USB dongles, embedded devices, mobile computing devices and other data devices. We derive a significant portion of our revenue from a small number of end customers, and we anticipate that we will continue to do so for the foreseeable future. We do not have long-term purchase agreements with any of our end customers, and substantially all of our sales are made on a purchase order basis. We expect that the percentage of revenue derived from each end customer may vary significantly due to the order patterns of our end customers, the timing of new product releases by our end customers, and consumer demand for the products of our end customers. Customers representing more than 10% of total revenue in any of the years 2014, 2015 or 2016 and their locations are as follows:

| Customer Location | % of total revenue for the year ended<br>December 31, |               |               |
|-------------------|---|---------------|---------------|
|                   | 2014  | 2015          | 2016          |
| Taiwan            | —   | —             | 29%           |
| China             | 39%   | 14%           | 15%           |
| China             | Less than 10%   | 27%           | Less than 10% |
| Taiwan            | 12%   | 16%           | —             |
| China             | 25%   | Less than 10% | —             |

Our Consolidated Financial Statements for 2014, 2015 and 2016, have been prepared in accordance with IFRS as issued by the IASB.

##### A. *Operating Results*

##### Revenue

Our total revenue consists of product revenue and other revenue.

##### *Product Revenue*

We derive substantially all of our revenue from the sale of semiconductor solutions for 4G wireless broadband applications, and we currently expect to continue to do so for the foreseeable future. Our solutions are sold both directly to our end customers and, to a lesser extent, indirectly through distributors.

Our sales cycles typically take 12 months or more to complete, and our solutions are generally incorporated into our end customers' products at the design stage. Prior to an end customer's selection and purchase of our solutions, our sales force and applications engineers provide our end customers with technical assistance in the use of our solutions in their products. Once our solution is designed into an end customer's product offering, it becomes more difficult for a competitor to sell its semiconductor solutions to that end customer for that particular product offering given the significant cost, time, effort and risk involved in changing suppliers. In addition, once we win a particular design with an end customer, we believe our ability to penetrate other product families at that end customer increases significantly.

Prior to 2013, our product revenues were primarily generated by sales of our WiMAX products. Sales of our LTE products began to contribute materially to revenues in the second half of 2013 due to the timing of our products availability and

the deployment timing of the operators where we were focused. Our product revenues increased in 2014 primarily due to increasing sales of LTE products. Product revenues in 2015 and 2016 were derived nearly entirely from sales of LTE products.

Our product revenue is also affected by changes in the unit volume and average selling prices, or ASPs, of our semiconductor solutions. Our products are typically characterized by a life cycle that begins with higher ASPs and lower volumes as our new products use more advanced designs or technology and are usually incorporated into new devices that consumers adopt over a period of time. This is followed by broader market adoption with higher volumes and ASPs that are lower than initial levels, due to the maturity of the technology, greater availability of competing products or less demand as our end customers' products reach the end of their life cycle.

In the second half of 2013, we had initial sales of our module products, which continued in 2014, 2015 and 2016. We introduced our modules in order to accelerate market adoption of LTE functionality in data devices such as tablets, notebook computers, consumer devices and machine-to-machine devices. The ASP of the module is much higher than the ASP of our semiconductor solutions as many other components are added in order to provide a complete LTE solution.

The proportion of our product revenue that is generated from the sale of various products, also referred to as product mix, affects our overall ASP, product revenue and profitability. Given the varying ASPs of our solutions, any material change in our product mix may affect our gross margins and operating results from period to period. We expect to continue to broaden our product portfolio by introducing new solutions.

### **Other Revenue**

Other revenue consists of the sale of licenses to use our technology solutions and revenue from associated annual software maintenance and support services, as well as technical support services and development services. Development services include advanced technology development services for technology partners and product development and integration services for customers, and wireless operators.

We license the right to use our solutions, including embedded software that enables our end customers to customize our solutions for use in their products. The license generally is perpetual and covers unlimited product designs by the end customer. We expect that we will continue to sign new license agreements as we begin working with new customers, but we do not expect that such licenses will generate significant revenues.

Development services agreements typically call for a number of milestones to be delivered over several quarters, with revenue generally recognized on the percentage of completion method as contract progresses. Until 2015, such service agreements were occasional in nature, where we earned revenue from three customers in 2014. In 2015 and 2016, with the signature of several agreements with large companies such as TCL, Gemalto, and others, development service revenue increased in both 2015 and 2016.

With the continuation in 2017 of many of the development services contracts executed in 2016, as well as our expectation that we will continue to enter into these kind of agreements, we expect other revenue, compared to 2016, to remain flat or increase slightly in absolute terms in future periods as we continue to provide services on particularly complex projects, and in the short term it is likely to remain a significant percentage of our total revenue.

The following table sets forth our total revenue by region for the periods indicated. We categorize our total revenue geographically based on the location to which we invoice.

|                             | Year ended December 31, |                  |                  |
|-----------------------------|-------------------------|------------------|------------------|
|                             | 2014                    | 2015             | 2016             |
|                             | (in thousands)          |                  |                  |
| Asia                        | \$ 19,984               | \$ 24,943        | \$ 33,317        |
| Europe, Middle East, Africa | 101                     | 3,635            | 5,593            |
| Americas                    | 2,517                   | 3,954            | 6,669            |
| Total revenue               | <u>\$ 22,602</u>        | <u>\$ 32,532</u> | <u>\$ 45,579</u> |

### **Cost of Revenue**

Our cost of revenue includes cost of product revenue and cost of other revenue.

### ***Cost of Product Revenue***

A significant portion of our cost of semiconductor solution product revenue consists of the cost of wafers manufactured by third-party foundries and costs associated with assembly and test services. Cost of product revenue is impacted by manufacturing variances such as cost and yield for wafer, assembly and test operations and package cost. To a lesser extent, cost of product revenue includes expenses relating to depreciation of productions mask sets, the cost of shipping and logistics, royalties, personnel costs, including share-based compensation expense, valuation provisions for excess inventory and warranty costs.

For our module products, the cost of product revenue includes not only the cost of the semiconductor solution but also other components such as power amplifiers and filters, as well as greater packaging costs.

Early in the life cycle of our products, we typically experience lower yields and higher associated costs. Over the life cycle of a particular product, our experience has been that the cost of product revenue has typically declined as volumes increase and test operations mature, while ASPs generally decline.

We use third-party foundry, assembly and test subcontractors, which are primarily located in Asia, to manufacture, package and test our semiconductor solutions. We purchase processed wafers from our fabrication supplier, currently TSMC. We also rely on third-party assembly and test subcontractors to assemble, package and test our products, and on third-party logistics specialists for logistics and storage. We do not have long-term agreements with our suppliers. Our obligations with our vendors for manufacturing, assembly and testing are generally negotiated on a purchase order basis.

### ***Cost of Other Revenue***

As most of the costs related to other revenue are incurred as part of our normal research and development efforts, we allocate to cost of other revenue only the specific incremental costs related to generating maintenance and technical support and development services revenue.

### ***Gross Profit***

Our gross profit is affected by a variety of factors, including our product and revenue mix, the ASPs of our products, the volumes sold, the purchase price of fabricated wafers, assembly and test service costs and royalties, provision for inventory valuation charges, and changes in wafer, assembly and test yields. We expect our gross profit will fluctuate over time depending upon competitive pricing pressures, the timing of the introduction of new products, product and revenue mix, volume pricing, variances in manufacturing costs and the level of royalty payments to third parties possessing intellectual property necessary for our products.

### ***Operating Expenses***

#### ***Research and Development***

We engage in substantial research and development efforts to develop new products and integrate additional capabilities into our core products. Research and development expense consists primarily of personnel costs, including share-based compensation, for our engineers engaged in design and development of our products and technologies. These expenses also include the depreciation cost of intellectual property licensed from others for use in our products, product development costs, which include external engineering services, development software and hardware tools, cost of fabrication of mask sets for prototype products, external laboratory costs for certification procedures, equipment depreciation and facilities expenses.

We expect research and development expense to remain fairly stable in the short term as we continue to control costs, and then to increase in absolute terms as we enhance and expand our features and offerings for our product portfolio and we continue to develop new products for LTE, which will require additional resources and investments.

Under IFRS, research and development expense is required to be capitalized if certain criteria are met and then amortized over the life of the product. As we operate in a highly innovative, dynamic and competitive sector, the costs incurred from the point that the criteria for capitalization are met to the point when the product is made generally available on the market are not material. Through 2014, all research and development expense had been expensed as incurred. In 2015, a total of \$0.4 million of development costs incurred late in the development cycle was capitalized as we considered that the criteria for capitalization had been met. 2015 was the first year that material amounts of these kind of costs had been incurred and that the capitalization criteria had all been met. A small amount of development costs were capitalized in 2016 (\$22,000); we expect that we will continue to capitalize some development costs going forward.

### *Research and Development Incentives*

In France and the United Kingdom, we receive certain tax incentives based on the qualifying research and development expense incurred in those jurisdictions. When the incentive is available only as a reduction of taxes owed, such incentive is accounted for as a reduction of tax expense; otherwise, it is accounted for as a government grant with the benefit recorded as a reduction of research and development expense. We expect to be able to continue to qualify for such tax incentives in these jurisdictions in future periods. We expect the tax incentives, which are based on a percentage of qualifying research and development expense, to remain fairly stable or decline slightly in the short term. For 2016, we recorded a net amount of approximately \$2.0 million in tax incentives compared with \$2.5 million in 2015.

In France, we also receive incentives in the form of grants from agencies of the French government and the European Union, based on qualifying research and development expense incurred pursuant to collaborative programs carried out with other companies and universities. These incentives are recorded as a reduction of research and development expense and are recognized when there is a reasonable assurance that the grant will be received and all relevant conditions will be complied with. For 2016, we recorded approximately \$1.7 million in grants compared with approximately \$1.2 million in 2015. In November 2014 and December 2016, we received \$3.9 million and \$0.6 million, respectively, in advances on grants and debt financing related to a large research project funded by the French government, called FELIN. The total value of the project funding for the Company is €7.0 million (\$9.0 million) to be received over three years. Of the €7.0 million, €3.0 million is in the form of a grant and €4.0 million is in the form of interest-bearing debt to be repaid beginning in 2018 and through 2020. We expect that the amounts we recognize from such grants overall will remain fairly flat in 2017.

### ***Sales and Marketing***

Sales and marketing expense consists primarily of personnel costs, including sales commissions, and share-based compensation for our business development, sales, customer support and marketing personnel, commissions paid to independent sales agents, marketing fees paid to industrial partners, the costs of advertising and participation in trade shows, depreciation and facilities expenses. We expect the size of our business development, sales and marketing organization to increase slightly in 2017 and expect sales and marketing expense to increase slightly.

### ***General and Administrative***

General and administrative expense consists primarily of personnel costs and share-based compensation for our finance, human resources, purchasing, quality and administrative personnel; professional services costs related to recruiting, accounting, tax and legal services; investor relations costs; insurance; and depreciation. Information technology and facilities expenses are accounted for as overhead and allocated across all departments of the Company based on a pro rata basis. We expect general and administrative expense to remain fairly flat or increase slightly in 2017.

### **Interest Income (Expense), Net**

Interest income consists of interest earned on cash and cash equivalent balances. We have historically invested our cash primarily in commercial bank accounts, short term deposits and money market funds.

Interest expense relates to our 2015 and 2016 issuances of convertible debt, our government debt put in place in 2015, our accounts receivable financing facility put in place in 2014, and the research project loan received in 2014.

### **Foreign Exchange Gain (Loss), Net**

Foreign exchange gain (loss) represents exchange gains and losses on our exposures to non-U.S. dollar denominated transactions, primarily associated with the changes in exchange rates between the U.S. dollar and the euro, and re-measurement of foreign currency balances at reporting date. As a result of our international operations, we are subject to risks associated with foreign currency fluctuations. Almost all of our revenues are in U.S. dollars and a portion of our expenses are also in U.S. dollars. However, a significant portion of our personnel costs is in euros and some long-term items on our balance sheet are also denominated in euros. We use hedging instruments in order to reduce volatility in operating expenses related to exchange rate fluctuations. We classify foreign exchange gains and losses related to hedges of euro-based operating expenses as operating expenses.

### **Income Tax Expense (Benefit)**

We are subject to income taxes in France, the United States and numerous other jurisdictions. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we

recognize tax liabilities based on estimates of whether additional taxes will be due. These tax liabilities are recognized when we believe that certain positions may not be fully sustained upon review by tax authorities, notwithstanding our belief that our tax return positions are supportable. Our effective tax rates differ from the statutory rate primarily due to any valuation allowance, the tax impact of local taxes, international operations, research and development tax credits, tax audit settlements, non-deductible compensation, and transfer pricing adjustments. In respect of our subsidiaries outside of France, we operate on a “cost plus” basis.

In France, we have significant net deferred tax assets resulting from net operating loss carry forwards, tax credit carry forwards and deductible temporary differences that reduce our taxable income. Our ability to realize our deferred tax assets depends on our ability to generate sufficient taxable income within the carry back or carry forward periods provided for in the tax law for each applicable tax jurisdiction. Over time, as we generate taxable income, we expect our tax rate to increase significantly.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based on our Consolidated Financial Statements contained elsewhere in this annual report, which are prepared in accordance with IFRS as described in Note 2 to our Consolidated Financial Statements.

Some of the accounting methods and policies used in preparing our Consolidated Financial Statements under IFRS are based on complex and subjective assessments by our management or on estimates based on past experience and assumptions deemed realistic and reasonable based on the circumstances concerned. The actual value of our assets, liabilities and shareholders’ equity and of our earnings could differ from the value derived from these estimates if conditions changed and these changes had an impact on the assumptions adopted. We believe that the most significant management judgments and assumptions in the preparation of our financial statements are described below.

### ***Revenue Recognition***

Our policy for revenue recognition, in instances where multiple deliverables are sold contemporaneously to the same counterparty, is in accordance with IAS 18.13. When we enter into contracts for the sale of products, licenses and maintenance and support and development services, we evaluate all deliverables in the arrangement to determine whether they represent separate units of accounting, each with its own separate earnings process, and their relative fair value. Such determination requires judgment and is based on an analysis of the facts and circumstances surrounding the transactions. We apply judgment for contracts when the first year of maintenance is included in the software license price. For such contracts, an amount equal to the relative fair value of one year of maintenance is deducted from the value of the license and recognized as revenue over the period of maintenance. The difference between license and maintenance services invoiced and the amount recognized in revenue is recorded as deferred revenue.

Revenue from technical support and development services is generally recognized using the percentage-of-completion method when the outcome of the contract can be estimated reliably. This occurs when total contract revenue and costs can be estimated reliably and it is probable that the economic benefits associated with the contract will flow to the Company and the stage of contract completion can be measured. Estimating the cost to complete the services requires judgment. We base our estimate on the estimated hours and level of engineer to complete the project, plus any external costs required to perform the services. In certain circumstances, revenue is recognized based on the achievement of contract milestones. We recognize revenue on milestones when the milestone is substantive based on technical merits, and we have obtained customer acceptance that the milestone has been achieved. Our policy for revenue recognition is further explained in Note 2.3 to our Consolidated Financial Statements contained elsewhere in this annual report.

### ***Inventories***

Inventories consist primarily of the cost of semiconductors, including wafer fabrication, assembly, testing and packaging; components; and modules purchased from subcontractors. We write down the carrying value of our inventories to the lower of cost (determined using the moving average method) or net realizable value (estimated market value less estimated costs of completion and the estimated costs necessary to make the sale). We write down the carrying value of our inventory for estimated amounts related to lower of cost or market value, obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value. The estimated market value of the inventory is based on historical usage and assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions on a product-by-product basis. Once established, inventory reserves are not reversed until the

related inventory has been sold or scrapped. Actual demand may differ from forecasted demand and these differences may have a material effect on recorded inventory values and cost of revenue.

When we consider future demand for a product, there are a number of factors that we take into consideration, including purchase orders and forecasts from customers, which in normal market conditions give us visibility for the next three months and some view on the following three months, our own internal projections based on customer inputs and new business opportunities, and estimates of market potential based on reports from industry analysts. The time horizon considered for future demand varies depending on the nature of the product, meaning we consider if the product is newly-introduced or approaching end-of-life, if the product is in finished good form or in component form, and if the product is incorporated in a large or small number of different end-user products from few or many customers.

We evaluate the realizability of our inventory at each balance sheet date. In doing so, we consider, among other things, demand indicated by our customers, overall market potential based on input from operators and analysts, and the remaining estimated commercial life of our products.

In 2014, the last major WiMAX project shipped throughout the year, but the customer indicated to us in the fourth quarter that quantities for 2015 would be much lower. In addition, while we were selected for one other major WiMAX project in the third quarter of 2014, during the fourth quarter other projects that we had been working on were delayed or canceled. Consequently, we provided for all remaining WiMAX inventory except for amounts of two products which were expected to ship for identified projects. The total inventory provision recorded in 2014 was \$1.9 million. WiMAX inventory of finished goods and components remaining on the balance sheet at December 31, 2014 totaled \$0.9 million.

In 2015, we sold \$0.2 million of the remaining inventory from December 31, 2014 to an existing customer in the first quarter of 2015. The new WiMAX projects identified in 2014 were either further delayed or were put on hold. Therefore, we recorded a provision for slow-moving inventory for the remaining \$0.7 million of WiMAX inventory as of December 31, 2015.

In 2016, we recorded a provision for slow-moving LTE inventory totaling \$0.1 million.

### ***Share-Based Compensation***

We have various share-based compensation plans for employees and non-employees. The expense recorded in our statement of operations for equity awards under these plans is affected by changes in valuation assumptions. For example, the fair value of stock options is estimated by using the binomial model on the date of grant based on certain assumptions, including, among others, expected volatility, the expected option term and the expected dividend payout rate.

Prior to January 1, 2015, as the Company had a short history of being publicly traded, it was not practicable to determine the volatility of the underlying shares based on the Company's own experience. Therefore, as allowed by Appendix B (paragraphs 26 to 29) of IFRS2 *Share-based Payment*, the historical volatility of similar entities (a selection of publicly-traded semiconductor companies) after a comparable period in such companies' lives was used). For the years ended December 31, 2015 and 2016, the assumption has been based on the Company's volatility.

We recognize compensation expense only for the portion of share options that are expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from our estimates.

For 2014, 2015 and 2016, we recorded employee share-based compensation expense of \$1.3 million, \$0.9 million and \$1.1 million, respectively. Share-based compensation expense related to non-employees was not material for 2014, 2015 and 2016.

### ***Functional Currency***

We use the U.S. dollar as the functional currency of Sequans Communications S.A. due to the high percentage of our revenues, cost of revenue, capital expenditures and operating costs, other than those related to headcount and overhead, which are denominated in U.S. dollars. Our IPO proceeds and the proceeds from our follow-on offerings were also denominated in U.S. dollars. However, all debt and equity proceeds we received since our inception prior to our initial public offering were denominated in euros.

Each subsidiary determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. As of each reporting date, the assets and liabilities of each subsidiary are translated into the U.S. dollar, our functional and reporting currency, at the rate of exchange at the balance sheet date and each

subsidiary's statement of operations is translated at the average exchange rate for the year. Exchange differences arising on the translation are taken directly to a separate component of equity, cumulative translation adjustments.

### ***Fair Value of Financial Instruments***

Fair value corresponds to the quoted price for listed financial assets and liabilities. Where no active market exists, we establish fair value by using a valuation technique determined to be the most appropriate in the circumstances, for example:

- available-for-sale assets: comparable transactions, multiples for comparable transactions, discounted present value of future cash flows;
- loans and receivables, financial assets at fair value through profit and loss: net book value is deemed to be approximately equivalent to fair value because of their relatively short holding period;
- trade payables: book value generally is deemed to be equivalent to fair value because of their relatively short holding period. Trade payables with extended payment terms are discounted to present value;
- convertible debt and embedded derivative: Company's convertible debt has optional redemption periods/dates occurring before their contractual maturity. The holder of the convertible debt has the right to request conversion at any time from their issue. Specifically, the option component of the convertible debt has been recorded as an embedded derivative at fair value. The fair value was determined using a valuation model that requires judgment, including estimating the change in value of the Company at different dates and market yields applicable to the Company's straight debt (without the conversion option). The assumptions used in calculating the value of the conversion represent the Company's best estimates based on management's judgment and subjective future expectations, and
- Other derivatives: fair value based on mark to market value.

### **Results of Operations**

The following tables set forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our Consolidated Financial Statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of the results that may be expected for any future period.

## Comparison of Years Ended December 31, 2015 and 2016

|  | Year ended December 31, |                    | Change |
|--|-------------------------|--------------------|--------|
|  | 2015                    | 2016               | %      |
|  | (in thousands)          |                    |        |
| Revenue:   |                         |                    |        |
| Product revenue  | \$ 24,669               | \$ 34,581          | 40%    |
| Other revenue  | 7,863                   | 10,998             | 40     |
| Total revenue  | 32,532                  | 45,579             | 40     |
| Cost of revenue:   |                         |                    |        |
| Cost of product revenue  | 17,970                  | 22,574             | 26     |
| Cost of other revenue  | 1,481                   | 3,022              | 104    |
| Total cost of revenue  | 19,451                  | 25,596             | 32     |
| Gross profit   | 13,081                  | 19,983             | 53     |
| Operating expenses:  |                         |                    |        |
| Research and development   | 25,305                  | 26,334             | 4      |
| Sales and marketing  | 5,985                   | 7,126              | 19     |
| General and administrative                                       | 5,428                   | 6,267              | 15     |
| Total operating expenses   | 36,718                  | 39,727             | 8      |
| Operating income (loss)  | (23,637)                | (19,744)           | (16)   |
| Financial income (expense):                                      |                         |                    |        |
| Interest income (expense), net                                   | (1,516)                 | (3,686)            | (143)  |
| Other financial expense  | (145)                   | (83)               | 43     |
| Change in the fair value of convertible debt embedded derivative | (2,036)                 | (1,583)            | 22     |
| Foreign exchange gain (loss)                                     | 249                     | 593                | (138)  |
| Profit (Loss) before income taxes                                | (27,085)                | (24,503)           |        |
| Income tax expense (benefit)                                     | 317                     | 284                | 10     |
| Profit (Loss)  | <u>\$ (27,402)</u>      | <u>\$ (24,787)</u> |        |

The following table sets forth a summary of our statement of operations as a percentage of total revenue:

|  | Year ended<br>December 31, |      |
|--|----------------------------|------|
|  | 2015                       | 2016 |
|  | (% of total revenue)       |      |
| Revenue:   |                            |      |
| Product revenue  | 76                         | 76   |
| Other revenue  | 24                         | 24   |
| Total revenue  | 100                        | 100  |
| Cost of revenue:   |                            |      |
| Cost of product revenue  | 55                         | 50   |
| Cost of other revenue  | 5                          | 7    |
| Total cost of revenue  | 60                         | 56   |
| Gross profit   | 40                         | 44   |
| Operating expenses:  |                            |      |
| Research and development   | 78                         | 58   |
| Sales and marketing  | 18                         | 16   |
| General and administrative                                       | 17                         | 14   |
| Total operating expenses   | 113                        | 88   |
| Operating income (loss)  | (73)                       | (44) |
| Financial income (expense):                                      |                            |      |
| Interest income (expense), net                                   | (5)                        | (8)  |
| Other financial expense  | —                          | —    |
| Change in the fair value of convertible debt embedded derivative | (6)                        | (3)  |
| Foreign exchange gain (loss)                                     | 1                          | 1    |
| Profit (Loss) before income taxes                                | (83)                       | (54) |
| Income tax expense (benefit)                                     | 1                          | 1    |
| Profit (Loss)  | (84)                       | (55) |

## Revenue

### Product Revenue

Product revenue increased 40% from \$24.7 million in 2015 to \$34.6 million in 2016. This increase was due entirely to higher sales of LTE products. LTE product revenues were driven primarily by customers with products for emerging markets and emerging carriers and by customers selling into the U.S. market. Increased revenues also reflect a product mix with a higher percentage of module sales; modules have a higher average selling price than chipsets.

In 2016, we shipped approximately 2.6 million of units of LTE products compared to 1.7 million units in 2015. We expect our LTE product revenue to continue to increase in 2017 as the single-mode LTE market, including the market for LTE for IoT, continues its growth and as our LTE solutions are currently in commercial deployments with multiple wireless carriers in the U.S. and in multiple countries outside of the U.S. In addition, our solutions are under evaluation or trials with other leading wireless carriers.

### Other Revenue

Other revenue increased 40% from \$7.9 million in 2015 to \$11.0 million in 2016, reflecting an increase in development services revenue offset slightly by a small decline in license and maintenance revenue. Development services revenue increased from \$5.9 million in 2015 to \$9.3 million in 2016. License revenue decreased from \$1.6 million in 2015 to \$1.5 million in 2016, and maintenance revenue decreased from \$400,000 in 2015 to \$200,000 in 2016.

## Cost of Revenue

Cost of product revenue increased 26% from \$18.0 million in 2015 to \$22.6 million in 2016 due to higher product and manufacturing costs associated with the increased number of units sold. Cost of other revenue increased 104% from \$1.5

million in 2015 to \$3.0 million in 2016, reflecting the 58% increase of development services revenue, some of which involved re-selling external services, such as certification costs.

### ***Gross Profit***

Gross profit increased 53% from \$13.1 million in 2015 to \$20.0 million in 2016, while gross margin percentage increased from 40.2% in 2015 to 43.8% in 2016, primarily due to an improved product gross margin. Product gross margin percentage increased from 27.2% in 2015 to 34.7% in 2016 due to better absorption of fixed production costs by a higher product revenue base and a lower provision for slow-moving inventory, partially offset by the impact of a higher percentage of lower-margin module sales in the product revenue mix compared to 2015.

### ***Research and Development***

Research and development expense increased 4% from \$25.3 million in 2015 to \$26.3 million in 2016. While there were 186 employees and independent contractors in research and development at both December 31, 2016 and December 31, 2015, we had decreased headcount early in 2015 and only built it up again in the latter part of 2015.

These expenses are net of research and development incentives earned during the periods, which are accounted for as a reduction of research and development expense. Research and development incentives remained flat at \$3.7 million in 2015 and in 2016. In 2015, for the first time certain development expenses met the criteria for capitalization and consequently \$386,000 in expenses were capitalized in late 2015 (\$22,000 in 2016) and will be amortized over the three year estimated useful life of the related product.

Research and development costs associated with product development (including normal customer support which generates product improvements) are recorded in operating expense. In some cases, we have negotiated agreements with customers and partners whereby we provide certain development services beyond our normal practices or planned product roadmap. Amounts received from these agreements are recorded in other revenue. Incremental costs, including both internal resources and out-of-pocket expenses, that we incur as a result of the commitments in the agreements are recorded in cost of other revenue, rather than in research and development expense. Other research and development costs related to the projects covered by the agreements, but which we would have incurred without the existence of such agreements are recorded in research and development expense.

### ***Sales and Marketing***

Sales and marketing expense increased 19% from \$6.0 million in 2015 to \$7.1 million in 2016. The increase primarily reflects the impact of a reorganization that occurred mid-2016 as 13 sales support engineers who previously were part of the research and development organization became part of the sales and marketing organization. In addition, we reinforced the sales team, including the hiring of the Chief Marketing Officer and the Vice President Worldwide Sales. The increase was partially offset by lower marketing incentive fees related to a major business initiative in 2015 and early 2016. Overall, there were 42 employees and independent contractors in sales and marketing at December 31, 2016 compared to 19 employees at December 31, 2015.

### ***General and Administrative***

General and administrative expense increased 15% from \$5.4 million in 2015 to \$6.3 million in 2016 primarily due to an increase in recruitment fees and in stock based compensation, and a penalty paid to a customer. In addition, 2015 expenses benefited from the reversal of a \$0.5 million provision recorded in 2014 related to a component order cancellation penalty which was reduced in the final negotiation. There were 17 employees in general and administrative at December 31, 2016 compared to 19 at December 31, 2015.

### ***Interest Income (Expense), Net***

Net interest expense increased to \$3.7 million in 2016 compared to \$1.5 million in 2015. Interest expense increased due to the convertible debt issued in April 2016 and reflected a full year of interest on the convertible debt issued in April 2015 and the two government loans received in September 2015. Interest income was insignificant in both years.

### ***Change in Fair Value of Convertible Debt Embedded Derivative***

In April 2015, we issued convertible debt. For the first year of the debt term, the conversion price was subject to change in certain circumstances if we issued equity at a price lower than the nominal conversion rate of \$1.85. This option component of the convertible debt has been recorded as an embedded derivative at fair value in accordance with the provisions of IAS 39 *Financial Instruments: Recognition and Measurement*. The fair value was determined using a valuation model that requires judgment, including estimating the change in value of the Company at different dates and market yields applicable to the Company's straight debt (without the conversion option). The assumptions used in calculating the value of the conversion represent the Company's best estimates based on management's judgment and subjective future expectations. As long as the conversion price was subject to change, the embedded derivative was revalued at each balance sheet date, with the change in value recorded in financial income (expense). On April 14, 2015, the initial fair value of the embedded derivative was \$4,055,000. The fair value was recalculated at the end of each reporting period resulting in a fair value of \$6,091,000 at December 31, 2015. The change of this fair value of \$2,036,000 for the year ended December 31, 2015 was recorded in the Consolidated Statement of Operations. The embedded derivative value was fixed in April 2016 at a value of \$8,324,000 when the conversion price was no longer subject to change. The change of this fair value from December 31, 2015 of 2,233,000 was recorded as financial expense in the Consolidated Statement of Operations for the year ended December 31, 2016.

In April 2016, we issued additional convertible debt. The conversion price was based on the average market price during the period beginning on April 28, 2016 and ending on May 12, 2016, resulting in a short-term embedded derivative period. The final conversion price is \$2.7126 per ADS. The fair value of the embedded derivative on the issuance date was calculated to be \$2,597,000 and was recalculated to be \$1,947,000 when the conversion rate was fixed on May 12, 2016. The change of this fair value of \$650,000 was recorded as financial income in the Consolidated Statement of Operations for the year ended December 31, 2016.

The change in fair value was recorded as financial income in the year ended December 31, 2016 and the value of the embedded derivative as of May 12, 2016 was transferred from liabilities to Other Capital Reserves in shareholders' equity.

### ***Foreign Exchange Gain (Loss), Net***

We had a net foreign exchange gain of \$593,000 in 2016 compared to \$249,000 in 2015 primarily due to movements in the U.S. dollar versus the euro.

### ***Income Tax Expense (Benefit)***

In 2016, we recorded current tax expense of \$272,000 arising from taxable income incurred at certain subsidiaries, and a deferred tax loss amounting to \$12,000. In 2015, we recorded current tax expense of \$311,000 arising from taxable income incurred at certain subsidiaries, and a deferred tax loss amounting to \$6,000. Deferred tax assets have not been recognized in 2016 or 2015 with respect to our losses as we have not generated taxable profits since beginning operations in 2004.

## Comparison of Years Ended December 31, 2014 and 2015

|  | Year ended December 31, |                    | Change |
|--|-------------------------|--------------------|--------|
|  | 2014                    | 2015               | %      |
|  | (in thousands)          |                    |        |
| Revenue:   |                         |                    |        |
| Product revenue  | \$ 19,836               | \$ 24,669          | 24%    |
| Other revenue  | 2,766                   | 7,863              | 184    |
| Total revenue  | 22,602                  | 32,532             | 44     |
| Cost of revenue:   |                         |                    |        |
| Cost of product revenue  | 15,435                  | 17,970             | 16     |
| Cost of other revenue  | 346                     | 1,481              | 328    |
| Total cost of revenue  | 15,781                  | 19,451             | 23     |
| Gross profit   | 6,821                   | 13,081             | 92     |
| Operating expenses:  |                         |                    |        |
| Research and development   | 28,634                  | 25,305             | (12)   |
| Sales and marketing  | 5,278                   | 5,985              | 13     |
| General and administrative                                       | 6,969                   | 5,428              | (22)   |
| Total operating expenses   | 40,881                  | 36,718             | (10)   |
| Operating income (loss)  | (34,060)                | (23,637)           | (31)   |
| Financial income (expense):                                      |                         |                    |        |
| Interest income (expense), net                                   | (20)                    | (1,516)            |        |
| Other financial expense  | —                       | (145)              |        |
| Change in the fair value of convertible debt embedded derivative | —                       | (2,036)            |        |
| Foreign exchange gain (loss)                                     | 118                     | 249                |        |
| Profit (Loss) before income taxes                                | (33,962)                | (27,085)           |        |
| Income tax expense (benefit)                                     | 162                     | 317                |        |
| Profit (Loss)  | <u>\$ (34,124)</u>      | <u>\$ (27,402)</u> |        |

The following table sets forth a summary of our statement of operations as a percentage of total revenue:

|  | Year ended<br>December 31, |      |
|--|----------------------------|------|
|  | 2014                       | 2015 |
|  | (% of total revenue)       |      |
| Revenue:   |                            |      |
| Product revenue  | 88                         | 76   |
| Other revenue  | 12                         | 24   |
| Total revenue  | 100                        | 100  |
| Cost of revenue:   |                            |      |
| Cost of product revenue  | 68                         | 55   |
| Cost of other revenue  | 2                          | 5    |
| Total cost of revenue  | 70                         | 60   |
| Gross profit   | 30                         | 40   |
| Operating expenses:  |                            |      |
| Research and development   | 127                        | 78   |
| Sales and marketing  | 23                         | 18   |
| General and administrative                                       | 31                         | 17   |
| Total operating expenses   | 181                        | 113  |
| Operating income (loss)  | (151)                      | (73) |
| Financial income (expense):                                      |                            |      |
| Interest income (expense), net                                   | —                          | (5)  |
| Other financial expense  | —                          | —    |
| Change in the fair value of convertible debt embedded derivative | —                          | (6)  |
| Foreign exchange gain (loss)                                     | 1                          | 1    |
| Profit (Loss) before income taxes                                | (150)                      | (83) |
| Income tax expense (benefit)                                     | 1                          | 1    |
| Profit (Loss)  | (151)                      | (84) |

## Revenue

### Product Revenue

Product revenue increased 24% from \$19.8 million in 2014 to \$24.7 million in 2015. This increase was due to higher sales of LTE products, while WiMAX product revenue decreased significantly. LTE product revenues were driven primarily by customers with products for emerging markets and emerging carriers and by customers selling into the U.S. market. Increased revenues also reflect a product mix with a higher percentage of module sales; modules have a higher average selling price than chipsets.

In 2015, we shipped approximately 1.7 million of units of LTE products compared to 900,000 units in 2014, and approximately 100,000 units of WiMAX products compared to 800,000 units in 2014. We expect our LTE product revenue to continue to increase in 2016 as the single-mode LTE market, including the market for LTE for IoT, continues its growth and as our LTE solutions are currently in commercial deployments in the U.S. and multiple countries outside of the U.S.. In addition, our solutions are under evaluation or trials with other leading wireless carriers. We do not expect any material WiMAX product revenue going forward.

### Other Revenue

Other revenue increased 184% from \$2.8 million in 2014 to \$7.9 million in 2015, reflecting increases in both license and development services revenue 2015. License revenue increased from \$400,000 in 2014 to \$1.6 million in 2015, while development services revenue increased from \$2.0 million to \$5.9 million. Maintenance revenue remained flat at \$400,000 in both years. Prior to the issuance of the audited 2015 financial statements, the estimate of costs to complete for one service contract were revised based on the best information available at that time, resulting in a remeasurement of the percentage of

completion as of December 31, 2015. This remeasurement resulted in a shift of \$177,000 in revenue from the fourth quarter of 2015 to the first quarter of 2016, and a corresponding increase in net loss in the fourth quarter of 2015.

### ***Cost of Revenue***

Cost of product revenue increased 16% from \$15.4 million in 2014 to \$18.0 million in 2015 due to higher product and manufacturing costs associated with the increased number of units sold. Cost of other revenue increased 328% from \$0.3 million in 2014 to \$1.5 million in 2015, reflecting the tripling of development services revenue.

### ***Gross Profit***

Gross profit increased 92% from \$6.8 million in 2014 to \$13.1 million in 2015, while gross margin percentage increased from 30.2% in 2014 to 40.2% in 2015, primarily due to revenue mix with more license and development services revenue in 2015. Product gross margin percentage increased from 22.2% in 2014 to 27.2% in 2015 due to better absorption of fixed production costs by a higher product revenue base and a lower provision for slow-moving WiMAX inventory, partially offset by the impact of a higher percentage of lower-margin module sales in the product revenue mix compared to 2014.

### ***Research and Development***

Research and development expense decreased 12% from \$28.6 million in 2014 to \$25.3 million in 2015. While there were 186 employees and independent contractors in research and development at December 31, 2015 compared to 176 at December 31, 2014, we had decreased headcount early in 2015 and only built it up again in the latter part of 2015.

These expenses are net of research and development incentives earned during the periods, which are accounted for as a reduction of research and development expense. Research and development incentives decreased by 16% from \$4.4 million in 2014 to \$3.7 million in 2015. In 2015, for the first time certain development expenses met the criteria for capitalization and consequently \$386,000 in expenses were capitalized in late 2015 and will be amortized over the estimated useful life of the related product, three years.

Research and development costs associated with product development (including normal customer support which generates product improvements) are recorded in operating expense. In some cases, we have negotiated agreements with customers and partners whereby we provide certain development services beyond our normal practices or planned product roadmap. Amounts received from these agreements are recorded in other revenue. Incremental costs, including both internal resources and out-of-pocket expenses, that we incur as a result of the commitments in the agreements are recorded in cost of other revenue, rather than in research and development expense. Other research and development costs related to the projects covered by the agreements, but which we would have incurred without the existence of such agreements are recorded in research and development expense.

### ***Sales and Marketing***

Sales and marketing expense increased 13% from \$5.3 million in 2014 to \$6.0 million in 2015. The increase primarily reflects the payment of marketing incentives related to a major business initiative in 2015. Overall, there were 19 employees and independent contractors in sales and marketing at December 31, 2015 compared to 21 employees at December 31, 2014.

### ***General and Administrative***

General and administrative expense decreased 22% from \$7.0 million in 2014 to \$5.4 million in 2015 primarily due to a decrease of \$0.2 million in stock based compensation expenses, a decrease of \$0.3 million related to lower bad debt expense and the reversal of a provision for \$0.5 million related to a component order cancellation penalty which was reduced in the final negotiation. There were 19 employees in general and administrative at December 31, 2015 compared to 22 employees at December 31, 2014.

### ***Interest Income (Expense), Net***

Net interest expense increased \$20,000 in 2014 to \$1.5 million in 2015. Interest expense increased due to the accounts receivable financing facility put in place in June 2014, the research project loan received in November 2014, the convertible debt issued in April 2015 and the two government loans received in September 2015. Interest income decreased due to lower amounts of cash and cash equivalents invested in interest-bearing accounts.

### ***Change in Fair Value of Convertible Debt Embedded Derivative***

In April 2015, we issued convertible debt. For the first year of the debt term, the conversion price was subject to change in certain circumstances if we issued equity at a price lower than the nominal conversion rate of \$1.85. This option component of the convertible debt has been recorded as an embedded derivative at fair value in accordance with the provisions of IAS 39 *Financial Instruments: Recognition and Measurement*. The fair value was determined using a valuation model that requires judgment, including estimating the change in value of the Company at different dates and market yields applicable to the Company's straight debt (without the conversion option). The assumptions used in calculating the value of the conversion represent the Company's best estimates based on management's judgment and subjective future expectations. As long as the conversion price is subject to change, the embedded derivative is revalued at each balance sheet date, with the change in value recorded in financial income (expense). The embedded derivative value will be fixed in April 2016 when the conversion price is no longer subject to change. On April 14, 2015, the initial fair value of the embedded derivative was \$4,055,000. The fair value is recalculated at the end of each reporting period resulting in a fair value of \$6,091,000 at December 31, 2015. The change of this fair value of \$2,036,000 for the year ended December 31, 2015 was recorded in the Consolidated Statement of Operations.

### ***Foreign Exchange Gain (Loss), Net***

We had a net foreign exchange gain of \$249,000 in 2015 compared to \$118,000 in 2014 primarily due to movements in the U.S. dollar versus the euro.

### ***Income Tax Expense (Benefit)***

In 2015, we recorded current tax expense of \$311,000 arising from taxable income incurred at certain subsidiaries, and a deferred tax loss amounting to \$6,000. In 2014, we recorded current tax expense of \$197,000 arising from taxable income incurred at certain subsidiaries, and a deferred tax benefit amounting to \$35,000. Deferred tax assets have not been recognized in 2015 or 2014 with respect to our losses as we have not generated taxable profits since beginning operations in 2004.

### ***Selected Quarterly Results of Operations***

The following table presents our unaudited quarterly results of operations for 2015 and 2016. This unaudited quarterly information has been prepared on the same basis as our audited Consolidated Financial Statements and includes all adjustments necessary for the fair presentation of the information for the quarters presented. You should read this table together with our Consolidated Financial Statements and the related notes thereto included in this annual report. Our quarterly results of operations will vary in the future. The results of operations for any quarter are not necessarily indicative of results for the entire year and are not necessarily indicative of any future results.

|  | Three months ended         |                   |                   |                   |                   |                   |                   |                   |
|--|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | March 31,<br>2015          | June 30,<br>2015  | Sept. 30,<br>2015 | Dec. 31,<br>2015  | March 31,<br>2016 | June 30,<br>2016  | Sept. 30,<br>2016 | Dec. 31,<br>2016  |
|  | (in thousands) (unaudited) |                   |                   |                   |                   |                   |                   |                   |
| Revenue:   |                            |                   |                   |                   |                   |                   |                   |                   |
| Product revenue  | \$ 3,988                   | \$ 6,243          | \$ 7,887          | \$ 6,551          | \$ 5,412          | \$ 7,699          | \$ 9,523          | \$ 11,947         |
| Other revenue  | 820                        | 1,253             | 1,471             | 4,319             | 3,873             | 2,185             | 2,934             | 2,006             |
| Total revenue  | 4,808                      | 7,496             | 9,358             | 10,870            | 9,285             | 9,884             | 12,457            | 13,953            |
| Cost of revenue <sup>(1)</sup> :                                 |                            |                   |                   |                   |                   |                   |                   |                   |
| Cost of product revenue  | 2,762                      | 4,427             | 5,153             | 5,628             | 4,128             | 4,667             | 5,900             | 7,879             |
| Cost of other revenue  | 124                        | 345               | 391               | 621               | 747               | 804               | 731               | 740               |
| Total cost of revenue  | 2,886                      | 4,772             | 5,544             | 6,249             | 4,875             | 5,471             | 6,631             | 8,619             |
| Gross profit   | 1,922                      | 2,724             | 3,814             | 4,621             | 4,410             | 4,413             | 5,826             | 5,334             |
| Operating expenses <sup>(1)</sup> :                              |                            |                   |                   |                   |                   |                   |                   |                   |
| Research and development   | 6,893                      | 6,135             | 5,525             | 6,752             | 6,727             | 6,889             | 6,391             | 6,327             |
| Sales and marketing  | 1,722                      | 1,348             | 1,406             | 1,509             | 1,501             | 1,495             | 1,926             | 2,204             |
| General and administrative                                       | 1,483                      | 1,286             | 1,119             | 1,540             | 1,378             | 1,761             | 1,459             | 1,669             |
| Total operating expenses   | 10,098                     | 8,769             | 8,050             | 9,801             | 9,606             | 10,145            | 9,776             | 10,200            |
| Operating income (loss)  | (8,176)                    | (6,045)           | (4,236)           | (5,180)           | (5,196)           | (5,732)           | (3,950)           | (4,866)           |
| Financial income (expense):                                      |                            |                   |                   |                   |                   |                   |                   |                   |
| Interest income (expense), net                                   | (34)                       | (432)             | (509)             | (541)             | (628)             | (916)             | (1,062)           | (1,080)           |
| Other financial expense  | —                          | (141)             | —                 | (4)               | —                 | (83)              | —                 | —                 |
| Change in the fair value of convertible debt embedded derivative | —                          | (275)             | 2,488             | (4,249)           | (3,127)           | 1,544             | —                 | —                 |
| Foreign exchange gain (loss)                                     | 226                        | (120)             | (91)              | 234               | (212)             | 196               | (61)              | 670               |
| Profit (Loss) before income taxes                                | (7,984)                    | (7,013)           | (2,348)           | (9,740)           | (9,163)           | (4,991)           | (5,073)           | (5,276)           |
| Income tax expense (benefit)                                     | 64                         | 55                | 81                | 117               | 66                | 70                | 53                | 95                |
| Profit (Loss)  | <u>\$ (8,048)</u>          | <u>\$ (7,068)</u> | <u>\$ (2,429)</u> | <u>\$ (9,857)</u> | <u>\$ (9,229)</u> | <u>\$ (5,061)</u> | <u>\$ (5,126)</u> | <u>\$ (5,371)</u> |

(1) Includes share-based compensation as follows:

|                          | Three months ended         |                  |                   |                  |                   |                  |                   |                  |
|--------------------------|----------------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|                          | March 31,<br>2015          | June 30,<br>2015 | Sept. 30,<br>2015 | Dec. 31,<br>2015 | March 31,<br>2016 | June 30,<br>2016 | Sept. 30,<br>2016 | Dec. 31,<br>2016 |
|                          | (in thousands) (unaudited) |                  |                   |                  |                   |                  |                   |                  |
| Cost of revenue          | \$ 6                       | \$ 4             | \$ 3              | \$ 4             | \$ 4              | \$ 4             | \$ 4              | \$ —             |
| Operating expenses       | 232                        | 193              | 183               | 242              | 250               | 222              | 179               | 459              |
| Share-based compensation | <u>\$ 238</u>              | <u>\$ 197</u>    | <u>\$ 186</u>     | <u>\$ 246</u>    | <u>\$ 254</u>     | <u>\$ 226</u>    | <u>\$ 183</u>     | <u>\$ 459</u>    |

The following table sets forth a summary of our quarterly statement of operations as a percentage of total revenue:

|  | Three months ended         |                  |                   |                  |                   |                  |                   |                  |
|--|----------------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|  | March 31,<br>2015          | June 30,<br>2015 | Sept. 30,<br>2015 | Dec. 31,<br>2015 | March 31,<br>2016 | June 30,<br>2016 | Sept. 30,<br>2016 | Dec. 31,<br>2016 |
|  | (% of revenue) (unaudited) |                  |                   |                  |                   |                  |                   |                  |
| Revenue:   |                            |                  |                   |                  |                   |                  |                   |                  |
| Product revenue  | 83                         | 83               | 84                | 60               | 58                | 78               | 76                | 86               |
| Other revenue  | 17                         | 17               | 16                | 40               | 42                | 22               | 24                | 14               |
| Total revenue  | 100                        | 100              | 100               | 100              | 100               | 100              | 100               | 100              |
| Cost of revenue:   |                            |                  |                   |                  |                   |                  |                   |                  |
| Cost of product revenue  | 57                         | 59               | 55                | 51               | 44                | 47               | 47                | 56               |
| Cost of other revenue  | 3                          | 5                | 4                 | 6                | 8                 | 8                | 6                 | 5                |
| Total cost of revenue  | 60                         | 64               | 59                | 57               | 53                | 55               | 53                | 62               |
| Gross profit   | 40                         | 36               | 41                | 43               | 47                | 45               | 47                | 38               |
| Operating expenses:  |                            |                  |                   |                  |                   |                  |                   |                  |
| Research and development   | 143                        | 82               | 59                | 62               | 72                | 70               | 51                | 45               |
| Sales and marketing  | 36                         | 18               | 15                | 15               | 16                | 15               | 15                | 16               |
| General and administrative                                       | 31                         | 17               | 12                | 14               | 15                | 18               | 12                | 12               |
| Total operating expenses   | 210                        | 117              | 86                | 90               | 103               | 103              | 78                | 73               |
| Operating income (loss)  | (170)                      | (81)             | (45)              | (48)             | (56)              | (58)             | (32)              | (35)             |
| Financial income (expense):                                      |                            |                  |                   |                  |                   |                  |                   |                  |
| Interest income (expense), net                                   | (1)                        | (6)              | (5)               | (5)              | (7)               | (9)              | (9)               | (8)              |
| Other financial expense  | —                          | (2)              | —                 | —                | —                 | (1)              | —                 | —                |
| Change in the fair value of convertible debt embedded derivative | —                          | (3)              | 26                | (39)             | (33)              | 16               | —                 | —                |
| Foreign exchange gain (loss)                                     | 5                          | (1)              | (1)               | 2                | (2)               | 2                | —                 | 6                |
| Profit (Loss) before income taxes                                | (166)                      | (93)             | (25)              | (90)             | (98)              | (50)             | (41)              | (37)             |
| Income tax expense (benefit)                                     | 1                          | 1                | 1                 | 1                | 1                 | 1                | —                 | 1                |
| Profit (Loss)  | (167)                      | (94)             | (26)              | (91)             | (99)              | (51)             | (41)              | (38)             |

While the overall trend in product revenue is showing growth over time as more design wins begin shipping, we continue to have some volatility in quarterly revenue as many of the new design wins either ramp with some delay versus expectations, or do not ramp smoothly over time. Other revenue has increased over time as we have begun providing more development services to key customers and partners. The increase has masked the inherent fluctuation in this revenue stream due to the timing of the execution of software licenses and, the timing of performance milestones in development service agreements. Other revenue in the fourth quarter of 2015 and first quarter of 2016 was unusually high due a number of new development services starting as well as the execution in the fourth quarter of 2015 of a large license agreement.

Cost of product revenue in general increased and decreased from the second quarter of 2015 consistent with the increases and decreases in product revenue quarter to quarter. Cost of product revenue the fourth quarter of 2015 reflected the impact of a provision of \$0.7 million related to slow-moving WiMAX inventory. Cost of other revenue increased in 2016 compared to 2015 as other revenues increased primarily due to an increase in development services; incremental costs incurred by the Company

and related to development service agreements negotiated with customers and partners to develop services are recorded in cost of other revenue.

In the first three quarters of 2016, gross margin remained above 45%. In the fourth quarter of 2016, gross margin declined to 38% reflecting the impact of sales of lower margin modules in the product mix and a lower contribution from high margin other revenues. Gross margin remained below 45% in 2015 as we continued to generate a portion of our revenues from our LTE modules with lower margins than our chip solutions. In the fourth quarter of 2015, gross margin reflected the impact of a write-down of the remaining WiMAX inventory, although this was partly offset by the high proportion of high margin other revenue. Excluding this inventory write-down, gross margin was 49.5%.

Research and development expenses in the second and third quarters of 2015 were lower due to cost control measures and some delay of spending combined with the third quarter being seasonally low due to the summer vacation period. Research and development expense increased in the fourth quarter of 2015 and first half of 2016 due to headcount increases, while the decreased expense in the third quarter of 2016 reflected seasonality and some support resources becoming dedicated to customer support and therefore reallocated to sales and marketing expense. Research and development expense in the fourth quarter of 2016 then remained flat compared to the third quarter due to the benefit of more resources being allocated to projects which qualified for research grant recognition which therefore reduced expense.

Sales and marketing expense remained flat in 2015 and the first half of 2016. The increase in the second half of 2016 reflects some support resources becoming dedicated to customer support and therefore reallocated to sales and marketing expense, as well as some hiring of new sales personnel.

General and administrative expense has tended to increase slightly over time, although expenses in the second and third quarters of 2015 were lower due to cost control measures and some delay of spending and hiring.

Interest expense increased from the second quarter of 2015 due to the convertible debt issued in April 2015, the two government loans received in September 2015 and an additional convertible debt issuance in April 2016. Interest income was insignificant. In 2015 and 2016, financial income (expense) was impacted by the change in fair value related to the reevaluation of the embedded derivatives in the convertible debt issuances, which values became fixed in the second quarter of 2016. Foreign exchange gains and losses resulted primarily from the change in the U.S. dollar to euro exchange rate and remeasurement of euro-based assets and liabilities at settlement or balance sheet date.

We have yet to experience an established pattern of seasonality. However, business activities in Asia generally slow-down in the first quarter of each year during the Chinese New Year period, which could harm our sales and results of operations during the period.

## **B. *Liquidity and Capital Resources***

### **Sources of Liquidity**

Our cash and cash equivalents and short-term investments were \$20.5 million at December 31, 2016. We believe that our available cash and cash equivalents, proceeds from government funded projects and payment of research credits will be sufficient to fund our operations for at least the next 12 months.

Since inception, we have financed our operations primarily through proceeds from the issues of our shares and convertible notes, which totaled €54.7 million (\$73.1 million) from 2004 to the end of 2010; from the \$59.1 million in net proceeds from our initial public offering on the New York Stock Exchange in April 2011 and from \$60.7 million in net proceeds from our follow-on public offerings in February and November 2013 and in September 2016.

In June 2012, we entered into a finance lease agreement with a French financial institution whereby we had the possibility to finance acquisitions of qualifying equipment with a total purchase price of up to €1.5 million (\$2.0 million) through finance leases that were reimbursed over a 36-month period at an effective rate of interest of 4.6%. The finance lease obligation was secured by restricted cash balances on deposit with the financial institution equal to one-third of the original principal financed. The facility expired February 28, 2013 and has not been renewed. At December 31, 2016, our capital lease obligations had all been repaid.

In June 2014, the Company entered into a factoring agreement with a French financial institution whereby a line of credit was made available equal to 90% of the face value of accounts receivable from qualifying customers. The Company transfers to the finance company all invoices issued to qualifying customers and the customers are instructed to settle the invoices directly

with the finance company. At December 31, 2016, \$7.7 million had been drawn on the line of credit and recorded as a current borrowing.

In October 2014, Bpifrance, the financial agency of the French government, provided funding to the Company in the context of a long-term research project, estimated to be completed over a 3-year period. The total funding will amount to €7.0 million (\$9.0 million) comprising a portion in the form of a grant (€3.0 million or \$3.8 million) and a portion in the form of a loan (€4.0 million or \$5.2 million). The funding will be paid in three installments: the first tranche at the contract signature date, the second and the third installments after milestones defined in the contract. The advance will be repaid from June 30th, 2018 to June 30th, 2020 and bears interests at a 1.53% fixed contractual rate. In 2014, the Company received €2.1 million (\$2.7 million) as grant and €1.0 million (\$1.2 million) as a loan. In 2016, the Company received €0.6 million (\$0.6 million) as a loan. The next funding is expected to be received by the end of 2018 for approximately \$3.5 million.

In April 2015, we completed the sale of a \$12 million convertible note in a private placement transaction. The convertible note matures in April 2018 and bears interest at a rate of 7% per year, paid in kind annually on the anniversary of the issuance of the note. The note is convertible, at the holder's option, into the company's ADSs at a conversion rate of 540.5405 ADSs for each \$1,000 principal amount of the note, subject to certain adjustments, which equates to an initial conversion price of \$1.85 per ADS.

In September 2015, the Company received two loans from the financial agency of the French government for a total amount of €2 million (\$2.2 million). One loan of €1 million bears interest at 5.24% per year, paid quarterly; the second loan of €1 million is interest-free. The interest-free loan has been revalued using the 5.24% interest rate payable on the other loan. Both loans have seven year terms with the principal being amortized on a quarterly basis beginning in September 2017.

On April 27, 2016, we raised net proceeds of \$7.0 million from the sale of convertible notes to certain institutional investors in a private placement transaction. The convertible notes mature in April 2019 and bear interest at a rate of 7% per year, paid in kind annually on the anniversary of the issuance of the note. The notes are convertible, at the holder's option, into the Company's ADSs at a conversion price equal to 1.2 times the 10-trading day volume weighted average price of the ADSs on the New York Stock Exchange beginning on April 28, 2016 and ending on May 12, 2016; provided, however, in no event shall the conversion price be below \$2.00 or exceed \$3.00.

## Cash Flows

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

|  | Year ended December 31, |                   |                  |
|--|-------------------------|-------------------|------------------|
|  | 2014                    | 2015              | 2016             |
|  | (in thousands)          |                   |                  |
| Net cash used in operating activities                | \$ (24,406)             | \$ (16,401)       | \$ (15,589)      |
| Net cash used in investing activities                | (5,625)                 | (5,345)           | (5,270)          |
| Net cash from financing activities                   | 5,121                   | 17,710            | 32,778           |
| Net increase (decrease) in cash and cash equivalents | <u>\$ (24,910)</u>      | <u>\$ (4,036)</u> | <u>\$ 11,919</u> |

### Cash Flows from Operating Activities

Net cash used in operating activities during 2016 was \$15.6 million, reflecting a net loss (before income tax) of \$24.5 million, increases in inventories of \$4.6 million and in trade payables and other liabilities of \$2.4 million and decreases in government grant advances and deferred revenue of \$1.8 million, in research tax credit receivable of \$1.0 million and in trade and other receivables of \$0.7 million. These and other smaller working capital adjustments were a net \$2.4 million use of cash. In addition, there were several non-cash charges, including depreciation and amortization of \$5.3 million, the change in the fair value of the convertible debt embedded derivative of \$1.6 million, non-cash interest expense of \$3.7 million and share-based compensation expense of \$1.1 million during the period.

Net cash used in operating activities during 2015 was \$16.4 million, reflecting a net loss (before income tax) of \$27.1 million, an increase in trade receivables and other receivables of \$9.1 million, a decrease in inventories of \$5.1 million, an increase of trade payables and other liabilities of \$2.0 million and an increase of deferred revenue of \$2.8 million. These and other smaller working capital adjustments were a net \$0.9 million source of cash. In addition, there were several non-cash charges, including depreciation and amortization of \$5.3 million, the change in the fair value of the convertible debt embedded

derivative of \$2.0 million, non-cash interest expense of \$1.5 million and share-based compensation expense of \$0.9 million during the period.

Net cash used in operating activities during 2014 was \$24.4 million, reflecting a net loss (before income tax) of \$34.0 million, an increase in trade receivables and other receivables of \$1.6 million, an increase in inventories of \$2.6 million, an decrease in research tax credit receivable of \$4.6 million and an increase of trade payables and other liabilities of \$3.4 million. These uses of cash were partially offset by non-cash charges, including depreciation and amortization of \$5.3 million, and share-based compensation expense of \$1.3 million during the period.

### ***Cash Used in Investing Activities***

Cash used in investing activities during 2016, 2015 and 2014, consisted primarily of purchases of property and equipment and intangible assets of \$5.4 million, \$5.5 million and \$6.2 million, respectively. The higher level of capital expenditures in 2014 reflects leasehold improvement and furniture related to the new headquarter office in addition to ongoing purchases related to LTE product development.

### ***Cash Flows from Financing Activities***

Net cash provided by financing activities was \$32.8 million in 2016, reflecting \$23.6 million in net proceeds from our follow-on public offering in September 2016, \$6.9 million net proceeds from the issuance of convertible debt, \$1.2 million net proceeds drawn on the factoring line of credit, and \$1.0 million proceeds from government project financing, offset by payment of interest and final repayment of finance lease liabilities.

Net cash provided by financing activities was \$17.7 million in 2015, reflecting \$11.6 million net proceeds from the issuance of convertible debt, \$4.3 million proceeds drawn on the factoring line of credit, \$2.1 million proceeds from government loans, offset by repayment of finance lease liabilities and payment of interest.

Net cash provided by financing activities was \$5.1 million in 2014, reflecting \$2.1 million proceeds drawn on the factoring line of credit, \$3.6 million proceeds from the research project financing and repayment of finance lease liabilities.

### ***Operating and Investing Requirements***

We expect our operating expenses to remain fairly flat or slightly higher in each quarter of 2017 compared to the fourth quarter of 2016. We expect that investments in tangible and intangible assets are likely to increase slightly due to increased product development activity expected in 2017.

Based on our current plans, we believe that our available capital resources will be adequate to satisfy our cash requirements at least for 12 months from the date of this annual report. If our plans change, or if we do not achieve profits or if our profitability is significantly lower than anticipated, we may need additional financing.

If our available cash balances are insufficient to satisfy our liquidity requirements, we may seek to sell equity or convertible debt securities or enter into a credit facility, which may contain restrictive covenants. The sale of equity and convertible debt securities may result in dilution to our shareholders and those securities may have rights senior to those of the ADSs. If we raise additional funds through the issue of convertible debt securities, these securities could contain covenants that would restrict our operations.

Our estimates of the period of time through which our financial resources will be adequate to support our operations and the costs to support research and development and our sales and marketing activities are forward-looking statements and involve risks and uncertainties, and actual results could vary materially and negatively as a result of a number of factors, including the factors discussed in “Item 3.D—Risk Factors”. We have based our estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect.

Our short and long-term capital requirements will depend on many factors, including the following:

- our ability to generate cash from operations or to minimize the cash used in operations;
- our ability to control our costs;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, or participating in litigation-related activities; and
- the acquisition of businesses, products and technologies.

### **C. *Research and Development, Patents and Licenses, etc.***

We engage in substantial research and development efforts to develop new products and integrate additional capabilities into our core products. Our research and development team of 186 employees and consultants, at December 31, 2016, includes experienced semiconductor designers, software developers and test engineers. Key areas of expertise include wireless systems architecture, SoC architecture, digital and RF IC design, digital signal processing, embedded real-time and application software design, protocol stack development, hardware and software integration, quality assurance test development and scripting and field testing. Our team has significant experience in the principal wireless domains, including LTE, WiMAX, 2G, 3G and Wi-Fi. More than 81% of our employee engineers have more than 10 years of experience in their specific domain, and 96% of our engineers hold masters degrees.

The ability to successfully integrate and mass-produce digital and/or RF functionality in advanced process technology with acceptable yields is a significant industry challenge. Due to the robustness of our silicon design and verification methodologies, we have demonstrated competency in repeatedly achieving production-capable products with the first version of our chip designs, reducing time to market and avoiding costs associated with additional design revisions. Each of our 65nm WiMAX SoC products, which consisted of integrated baseband and RF transceiver functions, and our first three generations of 40nm LTE baseband and our first four 65nm LTE RF products, were production-ready from the initial version of the design. We believe this experience positioned us well for our migration to denser process geometry such as 28nm for our future high end products and for further integration for low cost and low power in our future chipsets for IoT. Looking ahead to future generations such as 5G, we expect this competency will serve us well as we develop ever more complex designs in more advanced process technologies.

We design our products with careful attention to quality, flexibility, cost- and power-efficiency requirements. Our 4G modem architecture, which has been refined through multiple generations of integrated circuit designs, is designed to optimize hardware and software partitioning to provide more flexibility and better cost without compromising performance. As a result, we achieve equivalent or higher throughput and lower power consumption in a smaller die size than other single-mode LTE chip competitors.

Since February 2009, we have been certified as ISO 9001 compliant, an international standard set by the International Organization for Standardization, or ISO, that sets forth requirements for an organization's quality management system. We believe this certification gives our customers confidence in our quality control procedures. We also participate in a number of organizations and standards bodies, including the 3rd Generation Partnership Project (3GPP), Open Mobile Alliance (OMA), the WiMAX Forum, the PTS Type Certification Review Board (PTCRB) the Global Certification Forum, the GSMA, European Telecommunications Standards Institute (ETSI) and CTIA—The Wireless Association. In addition, we participate in multiple European Union and French collaborative projects for advanced studies focusing on future evolutions of the 4G technology or addressing the longer term 5G technology challenges.

Our research and development expense was \$28.6 million for 2014, \$25.3 million for 2015 and \$26.3 million for 2016.

### **D. *Trend Information***

Since mid-2011, the most significant change in trends that effected our business, results of operations and financial condition was the decline experienced in the WiMAX market driven by a change in strategy by Sprint, the largest driver of demand for WiMAX semiconductor solutions, who in the third quarter of 2011 introduced the 3G iPhone and announced their intention to begin deploying LTE in 2012. This change in the WiMAX market harmed our results of operations for the years ended December 31, 2012 and 2013, particularly as we did not generate significant revenue from LTE products until the second half of 2013 due to the time necessary to get our LTE products ready for mass production, certify them at various LTE carriers and the timing of the LTE carriers' LTE-only products. In addition, as we are focused on single-mode LTE solutions, the market for our products and our revenue are dependent on operators deploying extensively LTE in order to seek to benefit from the cost and performance advantages of single-mode LTE products. Other than these items, or as disclosed elsewhere in this annual report, including in "Item 5. A. Operating Results", we are not aware of any trends, uncertainties, demands, commitments or events that are reasonable likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

### E. *Off-Balance Sheet Arrangements*

Since our inception, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

### F. *Contractual Obligations*

The following table summarizes our outstanding contractual obligations at December 31, 2016 and the effect those obligations are expected to have on our liquidity and cash flows in future periods:

|  | Payments due by period |                     |                  |                 |                      |
|--|------------------------|---------------------|------------------|-----------------|----------------------|
|  | Total                  | Less than<br>1 year | 1-3 years        | 3-5 years       | More than<br>5 years |
| (in thousands)   |                        |                     |                  |                 |                      |
| Liabilities :  |                        |                     |                  |                 |                      |
| Government grant advances                              | \$ 587                 | \$ 390              | \$ 197           | \$ —            | \$ —                 |
| Research project financing                             | 3,306                  | 1,459               | 1,373            | 444             | 30                   |
| Government loans                                       | 1,852                  | 167                 | 749              | 738             | 198                  |
| Convertible debt and accrued expenses                  | 23,473                 | 4,037               | 19,436           | —               | —                    |
| Provisions   | 1,352                  | 46                  | 618              | —               | 688                  |
| Trade payables   | 18,358                 | 18,358              | —                | —               | —                    |
| Interest-bearing receivables financing                 | 7,712                  | 7,712               | —                | —               | —                    |
| Other liabilities                                      | 22                     | 22                  | —                | —               | —                    |
| Other current liabilities                              | 4,415                  | 4,415               | —                | —               | —                    |
| Total  | <u>\$ 61,077</u>       | <u>\$ 36,606</u>    | <u>\$ 22,373</u> | <u>\$ 1,182</u> | <u>\$ 916</u>        |
| Off-balance sheet commitments:                         |                        |                     |                  |                 |                      |
| Operating leases                                       | 2,811                  | 879                 | 1,405            | 527             | —                    |
| Inventory component and equipment purchase commitments | 4,417                  | 3,247               | 1,170            | —               | —                    |
| Total  | <u>\$ 7,228</u>        | <u>\$ 4,126</u>     | <u>\$ 2,575</u>  | <u>\$ 527</u>   | <u>\$ —</u>          |

## Item 6. Directors, Senior Management and Employees

### A. *Directors and Senior Management*

#### Executive Officers and Directors

The following table sets forth information about our executive officers and directors as the date of this annual report.

| Name                      | Age | Position(s)                                       |
|---------------------------|-----|---|
| <i>Executive Officers</i> |     |   |
| Dr. Georges Karam         | 55  | Chairman of the Board and Chief Executive Officer |
| Deborah Choate            | 53  | Chief Financial Officer                           |
| Bertrand Debray           | 52  | Chief Operating Officer                           |
| Didier Dutronc            | 57  | Chief Marketing Officer                           |
| Nikhil Taluja             | 45  | Vice President Worldwide Sales                    |
| <i>Directors</i>          |     |   |
| Yves Maitre               | 54  | Director  |
| Richard Nottenburg        | 63  | Director  |
| Hubert de Pesquidoux      | 51  | Director  |
| Dominique Pitteloud       | 55  | Director  |
| Alok Sharma               | 52  | Director  |
| Zvi Slonimsky             | 67  | Director  |

## Executive Officers

**Dr. Georges Karam** has served as our chairman of the board and chief executive officer since the company was founded in 2003. Before founding Sequans, Dr. Karam was vice president of cable access at Juniper Networks, running the cable engineering and marketing departments and managing the cable sales launch in the Europe, Middle East and Africa region. He joined Juniper Networks when the company acquired Pacific Broadband Communications (PBC), where he was vice president of engineering and general manager for Europe. Dr. Karam has served in a variety of senior management positions at Alcatel, SAGEM and Philips. He is a senior member of IEEE, has authored numerous technical and scientific papers and holds several patents in digital communications. Dr. Karam holds a PhD in signal processing and communication theory from Ecole Nationale Supérieure des Télécommunications, Paris.

**Deborah Choate** has served as our chief financial officer since July 2007. Prior to joining Sequans she was chief financial officer at Esmertec AG from September 2005 to June 2007 and at Wavecom SA, from August 1998 to August 2004, and vice president of finance at Platinum Equity from October 2004 to September 2005. Earlier in her career, she was an audit partner with Ernst & Young. Ms. Choate has over 30 years of experience in management, finance and accounting, including over 15 years working with technology companies, in particular communications hardware, software and services. Ms. Choate holds a BS from the University of California at Berkeley.

**Bertrand Debray** has served as our chief operating officer since July 2013 and prior to that as vice president, engineering since the company was founded in 2003. Before joining Sequans, Mr. Debray was director of hardware and ASIC development in the cable product division at Juniper Networks. He joined Juniper Networks after the company acquired Pacific Broadband Communications, where he played the same role and was significantly involved in developing the cable product and team. Mr. Debray has held technical and management positions at Alcatel. He has nearly 20 years' experience in large project development covering all access technologies, including wireless, satellite and cable. Mr. Debray holds a MSE from Ecole Nationale Supérieure des Télécommunications, Paris.

**Didier Dutronc** has served as chief marketing officer since March 2016. From January 2014 until March 2016, Mr. Dutronc was a director of Tapcheck Limited and Asia Business Consulting Limited both based in Hong Kong and providing services for companies targeting the IoT market. Previously, Mr. Dutronc served as senior vice president and general manager, M2M Embedded Solutions Business Unit at Sierra Wireless from February 2009 until October 2013. He also worked for Wavecom as general manager Handset BU (until Wavecom was acquired by Sierra Wireless). Earlier, he held positions at Alcatel Optronics USA, Alcatel Optronics France and Texas Instruments. Mr. Dutronc holds a BS in Electrical Engineering from ESME Sudria (France) and a MBA from IAE of Paris.

**Nikhil Taluja** has served as our vice president of worldwide sales since September 2016. From July 2013 until August 2016, Mr. Taluja was vice president of sales at SK hynix, a leading supplier of DRAM and Flash memory solutions, where he led the sales organization for the Americas. From March 2012 until July 2013, Mr. Taluja led the Americas' sales and marketing organizations at ST-Ericsson, the former multinational supplier of wireless semiconductor products, including LTE solutions. From November 2007 until March 2012, Mr. Taluja held various other sales and marketing position at ST-Ericsson. Mr. Taluja

has more than 20 years of sales, product marketing and business development experience, including having worked for Texas Instruments and TranSwitch, specifically in the areas of wireless and wireline communications and has co-authored three patents in the field of near field communications (NFC). Mr. Taluja holds an M.S. in electrical engineering and a B.S. in computer engineering and mathematics from Kansas State University.

## **Directors**

***Yves Maitre*** has served as a director since June 2014. Mr. Maitre is currently Executive VP for Connected Objects and Partnerships at Orange Corporate where he is responsible for managing Orange's relationships with global device makers as well as partnering with ecosystem players from chipset upwards to internet companies. Prior to joining Orange, Mr. Maitre spent six years working for the consumer electronics company Thomson. He was President of Key MRO America, a subsidiary of Thomson United States and whilst living in Singapore he worked for Thomson Asia as Director of Manufacturing Supply Chain and Product Management. Before Thomson, Mr. Maitre spent five years as the COO of Quante-Pouyet, a subsidiary of 3M, making connectors for the telecoms business. He is also a Board member of Orange China and several midsize / start-up companies. Mr. Maitre is an Engineering graduate in Nuclear Physics from Polytech Grenoble (France).

***Richard Nottenburg*** has served as a director since June 2016. Dr. Nottenburg is currently an investor in early stage technology companies and a business consultant. He served as president, chief executive officer, and member of the board of directors of Sonus Networks, Inc. from 2008 through 2010. From 2004 until 2008, Dr. Nottenburg was an officer with Motorola, Inc., ultimately serving as its executive vice president, chief strategy officer and chief technology officer. He served on the boards of Aeroflex Corporation from 2010 until 2014, and PMC Sierra, where he was a member of the audit committee, from 2011 until January 2016. Dr. Nottenburg is currently a member of the board of directors of Violin Memory Inc., where he is chairman and a member of the compensation, corporate governance, and nominating committees, and Verint Systems Inc., where he is chairman of the compensation committee. Dr. Nottenburg has a BSEE in Electrical Engineering from New York University, an MSEE in Electrical Engineering from Colorado State University and a PhD in Electrical Engineering from Ecole Polytechnique Federal Lausanne.

***Hubert de Pesquidoux*** has served as a director since March 2011. Mr. de Pesquidoux is an Executive Partner at Siris Capital, a private equity firm focused on making control investments in data/telecom, technology and technology-enabled business service companies in North America. He is also currently Executive Chairman of Xura, a Siris Capital portfolio company. From 1991 until December 2009, Mr. de Pesquidoux held various positions at the telecommunications company Alcatel-Lucent SA (and its predecessor, Alcatel S.A. and its affiliates), where he most recently served as Chief Financial Officer from November 2007 until December 2008 and as President of the Enterprise business from November 2006 until December 2008. Mr. de Pesquidoux was also previously a member of the Alcatel Executive Committee and held various executive positions including President and Chief Executive Officer of Alcatel North America, Chief Executive Officer of Alcatel Canada (formerly NewbridgeNetworks) and Chief Financial Officer of Alcatel USA. Mr. de Pesquidoux also served as the Chairman of the Board of Tekelec and currently serves as a director and audit committee chair of Radisys Corporation, and Criteo S.A., as a director of Transaction Network Services, as executive chairman of Premiere Global Services, Inc. and Mavenir Systems, Inc. He is also a member of the University of Pittsburgh Medical Center Information Technology Board of Visitors, which advises UPMC on matters generally related to information technology strategy, acquisition and implementation. Mr. de Pesquidoux holds a Master in Law from University of Nancy II, a Master in Economics and Finance from Institut d'Etudes Politiques de Paris, a DESS in International Affairs from University of Paris Dauphine and was a laureate in the "Concours Général de Droit".

***Dominique Pitteloud*** has served as a director since January 2005. Mr. Pitteloud has been a Managing Partner with Ginko Ventures in Geneva since 2015, was a partner with Endeavour Vision from 2007 to 2015, and was a principal at Vision Capital from 2001 to 2007. Mr. Pitteloud is also an advisor to ASSIA, a provider of DSL management solutions. Mr. Pitteloud also serves as a director of number of private companies. Prior to becoming a venture capitalist, Mr. Pitteloud was vice president of marketing at 8x8, a Silicon Valley semiconductor and telecommunication company, which he joined in 1999 as part of the acquisition of Odisei, a VoIP start-up from Sophia Antipolis, France. At Odisei, Mr. Pitteloud led the development of the company's business and financing activities. Prior to Odisei, Mr. Pitteloud held various engineering and management positions at Logitech, including Vice President of the scanner and video camera business units. Mr. Pitteloud received a BS in electrical engineering and telecommunications from the School of Business and Engineering in Vaud, Switzerland and an MBA from Santa Clara University.

***Dr. Alok Sharma*** has served as a director since January 2011. Dr. Sharma has served as the Chief Executive Officer of MobileNerd, a private cloud-based software-as-a-service company, since 2014. From September 2010 to December 2012, Dr. Sharma was the chief executive officer of Accelera Inc., a company focused on building network optimization software for

mobile broadband networks. From February 2009 to August 2010, Dr. Sharma was the Senior Vice President, Corporate Development and Alliances, at Aviat Networks (earlier known as Harris-Stratex, Microwave Division of Harris Corporation), where he was responsible for leading corporate strategy, mergers and acquisitions, as well as the development of key strategic relationships for the company. Beginning in June 2004, Dr. Sharma was the founder and chief executive officer of Telsima Corporation, a provider of WiMAX broadband wireless solutions, until it was acquired by Aviat Networks in February 2009. Prior to Telsima, Dr. Sharma was the vice president and general manager of the Worldwide Cable Business at Juniper Networks from December 2001 to May 2003. Before Juniper Networks, Dr. Sharma was the founder and chief executive officer of Pacific Broadband Communications, which was acquired by Juniper Networks in December 2001. Prior to that, Dr. Sharma held senior management and technical positions at Hewlett Packard, Fujitsu/Amdahl, Integrated Device Technology and Siara Systems, a metro routing company acquired by Redback/Ericsson. Dr. Sharma holds a bachelor of engineering from the Indian Institute of Technology, Roorkee, India and a PhD in electrical engineering from the University of Wisconsin-Madison, and holds seven patents.

**Zvi Slonimsky** has served as a director since November 2006. Since 2005, Mr. Slonimsky has been chairman of the board of several Israeli high tech companies, currently including Aware, Maradin and Surf, and previously Alvarion, Extricom, Pentalum and Teledata. He served as CEO of Alvarion Ltd. from 2001 to October 2005, following Alvarion's establishment via merger of BreezeCOM and Floware in August 2001. Prior to the merger, Mr. Slonimsky was CEO of BreezeCom. Before that, he served as president and CEO of MTS Ltd. and was general manager of DSP Group, Israel. Earlier in his career, he held senior positions at several Israeli telecom companies, including C.Mer and Tadiran. Mr. Slonimsky holds a BSEE and a MSEE from the Technion Israel Institute for Technology and an MBA from Tel-Aviv University.

## B. Compensation

### Compensation of Executive Officers and Directors

The aggregate compensation paid and benefits in kind granted by us to our executive officers and directors, including share-based compensation, for the year ended December 31, 2016 was approximately \$2.4 million. For the year ended December 31, 2016, we estimate that approximately \$13,000 of the amounts set aside or accrued to provide pension, retirement or similar benefits to our employees was attributable to our executive officers.

Our non-employee directors are entitled to the following annual compensation:

|   |           |
|---|-----------|
| Attendance fees                                 | \$ 20,000 |
| Attendance fees for lead independent director   | \$ 20,000 |
| Attendance fees for board committee chairperson |           |
| Audit committee                                 | \$ 12,000 |
| Compensation committee                          | \$ 9,000  |
| Nominating and corporate governance committee   | \$ 5,000  |
| Attendance fees for board committee members     |           |
| Audit committee                                 | \$ 6,000  |
| Compensation committee                          | \$ 4,500  |
| Nominating and corporate governance committee   | \$ 2,500  |

In addition, our non-employee directors are also entitled to the following equity awards:

|   |                                    |
|---|------------------------------------|
| Initial equity award for new directors <sup>(1)(3)</sup>    | Warrants to purchase 40,000 shares |
| Annual award for continuing board members <sup>(2)(3)</sup> | Warrants to purchase 20,000 shares |

- (1) The initial equity award for new directors will have an exercise price equal to the fair market value of the ADSs on the date of grant and will be subject to vesting over a period of three years in equal installments commencing on the date of grant, subject to the non-employee director's continued service to us through the vesting date.

- (2) *The annual equity award for continuing board members will have an exercise price equal to the fair market value of the ADSs on the date of grant and will fully vest on the earlier of (a) the one year anniversary of the date of grant of the award and (b) the date immediately preceding the date of the annual meeting of our shareholders for the year following the year of grant for the award, subject to the non-employee director's continued service to us through the vesting date. A non-employee director will receive an annual warrant award only if he or she has served on the board of directors for at least the preceding twelve months.*
- (3) *All such awards will become fully vested upon a change of control.*

## **Employment Agreements with Executive Officers**

We have entered into a managing director agreement with Georges Karam, our chairman and chief executive officer. See “Item 7.B—Related Party Transactions—Agreements with Executive Officers and Directors—Employment Agreement”. We have entered into standard employment agreements with each of our other executive officers. There are no arrangements or understanding between us and any of our other executive officers providing for benefits upon termination of their employment, other than as required by applicable law.

## **Equity Plans**

Beginning in 2004, we have issued to our employees and consultants stock options, founders warrants and warrants to purchase our ordinary shares, and restricted share awards. Due to French corporate law and tax considerations, we have issued such equity awards under four types of equity plans, collectively referred to in this discussion as our equity plans. Our equity plans provide for the issue of stock options to employees pursuant to our Stock Option Plans, warrants to our business partners, including consultants and advisors, who have long-term relationships with us and advise us on a regular basis, pursuant to our BSA Subscription Plans, and restricted share awards pursuant to our Restricted Share Award Plans, and prior to our initial public offering in the United States in April 2011, founders warrants to employees in France until the time of our initial public offering, pursuant to our BCE Subscription Plans. Founders warrants are a specific type of option available to qualifying young companies in France and have a more favorable tax treatment for both the employee and the employer compared to stock options, but otherwise function in the same manner as stock options, in particular in terms of vesting. Following completion of our initial public offering in the United States in April 2011, we no longer issue founders warrants.

Under French law, the creation of each of these equity plans and the issuance of the underlying shares must be approved at the shareholders' general meeting. The shareholders may delegate to our board of directors the authority to finalize the form of the plans and to grant the securities within a period that cannot exceed 18 months for restricted share awards, founders warrants and warrants, and 38 months for stock options. The shareholders have nevertheless historically delegated the authority to our board to grant these securities within a period that cannot exceed 12 months. Once approved by the shareholders' general meeting, these equity plans cannot be extended either in duration or in size. We have therefore implemented new equity plans each year.

From 2004 through March 24, 2017, our shareholders have approved and authorized the issuance of an aggregate of 13,655,500 shares under our equity plans. At March 24, 2017, there were outstanding stock options, founders warrants and warrants to purchase a total of 6,881,385 of our shares issued under our equity plans at a weighted average exercise price of \$3.10, of which 2,831,200 were held by our directors and executive officers at a weighted average exercise price of \$3.60 per share. Of these outstanding stock options, founders warrants and warrants, at March 24, 2017, options to purchase 4,529,606 ordinary shares were vested and exercisable, of which 1,857,135 were held by our directors and executive officers. At March 24, 2017, there were 720,970 restricted share awards outstanding, of which 420,000 were held by our directors and executive officers. No restricted share awards had vested as of March 24, 2017.

The stock options, founders warrants and warrants granted under each of our equity plans were granted on substantially the same terms. In general, vesting of the stock options and founders warrants occurs over four years, with 25% vesting after an initial 12 months and the remaining 75% vesting monthly over the remaining 36 months, or may be immediate when linked to employee performance. Restricted shares also vest over four years with either 25% vesting after an initial 12 months or 50% vesting after the initial 24 months, and the remainder vesting over the remaining 36 or 24 months, respectively. In addition, restricted shares cannot be sold during the first 24 months after the grant date. In general, vesting of other warrants may be either on a monthly basis over a two-year or four-year period, or may be immediate, depending on the nature of the service contract with the consultant or adviser. The stock options, founders warrants and warrants generally expire ten years after the date of grant if not exercised earlier. In general, when a stock option, restricted share or founders warrant holder's employment service with us, or a warrant holder's service with us, terminates for any reason, his or her stock options or restricted shares or founders warrants or warrants, as the case may be, will no longer continue to vest following termination. The holder may

exercise any vested stock options or founders warrants or warrants for a period of 30-90 days. In the event of death, the holder's heirs or beneficiaries shall have a period of six months to exercise such founders warrants, stock options or warrants. In the event that a third party acquires a 100% interest in us, an employee holder of stock options, restricted shares and founders warrants, who is subsequently dismissed has the right to exercise all of his or her options or warrants within 30 days, notwithstanding the current vesting schedule, and all unvested restricted shares shall vest immediately, conditional upon such dismissal being at least one year from grant date and subject to the same requirement to hold the restricted shares until two years from the grant date. In the event of a change of control, as defined in the warrant equity plans subject to vesting, warrants that are not yet exercisable will become exercisable for 30 days following the effective date of the change of control.

Since our public listing in April 2011, the exercise price of the stock options or warrants is the fair market value of the shares on the date of grant as determined by our board of directors, typically the closing price of the ADSs on the grant date. Prior to the public listing, the exercise price of the stock options, founders warrants and warrants was equal to the estimated fair value of the shares on the date of grant, based on our valuation, as negotiated with new investors, at the time of the last round of financing prior to the grant or based upon independent valuation analyses.

In the event of certain changes in our share capital structure, such as a consolidation or share split or dividend, appropriate adjustments will be made to the numbers of shares and exercise prices under outstanding stock options, founders warrants and warrants.

The following table provides information regarding the options to purchase our ordinary shares and restricted shares held by each of our directors and officers who beneficially own greater than one percent of our ordinary shares or have options to purchase more than one percent of our ordinary shares as of March 24, 2017:

| Name (Title)  | Restricted Shares | Options |                |                 |
|---|-------------------|---------|----------------|-----------------|
|   |                   | Number  | Exercise Price | Expiration Date |
| Dr. Georges Karam, Chairman and Chief Executive Officer | 300,000 (1)       | 500,000 | €6.26 (\$8.63) | Mar. 8, 2021    |
|   |                   | 50,000  | \$2.04         | Dec. 13, 2022   |
|   |                   | 150,000 | \$1.90         | Dec. 12, 2023   |
|   |                   | 170,000 | \$1.58         | July 22, 2024   |
|   |                   | 130,000 | \$1.25         | Dec. 11, 2024   |
|   |                   | 98,000  | \$1.94         | Apr. 21, 2025   |
|   |                   | 170,000 | \$1.55         | July 20, 2025   |
|   |                   | 100,000 | \$1.97         | Dec. 14, 2025   |
| Bertrand Debray, Chief Operating Officer                | 30,000 (1)        | 150,000 | €6.26 (\$8.63) | Mar. 8, 2021    |
|   |                   | 24,000  | \$2.04         | Dec. 13, 2022   |
|   |                   | 24,000  | \$1.90         | Dec. 12, 2023   |
|   |                   | 50,000  | \$1.58         | July 22, 2024   |
|   |                   | 28,000  | \$1.25         | Dec. 11, 2024   |
|   |                   | 50,000  | \$1.55         | July 20, 2025   |
|   |                   | 24,000  | \$1.97         | Dec. 14, 2025   |

(1) On December 12, 2016, Dr. Karam and Mr. Debray received grants of 300,000 and 30,000 restricted shares, respectively, having a grant date fair value of \$1.73 per share. The restricted shares also vest over four years with 25% vesting after an initial 12 months and the remainder vesting over the remaining 36 months. The restricted shares cannot be sold during the first 24 months after the grant date.

### C. **Board Practices**

In accordance with French law governing a *société anonyme*, our business is overseen by our board of directors and by our chairman. The board of directors has appointed Dr. Karam as our chairman, who also serves as our chief executive officer. Subject to the prior authorization of the board of directors for certain decisions as required under French law, the chief executive officer has full authority to manage our affairs.

Our board of directors is responsible for, among other things, presenting our accounts to our shareholders for their approval and convening shareholder meetings. The board of directors also reviews and monitors our economic, financial and technical strategies. The directors are elected by the shareholders at an ordinary general meeting. Under French law, a director may be an individual or a corporation and the board of directors must be composed at all times of a minimum of three members.

Within the limits set out by the corporate purposes (*objet social*) of our company and the powers expressly granted by law to the shareholders' general meeting, the board of directors may deliberate upon our operations and make any decisions in accordance with our business. However, a director must abstain from voting on matters in which the director has an interest. The board of directors can only deliberate if at least half of the directors attend the meeting in the manners provided for in our by-laws. Decisions of the board of directors are taken by the majority of the directors present or represented. Under French law, our directors and chief executive officer may not, under any circumstances, borrow money from us or obtain an extension of credit or obtain a surety from us.

Our board of directors currently consists of seven directors. Under our by-laws, our board of directors may comprise up to nine members. Pursuant to an arrangement with Bpifrance Participations S.A., or Bpifrance, one of our major shareholders, Dr. Karam has agreed, subject to certain exceptions, as long as Bpifrance owns at least 5% of our outstanding shares or voting rights, to support the designation of a director by Bpifrance to serve on our board. Bpifrance has informed us that it intends to designate a director for election to our board at the next annual meeting of shareholders, which would increase the number of directors on our board to eight members. Our board of directors is not currently seeking to fill the remaining vacant position. Our board of directors has determined that each of Messrs. Maitre, Nottenburg, de Pesquidoux, Pitteloud and Slonimsky qualify as independent under the applicable rules and regulations of the SEC and the NYSE.

Under our by-laws, the sections of the by-laws relating to the number of directors, election and removal of a director from office may be modified only by a resolution adopted by 66 2/3% of our shareholders present or represented. A director's term expires at the end of the ordinary shareholders' general meeting convened to vote upon the accounts of the then-prevailing fiscal year and is held in the year during which the term of such director comes to an end unless such director's term expires earlier in the event of a resignation or removal. The following table sets forth the names of the directors of our company, the dates of their initial appointment as directors and the expiration dates of their current term.

| Name                 | Current position | Year of appointment | Term expiration year |
|----------------------|------------------|---------------------|----------------------|
| Georges Karam        | Chairman         | 2003                | 2018                 |
| Yves Maitre          | Director         | 2014                | 2017                 |
| Richard Nottenburg   | Director         | 2016                | 2019                 |
| Hubert de Pesquidoux | Director         | 2011                | 2017                 |
| Dominique Pitteloud  | Director         | 2005                | 2019                 |
| Alok Sharma          | Director         | 2011                | 2019                 |
| Zvi Slonimsky        | Director         | 2006                | 2018                 |

Each director is elected for a three-year term by a vote of the majority of the shareholders present or represented. Under French law, a director who is an individual cannot serve on more than five boards of directors or supervisory boards in corporations (*société anonyme*) registered in France; directorships in companies controlled by us, as defined in article L.233-16 of the French Commercial Code, are not taken into account.

Directors may resign at any time and their position as members of the board of directors may be revoked at any time by a majority vote of the shareholders present or represented at a shareholders' general meeting, excluding abstentions. The number of directors who are over 70 years old may not exceed one third of the total number of directors and the chairman of our board must not be over 65 years old. A director does not need to be a French national and there is no limitation on the number of terms that a director may serve. In case of removal without cause, directors may be entitled to damages.

Vacancies on our board of directors, including vacancies resulting from there being fewer than the maximum number of directors permitted by our by-laws, provided there are at least three directors remaining, may be filled by a vote of a simple majority of the directors then in office. The appointment must then be ratified by the next shareholders' general meeting. Directors chosen or appointed to fill a vacancy shall be elected by the board for the remaining duration of the current term of the replaced director. In the event the board would be composed of less than three directors as a result of a vacancy, meetings of the board of directors shall no longer be permitted to be held except to immediately convene a shareholders' general meeting to

elect one or several new directors so there are at least three directors serving on the board of directors, in accordance with French law.

Under French law, employees may be elected to serve as a director. However, such employee-director must perform actual functions separate from his/her role as director in order to retain the benefit of his/her employment agreement. The number of directors who are our employees cannot exceed one third of the directors then in office. No director can enter into an employment agreement with us after his/her election to the board of directors.

French law requires that companies having at least 50 employees for a period of 12 consecutive months have a *Comité d'Entreprise*, or Workers' Council, composed of representatives elected from among the personnel. Our Workers' Council was formed in 2007. Two of these representatives are entitled to attend all meetings of the board of directors and the shareholders, but they do not have any voting rights.

Directors are required to comply with applicable law and with our by-laws. Our directors may be jointly and severally liable for actions that they take that are contrary to our interests. Directors are jointly and severally liable for collective decisions. However, each director may avoid liability by proving that he or she acted diligently and with caution, in particular by not approving the decision at issue or even by resigning in the event of certain critical situations. In certain critical situations, in order to avoid liability for decisions made by the board, a director must resign from his or her office. Directors may be individually liable for actions fully attributable to them in connection with a specific mission assigned to them by the board of directors. As a director, the chairman of the board is liable under the same conditions. The chief executive officer may be liable with respect to third parties if he commits a fault that is severable from his duties and which is only attributable to him.

### **Directors' Service Contracts**

We entered into a letter agreement with Alok Sharma before he became a director. In December 2014, we entered into a consulting agreement with Alok Sharma. See "Item 7.B—Related Party Transactions—Agreements with Executive Officers and Directors—Director Compensation and Agreements". There are no arrangements or understandings between us and any of our non-employee directors providing for benefits upon termination of their employment or service as directors of our company, other than as required by applicable law.

### **Board Leadership Structure**

We believe that the interests of our shareholders are best served by maintaining our Board of Directors' flexibility in determining the board leadership structure that is best suited to the needs of the Company at any particular time. Our Board Internal Charter provides that where the Chairman is also the Chief Executive Officer, the independent directors will appoint a lead independent director to coordinate their efforts and activities. Yves Maitre currently services as lead independent director. The defined role of the lead independent director is designed to ensure a strong, independent and active Board of Directors. As set forth in the Board Internal Charter, the lead independent director has clearly delineated and comprehensive duties. These duties include:

- Presiding at all meetings of the board at which the chairman is not present, including executive sessions of the independent directors.
- Calling meetings of the independent directors.
- Serving as liaison between the independent directors and the chairman and chief executive officer.
- Collecting feedback from the board members in order to help the chairman finalize the meeting agendas.
- Based on feedback from the other board members, recommending to the chairman that a special board of directors meeting be called focused on a specific agenda.
- If a shareholder requests to talk with an independent director and not to the chairman and/or the chief executive officer, representing the board of directors for such communication in coordination with the chairman.

### **Board Committees**

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee.

#### ***Audit Committee***

Our audit committee consists of Hubert de Pesquidoux, Richard Nottenburg and Dominique Pitteloud, with Mr. de Pesquidoux serving as chairperson. Our audit committee oversees our corporate accounting and financial reporting process and internal controls over financial reporting. Our audit committee evaluates the independent registered public accounting firm's

qualifications, independence and performance; recommends to the shareholders with respect to the identity and compensation of the independent registered public accounting firm; approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services; reviews our Consolidated Financial Statements; reviews our critical accounting policies and estimates and internal controls over financial reporting; discusses with management and the independent registered public accounting firm the results of the annual audit and the reviews of our quarterly Consolidated Financial Statements; and reviews the scope and results of internal audits and evaluates the performance of the internal auditor. Our board of directors has determined that each of our audit committee members meets the requirements for independence and financial literacy under the applicable rules and regulations of the SEC and the NYSE. Our board of directors has determined that Mr. de Pesquidoux is an audit committee financial expert as defined under the applicable rules of the SEC and has the requisite financial sophistication under the applicable rules and regulations of the NYSE. The audit committee operates under a written charter that satisfies the applicable rules of the SEC and the NYSE.

#### ***Compensation Committee***

Our compensation committee consists of Zvi Slonimsky, Richard Nottenburg and Dominique Pitteloud, with Mr. Slonimsky serving as chairperson. Our compensation committee reviews and recommends policies relating to the compensation and benefits of our officers and employees, which includes reviewing and approving corporate goals and objectives relevant to compensation of our chief executive officer and other senior officers, evaluating the performance of these officers in light of those goals and objectives and setting compensation of these officers based on such evaluations. The compensation committee also recommends to the board of directors the issue of stock options and other awards. Our board of directors has determined that each member of our compensation committee meets the requirements for independence under the applicable rules and regulations of the SEC and the NYSE. The compensation committee operates under a written charter.

#### ***Nominating and Corporate Governance Committee***

Our nominating and corporate governance committee consists of Yves Maitre and Zvi Slonimsky, with Mr. Maitre serving as chairperson. The nominating and corporate governance committee is responsible for making recommendations regarding candidates for directorships and the size and composition of our board. In making such recommendations, the nominating and corporate governance committee considers the skills and experience of the directors or nominees in the context of the needs of our board of directors as well as the directors' or nominees' diversity of skills and experience in areas that are relevant to our business and activities. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations concerning governance matters. Our board of directors has determined that each member of our nominating and corporate governance committee meets the requirements for independence under the applicable rules and regulations of the NYSE. The nominating and corporate governance committee operates under a written charter.

#### **D. *Employees***

At December 31, 2016, we had 213 full-time employees, of whom 130 were located in France, 24 were in the United Kingdom, 20 were in the United States, 11 were in China, 7 were in Singapore, 7 were in Israel, 6 were in Taiwan, 3 were in Sweden, 2 were in India, 1 was in South Korea, 1 was in Ukraine and 1 was in Hong Kong. These employees include 148 in research and development, 41 in sales and marketing, 17 in general and administration and 7 in operations. Management considers labor relations to be good. We also have independent contractors and consultants. At December 31, 2016, we had 24 dedicated engineers from Global Logic in Ukraine for software development and testing, and also had 15 independent contractors in both research and development and sales and marketing in France, the United Kingdom and Japan.

At each date shown, we had the following employees, broken out by department and geography:

|                             | At December 31, |      |      |
|-----------------------------|-----------------|------|------|
|                             | 2014            | 2015 | 2016 |
| <b>Department:</b>          |                 |      |      |
| Research and development    | 150             | 153  | 148  |
| Sales and marketing         | 19              | 18   | 41   |
| General and administration  | 22              | 19   | 17   |
| Operations                  | 5               | 6    | 7    |
| Total                       | 196             | 196  | 213  |
| <b>Geography:</b>           |                 |      |      |
| Europe, Middle East, Africa | 150             | 152  | 165  |
| Asia                        | 31              | 28   | 28   |
| Americas                    | 15              | 16   | 20   |
| Total                       | 196             | 196  | 213  |

#### E. *Share Ownership*

For information regarding the share ownership of our directors and executive officers, please refer to “Item 6.B.—Compensation—Equity Plans” and “Item 7.A—Major Shareholders.”E

### Item 7. Major Shareholders and Related Party Transactions

#### A. *Major Shareholders*

The following table sets forth information with respect to the beneficial ownership of our shares as of March 24, 2017:

- each person, or group of affiliated persons, known by us to own beneficially more than 5% of our outstanding ADSs or ordinary shares;
- each of our executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting or investment power with respect to those securities, and include shares subject to options that are exercisable within 60 days after the date of this annual report. Such shares are also deemed outstanding for purposes of computing the percentage ownership of the person holding the option, but not the percentage ownership of any other person.

For the purpose of calculating the percentage of shares beneficially owned by any shareholder, this table lists applicable percentage ownership based on 75,122,137 ordinary shares outstanding as of March 24, 2017.

Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares. To our knowledge, none of our selling shareholders is a broker-dealer or is affiliated with a broker-dealer.

Unless otherwise indicated in the footnotes to the table, the address of each individual listed in the table is c/o Sequans Communications S.A., 15-55 boulevard Charles de Gaulle, 92700 Colombes, France.

|  | Ordinary Shares<br>Beneficially Owned |         |
|--|---------------------------------------|---------|
|  | Number                                | Percent |
| <b>5% Shareholders</b>   |                                       |         |
| Bpifrance Participations <sup>(1)</sup>                                      | 8,960,561                             | 11.9%   |
| Nokomis Capital, L.L.C. <sup>(2)</sup>                                       | 7,667,292                             | 9.9     |
| AWM Investment Co. Participations <sup>(3)</sup>                             | 7,320,230                             | 9.7     |
| Add Partners and affiliates <sup>(4)</sup>                                   | 4,308,557                             | 5.7     |
| Dr. Georges Karam <sup>(5)</sup>   | 3,989,492                             | 5.2     |
| <b>Executive Officers and Directors</b>                                      |                                       |         |
| Dr. Georges Karam <sup>(5)</sup>   | 3,989,492                             | 5.2%    |
| Deborah Choate <sup>(6)</sup>  | 417,676                               | *       |
| Bertrand Debray <sup>(7)</sup>   | 1,175,742                             | 1.6     |
| Didier Dutronc   | 51,970                                | *       |
| Yves Maitre <sup>(8)</sup>   | 56,363                                | *       |
| Richard Nottenburg   | 577,257                               | *       |
| Hubert de Pesquidoux <sup>(9)</sup>  | 89,403                                | *       |
| Dominique Pitteloud <sup>(10)</sup>  | 97,000                                | *       |
| Alok Sharma <sup>(11)</sup>  | 77,181                                | *       |
| Zvi Slonimsky <sup>(12)</sup>  | 97,380                                | *       |
| Nikhil Taluja  | 18,181                                | *       |
| All executive officers and directors as a group (11 persons) <sup>(13)</sup> | 6,647,645                             | 8.6%    |

\* Represents beneficial ownership of less than 1%.

- (1) Based on a Schedule 13D filed with the SEC on September 20, 2016 and information provided to the Company. Includes 8,960,561 shares held by Bpifrance Participations S.A., or Bpifrance. Bpifrance is the wholly owned subsidiary of BPI-Groupe (bpifrance), or BPI. The Caisse des Dépôts et Consignations, or CDC, and EPIC BPI-Groupe, or EPIC, each hold 50% of the share capital of BPI and jointly control BPI. Nicolas Dufourcq is the Chief Executive Officer of Bpifrance and he may be deemed to have shared voting and investment power over the shares held by Bpifrance. Paul-François Fournier is the director of the Innovation Business Unit of Bpifrance and Maïlys Ferrère is the director of the Large Venture Fund of Bpifrance, and they may be deemed to have shared voting and investment power over the shares held by Bpifrance. None of BPI, CDC, EPIC, Nicolas Dufourcq, Paul-François Fournier or Maïlys Ferrère holds any shares directly. BPI may be deemed to be the beneficial owner of 8,960,561 shares, indirectly through its sole ownership of Bpifrance. CDC and EPIC may be deemed to be the beneficial owner of 8,960,561 shares, indirectly through their joint ownership and control of BPI. Nicolas Dufourcq, Paul-François Fournier and Maïlys Ferrère disclaim beneficial ownership of the shares held by Bpifrance. The principal address for Bpifrance, BPI, EPIC, and Nicolas Dufourcq is 6-8 Boulevard Haussmann, 75009 Paris, France.
- (2) Based on a Schedule 13G/A filed with the SEC on February 13, 2017. Includes 5,429,292 shares held by Nokomis Capital, L.L.C., or Nokomis Capital, purchased by Nokomis Capital through the accounts of certain private funds and managed accounts (collectively, the Nokomis Accounts) and approximately 2,238,000 Ordinary Shares receivable upon conversion of presently convertible notes. Nokomis Capital is prohibited from converting the presently convertible notes held by them to obtain ownership in excess of 9.9%. Nokomis Capital serves as the investment adviser to the Nokomis Accounts and may direct the voting and disposition of the shares held by the Nokomis Accounts. As the principal of Nokomis Capital, Brett Hendrickson holds voting and investment power with respect to all securities beneficially owned by the Nokomis Accounts. The address of Nokomis Capital is 2305 Cedar Springs Rd., Suite 420, Dallas, TX 75201.
- (3) Based on a Schedule 13G filed with the SEC on February 10, 2017. Includes 7,320,230 shares held by AWM Investment Company, Inc., a Delaware corporation ("AWM"), that is the investment adviser to Special Situations Cayman Fund, L.P., a Cayman Island limited partnership ("CAYMAN"), Special Situations Fund III QP, L.P., a Delaware limited partnership ("SSFQP") Special Situations Private Equity Fund, L.P., a Delaware limited partnership ("SSPE"), Special Situations Technology Fund, L.P., a Delaware limited partnership ("TECH") and Special Situations Technology Fund II, L.P., a Delaware limited partnership ("TECH II"), (CAYMAN, SSFQP, SSPE, TECH and TECH II, will hereafter be referred to as the "Funds"). As the investment adviser to the Funds, AWM holds sole voting and investment power over 640,000 shares of Common Stock of the Issuer (the "Shares") held by CAYMAN, 1,920,000 shares held by SSFQP,

840,276 shares held by SSPE, 580,543 Shares held by TECH and 3,339,411 Shares held by TECH II. Austin W. Marx ("Marxe"), David M. Greenhouse ("Greenhouse") and Adam C. Stettner ("Stettner") are members of: SSCayman, L.L.C., a Delaware limited liability company ("SSCAY"), the general partner of CAYMAN; MGP Advisers Limited Partnership, a Delaware limited partnership ("MGP"), the general partner of SSFQP; MG Advisers, L.L.C., a New York limited liability company ("MG"), the general partner of SSPE; and SST Advisers, L.L.C., a Delaware limited liability company ("SSTA"), the general partner of TECH and TECH II. Marxe, Greenhouse and Stettner are also controlling principals of AWM. The principal business address for AWM is c/o Special Situations Funds, 527 Madison Avenue, Suite 2600, New York, NY 10022.

- (4) Based on information provided to the Company in March 2017. Includes 4,308,557 shares held by ADD One LP, or ADD;. Pursuant to the constitutional documents of ADD, ADD Management Limited, or AML, has sole voting and investment power over the shares held by ADD. AML is the managing general partner of ADD One General Partner LP which in turn is the managing general partner of ADD. The board of directors of AML consists of Barry McClay, James Martin and Ipes Director (Guernsey) Limited, who share such voting and investment power. Each of Barry McClay, James Martin and Ipes Director (Guernsey) Limited disclaims beneficial ownership except to the extent of his or its pecuniary interest therein. The address of AML is 1 Royal Plaza, Royal Avenue, St. Peter Port, Guernsey, GY1 2HL.
- (5) Includes 1,041,458 shares subject to options that are exercisable within 60 days of March 24, 2017.
- (6) Includes 377,373 shares subject to options that are exercisable within 60 days of March 24, 2017.
- (7) Includes 120,000 shares held by Mr. Debray as custodian for his sons. Includes 278,250 shares subject to options that are exercisable within 60 days of March 24, 2017.
- (8) Includes 20,000 shares subject to warrants that are exercisable within 60 days of March 24, 2017.
- (9) Includes 47,000 shares subject to warrants that are exercisable within 60 days of March 24, 2017.
- (10) Includes 47,000 shares subject to warrants that are exercisable within 60 days of March 24, 2017.
- (11) Includes 47,000 shares subject to warrants that are exercisable within 60 days of March 24, 2017.
- (12) Includes 47,000 shares subject to warrants that are exercisable within 60 days of March 24, 2017.
- (13) Includes 1,926,748 shares subject to options and warrants that are exercisable within 60 days of March 24, 2017.

None of our principal shareholders have voting rights different than our other shareholders.

At March 24, 2017, there were 74,904,096 of our ADSs outstanding, representing 74,904,096 our ordinary shares or 99.7% of our outstanding ordinary shares. At such date, there were 94 holders of record registered with the Bank of New York Mellon, depository of our ADSs.

## **B. Related Party Transactions**

Since January 1, 2016, we have engaged in the following transactions with our directors and executive officers, holders of more than 5% of our voting securities and affiliates of our directors, executive officers and 5% shareholders.

Under French law, agreements entered into directly or indirectly between us and either one of our officers or one of our shareholders owning more than 10% of our shares, or any company controlling one of our shareholders owning more than 10% of our shares, are subject to the prior approval of the board of directors and must be ratified by our ordinary shareholders' general meetings on the basis of a specific report issued by our statutory auditors on such agreements. Our managing director agreement with Georges Karam, our letter agreements with each James Patterson and Alok Sharma, and our consultancy services agreement with Alok Sharma described below have been submitted to the prior approval of the board of directors and have been or will be submitted to our shareholders at each annual shareholders' general meeting.

### **Agreements with Major Shareholders**

In October 2014, Bpifrance, the financial agency of the French government, provided funding to the Company in the context of a long-term research project, estimated to be completed over a 3-year period. The total funding will amount to €7.0 million (\$9.0 million) comprising a portion in the form of a grant (€3.0 million or \$3.8 million) and a portion in the form of a loan (€4.0 million or \$5.2 million). The funding will be paid in three installments: the first tranche at the contract signature date, the second and the third installments after milestones defined in the contract. The advance will be repaid from June 30th, 2018 to June 30th, 2020 and bears interests at a 1.53% fixed contractual rate. In 2014, the Company received €2.1 million (\$2.7 million) as grant and €1.0 million (\$1.2 million) as a loan; in 2016, the Company received €0.6 million (\$0.6 million) as a loan; the next/final funding is expected to be received by the end of 2018 for approximately \$3.5 million.

In April 2015, we completed the sale of a \$12 million convertible note to an affiliate of Nokomis Capital, L.L.C. in a private placement transaction. The convertible note matures in April 2018 and bears interest at a rate of 7% per year, paid in kind annually on the anniversary of the issuance of the note. The note is convertible, at the holder's option, into the company's ADSs at a conversion rate of 540.5405 ADSs for each \$1,000 principal amount of the note, subject to certain adjustments, which equates to an initial conversion price of \$1.85 per ADS.

In September 2015, the Company received two loans from the financial agency of the French government for a total amount of €2 million (\$2.2 million). One loan of €1 million bears interest at 5.24% per year, paid quarterly; the second loan of €1 million is interest-free. The interest-free loan has been revalued using the 5.24% interest rate payable on the other loan. Both loans have seven year terms with the principal being amortized on a quarterly basis beginning in September 2017.

On April 27, 2016, we raised net proceeds of \$7.0 million from the sale of convertible notes to certain institutional investors, including an affiliate of Nokomis Capital, L.L.C., in a private placement transaction. The convertible notes mature in April 2019 and bear interest at a rate of 7% per year, paid in kind annually on the anniversary of the issuance of the note. The notes are convertible, at the holder's option, into the Company's ADSs at a conversion price of \$2.7126 per ADS.

On September 16, 2016, Bpifrance Participations purchased 3,000,000 ADSs, each representing one ordinary share, at a price of \$1.65 per ADS in connection with our public offering in which we issued a total of 15,151,520 ordinary shares.

## **Agreements with Executive Officers and Directors**

### ***Employment Agreement***

We have entered into a managing director agreement with Georges Karam, our chairman and chief executive officer, which contains provisions regarding salary, severance payment and benefits. If Dr. Karam is terminated for any reason, he is entitled to a lump sum severance payment equal to one year of base salary and bonus, plus accelerated vesting of his founders warrants, stock options and restricted share awards. In accordance with French law, our chief executive officer ("directeur général" or "managing director") cannot be an employee in connection with the performance of his duties in such capacity. The managing director agreement entered into with Dr. Karam does not constitute, and does not contain the compulsory provisions under French law to be construed as, an employment agreement. Therefore, Dr. Karam does not benefit from the status of employee nor from any benefit that French laws and regulations grant to employees. The managing director agreement only sets forth the terms and conditions, including compensation, under which Dr. Karam performs his duties as chief executive officer.

### ***Director Compensation and Agreements***

The non-employee members of our board of directors receive compensation based on our director compensation policy. A description of the cash compensation and equity awards that non-employee members of our board of directors will be entitled to receive is described under "Item 6. B—Compensation—Compensation of Executive Officers and Directors".

Immediately prior to their appointment to our board of directors, we entered into letter agreements with each of James Patterson and Alok Sharma setting forth the cash compensation and equity awards they would receive upon their appointment to our board of directors pursuant to the director compensation policy. The letter agreement with Mr. Patterson terminated when he left the board in June 2016.

Effective December 11, 2014, we entered into an agreement whereby Dr. Sharma provides to the Company consultancy services in the area of business development in the broadband wireless access industry, with a focus on the India market. This agreement was renewed in 2015 and was terminated in October 2016. During the year ended December 31, 2016, \$108,000 was paid to Dr. Sharma under the contract.

## **Stock Options, Founders Warrants and Warrants**

Since our inception, we have granted restricted shares, stock options, founders warrants and warrants to purchase our shares to certain of our executive officers and board members. For more information about our option and warrant plans see "Item 6. B—Compensation—Equity Plans".

**C. *Interests of Experts and Counsel***

Not applicable.

**Item 8. Financial Information**

**A. *Consolidated Statements and Other Financial Information***

**Consolidated Financial Statements**

We have appended our consolidated financial statements at the end of this annual report, starting at page F-1, as part of this annual report.

**Legal Proceedings**

We are not a party to any material legal proceedings.

**Dividend Policy**

We have never declared or paid any cash dividends on our ordinary shares. We do not anticipate paying any cash dividends on our ordinary shares in the foreseeable future and intend to retain all available funds and any future earnings for use in the operation and expansion of our business.

Subject to the requirements of French law and our by-laws, dividends may only be distributed from our statutory retained earnings. See “Item 10. B—Memorandum and Articles of Association” for further details on the limitations on our ability to declare and pay dividends. Dividend distributions, if any, will be made in euros and converted into U.S. dollars with respect to the ADSs, as provided in the deposit agreement.

**B. *Significant Changes***

No significant changes have occurred since December 31, 2016, except as otherwise disclosed in this annual report.

**Item 9. The Offer and Listing**

**A. *Listing Details***

Our ADSs have been listed on the New York Stock Exchange under the symbol “SQNS” since April 15, 2011. Prior to that date, there was no public trading market for ADSs or our ordinary shares. The following table sets forth for the periods indicated the high and low sales prices per ordinary share as reported on the New York Stock Exchange:

|                                | High    | Low     |
|--------------------------------|---------|---------|
| Year ending December 31, 2013: | \$ 1.74 | \$ 1.80 |
| Year ending December 31, 2014: | \$ 3.40 | \$ 1.18 |
| Year ending December 31, 2015: |         |         |
| First Quarter                  | \$ 2.00 | \$ 1.01 |
| Second Quarter                 | \$ 2.32 | \$ 1.56 |
| Third Quarter                  | \$ 1.77 | \$ 0.66 |
| Fourth Quarter                 | \$ 2.17 | \$ 1.00 |
| Year ending December 31, 2016: |         |         |
| First Quarter                  | \$ 3.00 | \$ 1.53 |
| Second Quarter                 | \$ 2.75 | \$ 1.75 |
| Third Quarter                  | \$ 2.47 | \$ 1.61 |
| Fourth Quarter                 | \$ 2.09 | \$ 1.65 |
| Last Six Months                |         |         |
| September                      | \$ 2.32 | \$ 1.61 |
| October                        | \$ 2.05 | \$ 1.67 |
| November                       | \$ 2.09 | \$ 1.83 |
| December                       | \$ 2.09 | \$ 1.65 |
| January                        | \$ 2.60 | \$ 1.87 |
| February                       | \$ 3.02 | \$ 2.25 |

On March 24, 2017, the last reported sale price of our ADSs on the New York Stock Exchange was \$2.65 per share.

**B. *Plan of Distribution***

Not applicable.

**C. *Markets***

Our ADS have been listed on the New York Stock Exchange under the symbol “SQNS” since April 15, 2011.

**D. *Selling Shareholders***

Not applicable.

**E. *Dilution***

Not applicable.

**F. *Expenses of the Issue***

Not applicable.

**Item 10. Additional Information**

**A. *Share Capital***

Not applicable.

## **B. *Memorandum and Articles of Association***

The information set forth in our Registration Statement on Form F-3 (File No. 333-198758), filed with the SEC on September 15, 2014, under the heading “Description of Share Capital” is incorporated herein by reference.

## **C. *Material Contracts***

With the exception of the material agreements described in “Item 7.B Related Party Transactions—Agreements with Major Shareholders”, all contracts concluded by the Company during the two years preceding the date of this annual report were entered into in the ordinary course of business.

## **D. *Exchange Controls***

Under current French foreign exchange control regulations there are no limitations on the amount of cash payments that we may remit to residents of foreign countries. Laws and regulations concerning foreign exchange controls do, however, require that all payments or transfers of funds made by a French resident to a non-resident be handled by an accredited intermediary. All registered banks and substantially all credit institutions in France are accredited intermediaries.

## **E. *Taxation***

### **Material United States Federal Income Tax Consequences**

The following is a description of the material United States federal income tax consequences of the acquisition, ownership and disposition of the ADSs. This description addresses only the United States federal income tax consequences to holders that are purchasers of the ADSs and hold such ADSs as capital assets (generally property held for investment). This description does not address tax considerations applicable to holders that may be subject to special tax rules, including:

- financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities or currencies;
- tax-exempt entities;
- certain former citizens or former long-term residents of the United States;
- persons that received the ADSs as compensation for the performance of services;
- persons that will hold the ADSs as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for United States federal income tax purposes;
- holders that will hold the ADSs through a partnership or other pass-through entity;
- U.S. Holders, as defined below, whose “functional currency” is not the United States dollar; or
- holders that own, directly, indirectly or through attribution, 10.0% or more of the voting power or value, of our shares.

Moreover, this description does not address the United States federal estate and gift or alternative minimum tax, or foreign, state or local tax, consequences of the acquisition, ownership and disposition of the ADSs.

This description is based on the United States Internal Revenue Code of 1986, as amended, or the “Code”, existing, proposed and temporary United States Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a “U.S. Holder” is a beneficial owner of the ADSs that, for United States federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a United States person for United States federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust.

A “Non-U.S. Holder” is a beneficial owner of the ADSs that is neither a U.S. Holder nor a partnership, or other entity or arrangement treated as a partnership, for United States federal income tax purposes.

If a partnership or any other entity or arrangement treated as a partnership for United States federal income tax purposes holds the ADSs, the tax treatment of a partner in such partnership will depend on the status of the partner and the activities of the partnership. Such a partner or partnership is encouraged to consult its tax advisor as to its tax consequences.

**You are encouraged to consult your tax advisor with respect to United States federal, state, local and foreign tax consequences of acquiring, owning and disposing of the ADSs.**

For United States federal income tax purposes, you will be treated as the owner of our ordinary shares represented by your ADSs. Exchanges of ordinary shares for ADSs, and ADSs for ordinary shares, will not be subject to United States federal income tax.

### ***Distributions with Respect to ADSs***

If you are a U.S. Holder, for United States federal income tax purposes, the gross amount of any distribution made to you with respect to your ADSs (other than certain distributions, if any, of the ADSs distributed pro rata to all our shareholders), before reduction for any French taxes withheld therefrom, will be includible in your income as dividend income to the extent such distribution is paid out of our current or accumulated earnings and profits as determined under United States federal income tax principles. Subject to the discussion below under “Passive Foreign Investment Company Considerations”, non-corporate U.S. Holders may qualify for the lower rates of taxation with respect to dividends on ADSs applicable to long-term capital gains (i.e., gains from the sale of capital assets held for more than one year), provided that certain conditions are met, including certain holding period requirements and the absence of certain risk reduction transactions. However, such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Subject to the discussion below under “Passive Foreign Investment Company Considerations”, to the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits as determined under United States federal income tax principles, such excess amount will be treated first as a tax-free return of your adjusted tax basis in your ADSs and thereafter as capital gain. We do not expect to maintain calculations of our earnings and profits under United States federal income tax principles and, therefore, if you are a U.S. Holder you should expect that the entire amount of any distribution generally will be reported as dividend income to you.

Dividends, if any, paid to U.S. Holders in euros or currency other than the U.S. dollar (“Other Foreign Currency”) will be includible in income in a U.S. dollar amount based on the prevailing spot market exchange rate in effect on the date of actual or constructive receipt, whether or not converted into U.S. dollars at that time. Assuming dividends received in euros (or Other Foreign Currency) are converted into U.S. dollars on the day they are received, the U.S. Holder will not be required to recognize foreign currency gain or loss in respect of the dividend income. If, however, the payment is not converted at that time, a U.S. Holder will have a tax basis in euros (or Other Foreign Currency) equal to the U.S. dollar amount of the dividend included in income, which will be used to measure gain or loss from subsequent changes in exchange rates. Any gain or loss that a U.S. Holder recognizes on a subsequent conversion of euros (or Other Foreign Currency) into U.S. dollars (or on other disposition) will be U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the tax consequences to them if the dividends are paid in euros (or Other Foreign Currency).

Subject to certain conditions and limitations, French tax withheld on dividends may be deducted from your taxable income or credited against your United States federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends, if any, that we distribute will constitute “passive category income”, or, in the case of certain U.S. Holders, “general category income”. A foreign tax credit for foreign taxes imposed on distributions may be denied if you do not satisfy certain minimum holding period requirements or if you engage in certain risk reduction transactions. If you are a U.S. Holder, dividends, if any, paid to you with respect to your ADSs will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. The rules relating to the determination of the foreign tax credit are complex, and you are encouraged to consult your tax advisor to determine whether and to what extent you will be entitled to this credit.

Subject to the discussion below under “Backup Withholding Tax and Information Reporting Requirements”, if you are a Non-U.S. Holder, you should not be subject to United States federal income or withholding tax on dividends received by you on your ADSs unless such income is effectively connected with your conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base).

### ***Sale, Exchange or Other Disposition of ADSs***

Subject to the discussion below under “Passive Foreign Investment Company Considerations”, if you are a U.S. Holder, you will recognize capital gain or loss on the sale, exchange or other disposition of your ADSs equal to the difference between the amount realized on such sale, exchange or other disposition and your adjusted tax basis in your ADSs. If you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other disposition of ADSs will be eligible for the preferential rate of taxation applicable to long-term capital gains if your holding period for such ADSs exceeds one year (i.e., such gain is long-term capital gain). Gain or loss, if any, recognized by a U.S. Holder will be treated as U.S. source gain or loss, as the case may be, for foreign tax credit limitation purposes. The deductibility of capital losses for United States federal income tax purposes is subject to limitations.

Subject to the discussion below under “Backup Withholding Tax and Information Reporting Requirements”, if you are a Non-U.S. Holder, you will not be subject to United States federal income or withholding tax on any gain realized on the sale or exchange of your ADSs unless:

- such gain is effectively connected with your conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base); or
- you are an individual and have been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

### ***Passive Foreign Investment Company Considerations***

A non-U.S. corporation will be classified as a “passive foreign investment company”, or a PFIC, for United States federal income tax purposes for any taxable year in which, after applying certain look-through rules, either

- at least 75% of its gross income is “passive income”; or
- at least 50% of the average value of its gross assets is attributable to assets that produce “passive income” or are held for the production of passive income.

Passive income for this purpose includes dividends, interest, royalties, rents, gains from commodities and securities transactions and the excess of gains over losses from the disposition of assets which produce passive income, including amounts derived by reason of the investment of funds raised in offerings of the ADSs. If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation’s income.

Based on the character of our gross income and the average value of our passive assets relative to the gross value of our assets for the taxable year ended December 31, 2016, we do not believe we were a PFIC for 2016. Because PFIC status is determined annually based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for 2017 or any other future year until after the close of that year. While we intend to manage our business so as to avoid PFIC status to the extent consistent with our other business goals, we cannot predict whether our business plans will allow us to avoid PFIC status. In addition, because the market price of the ADSs has fluctuated and is likely to fluctuate in the future and because that market price may affect the determination of whether we are a PFIC, there can be no assurance that we will not be a PFIC for any taxable year.

If we are a PFIC for a given year, and you are a U.S. Holder, then unless you make one of the elections described below, a special tax regime will apply to both (a) any “excess distribution” by us to you for the year (defined as your ratable portion of distributions in the year which are greater than 125% of the average annual distribution received by you in the shorter of the three preceding years or your holding period for the ADSs) and (b) any gain realized on the sale or other disposition (including a pledge) of the ADSs. Under this regime, any excess distribution and realized gain will be treated as ordinary income and will be subject to tax as if (i) the excess distribution or gain had been realized ratably over your holding period, (ii) the amount deemed realized in each year had been subject to tax in each year of that holding period at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before we became a PFIC, which would be subject to tax at the U.S. Holder’s regular ordinary income rate for the current year and would not be subject to the interest charge discussed below), and (iii) the interest charge applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. In addition, the tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and dividend distributions made to you will not qualify for the lower rates of taxation applicable to long-term capital gains discussed above under “Distributions with Respect to ADSs.”

Certain elections are available to U.S. Holders of shares that may serve to alleviate some of the adverse tax consequences of PFIC status described above. One such election is a qualified electing fund, or a QEF, election, under which you would be required to include in income on a current basis your pro rata share of our ordinary earnings as ordinary income and your pro rata share of our net capital gains as capital gain. However, we do not expect to provide to U.S. Holders the information needed to report income and gain pursuant to a QEF election, and we make no undertaking to provide such information in the event that we are a PFIC.

Under an alternative tax regime, you may also avoid certain adverse tax consequences relating to PFIC status discussed above by making a mark-to-market election with respect to your ADSs, provided that the ADSs are “marketable.” The ADSs will be marketable if they are regularly traded on certain U.S. stock exchanges, including the NYSE, or on certain non-U.S. stock exchanges. For these purposes, the ADSs will be considered regularly traded during any calendar year during which they are traded, other than in negligible quantities, on at least 15 days during each calendar quarter. U.S. Holders should be aware, however, that if we are determined to be a PFIC, the interest charge regime described above could be applied to indirect distributions or gains deemed to be attributable to U.S. Holders in respect of any of our subsidiaries that also may be determined to be a PFIC, and the mark-to-market election would not be effective for such subsidiaries.

If you choose to make a mark-to-market election, you would recognize as ordinary income or loss each year in which we are a PFIC an amount equal to the difference as of the close of the taxable year between the fair market value of your ADSs and your adjusted tax basis in your ADSs. Losses would be allowed only to the extent of net mark-to-market gain previously included by you under the election for prior taxable years. If the mark-to-market election were made, then the PFIC rules described above relating to excess distributions and realized gains would not apply for periods covered by the election. If you do not make a mark-to-market election for the first taxable year in which we are a PFIC during your holding period of the ADSs, you would be subject to interest charges with respect to the inclusion of ordinary income attributable to each taxable year in which we were a PFIC during your holding period before the effective date of such election.

A U.S. Holder who is a direct or “indirect” holder of stock of a PFIC must file United States Internal Revenue Service Form 8621 in respect of such PFIC for a taxable year in the circumstances described in the United States Treasury Regulations. If we are a PFIC for a given taxable year, you are encouraged to consult your tax advisor concerning the availability and consequences of making any of the elections mentioned above, as well as concerning your annual filing requirements.

### ***Medicare Tax***

A United States person that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on net investment income in excess of certain amounts. In the case of an individual, the tax is imposed on the lesser of (1) the United States person’s “net investment income” for the relevant taxable year and (2) the excess of the United States person’s modified adjusted gross income for the taxable year over \$250,000 (in the case of a taxpayer filing a joint return or a surviving spouse), \$125,000 (in the case of a married taxpayer filing a separate return) or \$200,000 (in any other case). In the case of an estate or trust, the tax is imposed on the lesser of (1) the entity’s “undistributed net investment income” for the taxable year and (2) the excess (if any) of the entity’s “adjusted gross income” over the dollar amount at which the highest tax bracket begins for such entity. A holder’s net investment income will include its gross dividend income and its net gains from the disposition of ADSs unless such dividends or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States person that is an individual, estate or trust, you are encouraged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the ADSs.

### ***Information with Respect to Foreign Financial Assets***

Individuals who own “specified foreign financial assets” with an aggregate value in excess of \$50,000 are required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities, including ADSs, issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in foreign entities. U.S. holders that are individuals are encouraged to consult their tax advisors regarding the application of this reporting requirement as it relates to their ownership of ADSs.

### ***Backup Withholding Tax and Information Reporting Requirements***

United States backup withholding tax and information reporting requirements apply to certain payments to certain non-corporate holders of stock. Information reporting will apply to payments of dividends on, and to proceeds from the sale or

redemption of, the ADSs made within the United States, or by a United States payor or United States middleman, to a holder of the ADSs, other than an exempt recipient, including a corporation, a payee that is not a United States person that provides an appropriate certification and certain other persons. A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, ADSs within the United States, or by a United States payor or United States middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against the beneficial owner's United States federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

## **French Material Tax Consequences**

The following is a description of the material French tax consequences of the acquisition, ownership and disposition of the ADSs by a U.S. Holder. This description is based on applicable tax laws, regulations and judicial decisions as of the date of this annual report, and, where applicable, the Convention between the United States of America and France for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, dated of August 31, 1994, as amended from time to time (the "U.S. Treaty").

This description is based in part upon the representation of the custodian and the assumption that each obligation in the Depositary Agreement with the depositary relating to your ADRs and any related agreement will be performed in accordance with their terms.

The following is a description of the principal tax effect on U.S. Holders for the purposes of French tax if, all of the following points apply:

- the U.S. Holder owns, directly, indirectly or constructively, less than 10% of the Company capital and dividend rights;
- the U.S. Holder is entitled to the benefits of the U.S. Treaty (including under the "limitations on benefits" article of the U.S. Treaty);
- the U.S. Holder does not hold the ADSs through a permanent or a fixed base in France;
- the U.S. Holder is not multi-resident;
- the U.S. Holder does not hold the ADSs through a non-U.S. based pass-through entity; and
- the U.S. Holder does not receive dividend, capital gains or other payments on the ADSs on an account located in a Non-cooperative State as defined in Article 238-0 A of the French General Tax Code and as mentioned in a list published by the French tax authorities as amended from time to time (on January 1<sup>st</sup> of each year).

A U.S. Holder to whom all the above requirements apply will be hereafter defined as a Qualifying U.S. Holder.

This description is relevant only to holders of ADSs who are Qualifying U.S. Holders.

For purposes of the U.S. Treaty Qualifying U.S. Holders of ADSs will be treated as the owners of Company's ordinary shares represented by such ADSs.

Special rules apply to U.S. expatriates, insurance companies, pass-through entities and investors in such entities, tax-exempt organizations, financial institutions, persons subject to the alternative minimum tax and securities broker-dealers, among others. Those special rules are not discussed in this annual report.

Holders of Company ADSs are encouraged to consult their own tax advisors as to the particular tax consequences to them of owning the ADS, including their eligibility for benefits under the U.S. Treaty, the application and effect of state, local, foreign and other tax laws and possible changes in tax laws or in their interpretation.

## ***Taxation of Dividends***

Dividends paid by a French company to non-French holders are generally subject to a 30% withholding tax (or 21% if the holder is an individual resident of the EU, Norway, Iceland or Liechtenstein). Such 30% withholding tax rate can be increased to 75% if the dividend is paid towards non-cooperative States or territories (as mentioned above) irrespective of the tax residence of the beneficiary of the dividends. Such withholding tax rates may, however, be reduced by application of a tax treaty with France.

Dividends paid to a Qualifying U.S. Holder by French companies are immediately subject to a reduced rate of 15%, provided that such Qualifying U.S. Holder establishes before the date of payment of the dividend that he or she is a U.S.

resident under the U.S. Treaty by completing and delivering the depositary with a simplified certificate (Form 5000) (the "Certificate") in accordance with French tax guidelines (BOI-INT-DG-20-20-20-20). Dividends paid to a Qualifying U.S. Holder that has not filed and delivered to the paying agent the Certificate before the dividend payment date, will be subject to French withholding tax at the rate of 30%. The tax withheld in excess of 15% can be refunded by the French tax authorities provided that such Qualifying U.S. Holder duly completes and provides the French tax authorities with the Certificate and Form 5001 (the "Forms") before December 31 of the second calendar year following the year during which the dividend is paid. U.S. pension funds and other tax exempt entities are subject to the same general filing requirement as the U.S. Holders, except that they may be required to supply additional documentation evidencing their entitlement to these benefits.

### ***Taxation of Capital Gains***

A Qualifying U.S. Holder will not be subject to any French income or withholding tax on any capital gain realized upon the sale or exchange of ADSs of the Company.

### ***Estate and Gift Taxes***

Under the Convention Between the United States of America and the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Estates, Inheritance and Gifts dated November 24, 1978 (as amended from time to time), if a U.S. Holder transfers his or her shares by gift or by reason of the U.S. Holder's death, that transfer will not be subject to French gift or inheritance tax unless the U.S. Holder is domiciled in France at the time of making the gift or at the time of his or her death or if the shares are held for use in the conduct of a business or profession through a permanent establishment or a fixed base in France.

### ***Wealth Tax***

Qualifying U.S. Holders will not be subject to French wealth tax.

### **F. *Dividends and Paying Agents***

Not applicable.

### **G. *Statement by Experts***

Not applicable.

### **H. *Documents on Display***

We are currently subject to the informational requirements of the Exchange Act applicable to foreign private issuers and fulfill the obligations of these requirements by filing reports with the Securities and Exchange Commission. As a foreign private issuer, we are exempt from the rules under the Exchange Act relating to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, we intend to file with the Securities and Exchange Commission, within 120 days after the end of each subsequent fiscal year, an annual report on Form 20-F containing financial statements which will be examined and reported on, with an opinion expressed, by an independent public accounting firm. We also intend to file with the Securities and Exchange Commission reports on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year, within 60 days after the end of each quarter.

You may read and copy any document we file with the Securities and Exchange Commission without charge at the Securities and Exchange Commission's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room. The Securities and Exchange Commission also maintains an Internet site that contains reports and other information regarding issuers that file electronically with the Securities and Exchange Commission. Our filings with the Securities and Exchange Commission are also available to the public through this web site at <http://www.sec.gov>.

**I.     *Subsidiary Information***

Not applicable.

## **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

### **Interest Rate Risk**

We had cash and cash equivalents and short-term investments totaling \$12.5 million, \$8.7 million and \$20.5 million, at December 31, 2014, 2015 and 2016, respectively. Our cash and cash equivalents consist of cash in commercial bank accounts and investments in money market funds. Short-term investments are investments in deposits or money market funds with terms greater than 90 days but less than one year. The primary objectives of our investment activities are to preserve principal, and provide liquidity without significantly increasing risk. Our cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes.

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in money market funds. Due to the short-term and highly liquid nature of our portfolio, a movement in interest rates of 100 basis points during 2016 would not have a material effect on interest income.

### **Foreign Currency Risk**

We use the U.S. dollar as the functional currency of Sequans Communications S.A. Substantially all of our sales are denominated in U.S. dollars. Therefore, we have very limited foreign currency risk associated with our revenue. The payment terms of our significant supply chain vendors are also denominated in U.S. dollars. We incur operating expenses and hold assets and liabilities denominated in currencies other than the U.S. dollar, principally the euro. In addition, we have limited exposure to the British pound sterling, the New Israeli shekel, the Taiwan dollar, the Chinese yuan, the Swedish krona and the Japanese yen. As a result, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, primarily the U.S. dollar to euro exchange rate. As we grow our operations, our exposure to foreign currency risk could become more significant. If there had been a 10% increase or decrease in the exchange rate of the U.S. dollar to the euro, we estimate the impact, in absolute terms, on operating expenses for 2016, would have been \$2.2 million.

From time to time, we have entered into foreign currency hedging contracts primarily to reduce the impact of variations in the U.S. dollar to euro exchange rate on our operating expenses denominated in euros. Currently, we do not expect to enter into foreign currency exchange contracts for trading or speculative purposes.

## **Item 12. Description of Securities Other than Equity Securities**

### **A. *Debt Securities***

Not applicable.

### **B. *Warrants and Rights***

Not applicable.

### **C. *Other Securities***

Not applicable.

### **D. *American Depositary Shares***

The Bank of New York Mellon, as depositary, registers and delivers our ADSs. Each ADS represents one ordinary share (or a right to receive one ordinary share) deposited with the principal Paris office of Société Générale or any successor, as custodian for the depositary. Each ADS will also represent any other securities, cash or other property which may be held by the depositary in respect of the depositary facility. A copy of our Deposit Agreement among us, the depositary, owners and holders of ADSs was filed with the SEC as an exhibit to our Form F-6 filed on March 22, 2011.

## Fees and Expenses

Pursuant to the terms of the deposit agreement, we will be paying all fees and expenses relating to the ADSs on behalf of the holders. However, in the future that arrangement may be changed, at our option, such that the holders will be required to pay the following fees:

*Persons depositing or withdrawing ordinary shares or ADS holders must pay:*

*For:*

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

- Issue of ADSs, including issues resulting from a distribution of ordinary shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

\$0.05 (or less) per ADS

- Any cash distribution to ADS holders

A fee equivalent to the fee that would be payable if securities distributed to you had been ordinary shares and the shares had been deposited for issue of ADSs

- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders

\$0.05 (or less) per ADSs per calendar year

- Depositary services

Registration or transfer fees

- Transfer and registration of ordinary shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Expenses of the depositary

- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
- converting foreign currency to U.S. dollars

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

- As necessary

Any charges incurred by the depositary or its agents for servicing the deposited securities

- As necessary

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing ordinary shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide for-fee services until its fees for those services are paid.

Holders of ADS are responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

## PART II

### Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

### Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

### Item 15. Controls and Procedures

#### Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of December 31, 2016, have concluded that, as of such date, our disclosure controls and procedures were effective and ensured that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

#### Management Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting, as of December 31, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013 Framework).

Based on our assessment, management believes that as of December 31, 2016 our internal control over financial reporting is effective based on these criteria.

The Company's independent registered public accounting firm, Ernst & Young Audit, has issued a report on the Company's internal control over financial reporting:

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Sequans Communications S.A.:

We have audited Sequans Communications S.A.'s (the "Company") internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), ( the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2016, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the Company as of December 31, 2014, 2015, and 2016, and the related consolidated statements of operations, comprehensive income (loss), changes in equity (deficit), and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 31, 2017 expressed an unqualified opinion thereon.

Ernst & Young Audit

/s/ Ernst & Young Audit

Paris-La Défense, France

March 31, 2017

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

Our Board has determined that Mr. de Pesquidoux is an audit committee financial expert as defined by the Securities and Exchange Commission rules and has the requisite financial sophistication under the applicable rules and regulations of the New York Stock Exchange. Mr. de Pesquidoux is independent as such term is defined in Rule 10A-3(b)(1) under the Exchange Act and under the listing standards of the New York Stock Exchange.

**Item 16B. Code of Ethics**

We have adopted a Code of Ethics that applies to the Company's chief executive officer, chief financial officer and other senior financial officers, including the Company's principal accounting officer. We have posted this code on our corporate website at <http://www.sequans.com/investors/corporate-governance/>.

**Item 16C. Principal Accountant Fees and Services**

Ernst & Young Audit has served as our independent registered public accounting firm for 2015 and 2016. Our accountants billed the following fees to us for professional services in each of those fiscal years:

|                           | 2015                 | 2016          |
|---------------------------|----------------------|---------------|
|                           | (euros in thousands) |               |
| <b>Audit Fees</b>         | \$ 378               | \$ 575        |
| <b>Audit-Related Fees</b> | —                    | —             |
| <b>Tax Fees</b>           | —                    | —             |
| <b>All Other Fees</b>     | —                    | —             |
| <b>Total</b>              | <u>\$ 378</u>        | <u>\$ 575</u> |

"Audit Fees" are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent accountant provides, such as consents and assistance with and review of documents filed with the SEC. "Audit-Related Fees" are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under Audit Fees. These fees include mainly accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time. There were no "Tax Fees" or "Other Fees" billed or paid during 2015 or 2016.

Our audit committee has adopted a pre-approval policy for the engagement of our independent accountant to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit service, audit-related service and tax services that may be performed by our independent accountants.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

## Item 16G. Corporate Governance

As a foreign private issuer listed on the NYSE, we are subject to NYSE corporate governance listing standards. However, NYSE rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Currently, we rely on the NYSE Listed Company Manual with respect to our corporate governance to the extent possible under French law. The following are the significant ways in which our corporate governance practices differ from those required for U.S. companies listed on the NYSE.

- **Audit Committee**—Our audit committee is responsible for organizing for selecting our statutory auditors and making a recommendation to our board of directors regarding their chose and terms of compensation. As required by French law, the actual appointment of the statutory auditors is made by our shareholders at a general meeting of the shareholders. According to the Audit Committee Charter, our audit committee has the authority to engage advisors and determine appropriate funding for payment of compensation to an independent auditor or other advisors necessary or appropriate to aid the committee in carrying out its responsibilities.
- **Executive Sessions/Communications with Independent Directors**—French law does not require (and we do not currently provide) for our independent directors to meet regularly without management, nor does it require the independent directors to meet alone in executive session at least once a year. However, if our independent directors decide to do so, they may do so. In addition, French law does not require (and we do not currently provide) a method for interested parties to communication with our independent directors.
- **Equity Compensation Plans**—Under French law, we must obtain shareholder approval at a general meeting of the shareholders in order to adopt an equity compensation plan. Generally, the shareholders then delegate to our board of directors the authority to decide on the specific terms of the granting of equity compensation, within the limits of the shareholders' authorization.
- **Corporate Governance Guidelines**—We have adopted a Board Internal Charter as required by French law that sets forth certain corporate governance practices of our board under French law. This Board Internal Charter does not cover all items required by the NYSE Listed Company Manual for U.S. companies listed on the NYSE.

## Item 16H. Mine Safety Disclosure

Not applicable.

## PART III

### Item 17. Financial Statements

See pages F-1 through F-41 of this annual report.

### Item 18. Financial Statements

Not applicable.

### Item 19. Exhibits

| <u>Exhibit Number</u> | <u>Description of Exhibit</u>   |
|-----------------------|---|
| 1.1*                  | By-laws ( <i>statuts</i> ) of Sequans Communications S.A. (English translation)   |
| 2.1                   | Shareholders' Agreement, by and between Sequans Communications S.A. and certain shareholders signatory thereto, dated January 31, 2008 (incorporated by reference to Exhibit 4.1 to Sequans Communications S.A.'s Registration Statement on Form F-1, as amended (Registration No. 333-173001) ("Registration No. 333-173001")) |
| 2.2                   | Form of Deposit Agreement among Sequans Communications S.A., The Bank of New York Mellon and owners and holders of American Depositary Shares (incorporated by reference to Exhibit 4.2 to Registration No. 333-173001)   |
| 2.3                   | Form of American Depositary Receipt (included in Exhibit 2.2)   |
| 4.1(a)                | Stock Option Subscription Plans—2006-1, 2006-2, 2006-3, 2006-4, 2008-1, 2009-1, 2009-2, 2010-1, 2010-2, 2010-1-2, 2011-1, 2011-2 (incorporated by reference to Exhibit 10.1 to Registration No. 333-173001)   |
| 4.1(b)                | Stock Option Subscription Plan—2012-1 (incorporated by reference to Exhibit 4.1(b) to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2012, filed with the SEC on March 29, 2013)   |
| 4.1(c)                | Stock Option Subscription Plan—2013-1 (incorporated by reference to Exhibit 4.1(c) to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed with the SEC on March 31, 2014)   |
| 4.1(d)                | Stock Option Subscription Plan—2014-1 (incorporated by reference to Exhibit 4.1(d) to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed with the SEC on April 21, 2015)   |
| 4.1(e)                | Stock Option Subscription Plan—2015-1 (incorporated by reference to Exhibit 4.1(e) to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed with the SEC on April 29, 2016)   |
| 4.1(f)                | Stock Option Subscription Plan—2016-1 (incorporated by reference to Exhibit 99.1 to Registration No. 333-214444)  |
| 4.2(a)                | BSA Subscription Plans—2006-1, 2006-2, 2006-3, 2007-1, 2007-2, 2008-1, 2008-2, 2009-1, 2009-2, 2010-1, 2010-2, 2010-1-2, 2010-2-2, 2011-1, 2011-2 (incorporated by reference to Exhibit 10.2 to Registration No. 333-173001)  |
| 4.2(b)                | BSA Subscription Plan—2012-2 (incorporated by reference to Exhibit 4.2(b) to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2012, filed with the SEC on March 29, 2013)  |
| 4.2(c)                | BSA 2013-1 (Warrants) Issuance Agreement (incorporated by reference to Exhibit 4.2(c) to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed with the SEC on March 31, 2014)  |
| 4.2(d)                | BSA Subscription Plan—2014-1 (incorporated by reference to Exhibit 4.2(d) to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed with the SEC on April 21, 2015)  |
| 4.3                   | BSA (Warrants) Issuance Agreement, dated January 11 <sup>th</sup> , 2011 (incorporated by reference to Exhibit 4.4 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed with the SEC on March 30, 2012)   |
| 4.4                   | BSA (Warrants) Issuance Agreement, dated January 11 <sup>th</sup> , 2011 (incorporated by reference to Exhibit 4.5 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed with the SEC on March 30, 2012)   |
| 4.5                   | BSA (Warrants) Issuance Agreement, dated March 8 <sup>th</sup> , 2011 (incorporated by reference to Exhibit 4.5 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed with the SEC on March 30, 2012)  |

| <b><u>Exhibit Number</u></b> | <b><u>Description of Exhibit</u></b>   |
|------------------------------|--|
| 4.6                          | BSA (Warrants) Issuance Agreement, dated June 26, 2012 (6,000 BSA) (incorporated by reference to Exhibit 4.6 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2012, filed with the SEC on March 29, 2013)  |
| 4.7                          | BSA (Warrants) Issuance Agreement, dated June 26, 2012 (25,000 BSA) (incorporated by reference to Exhibit 4.7 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2012, filed with the SEC on March 29, 2013)   |
| 4.8                          | BSA (Warrants) Issuance Agreement, dated June 25, 2013 (incorporated by reference to Exhibit 4.8 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed with the SEC on March 31, 2014)  |
| 4.9                          | Investment Agreement, by and between Sequans Communications S.A. and certain investors signatory thereto, dated July 1, 2010 (incorporated by reference to Exhibit 10.5 to Registration No. 333-173001)  |
| 4.10                         | Form of Letter Agreement by and between Sequans Communications S.A. and Board Nominee (incorporated by reference to Exhibit 10.7 to Registration No. 333-173001)   |
| 4.11                         | BSA (Warrants) Issuance Agreement, dated June 26, 2014 (incorporated by reference to Exhibit 4.12 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed with the SEC on April 21, 2015)   |
| 4.12                         | Consulting Agreement with Alok Sharma, member of the board of directors, dated December 10, 2014 (incorporated by reference to Exhibit 4.13 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed with the SEC on April 21, 2015)   |
| 4.13                         | Convertible Note Agreement by and between Sequans Communications S.A. and Nokomis Capital Master Fund, LP, dated April 14, 2015 (incorporated by reference to Exhibit 4.1 to Sequans Communications S.A.'s Report on Form 6-K filed with the SEC on April 15, 2015)  |
| 4.14                         | Convertible Promissory Note issued by Sequans Communications S.A. to Nokomis Capital Master Fund, LP on April 14, 2015 (incorporated by reference to Exhibit 4.2 to Sequans Communications S.A.'s Report on Form 6-K filed with the SEC on April 15, 2015)   |
| 4.15                         | Loan Agreement by and between Bpifrance Financement and Sequans Communications S.A., dated September 14, 2015 (English translation) (incorporated by reference to Exhibit 4.15 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed with the SEC on April 29, 2016)  |
| 4.16                         | Interest-Free Innovation Loan Agreement by and between Bpifrance Financement and Sequans Communications S.A., dated August 17, 2015 (English translation) (incorporated by reference to Exhibit 4.16 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed with the SEC on April 29, 2016)  |
| 4.17                         | BSA (Warrants) Issuance Agreement, dated June 29, 2015 (incorporated by reference to Exhibit 4.17 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed with the SEC on April 29, 2016)   |
| 4.18                         | Convertible Note Agreement by and between Sequans Communications S.A. and the purchasers signatory thereto, dated April 27, 2016 (including the Form of Convertible Promissory Note attached thereto as Exhibit B) (incorporated by reference to Exhibit 4.18 to Sequans Communications S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed with the SEC on April 29, 2016) |
| 4.19                         | Restricted Share Award Plan 2016-1 (incorporated by reference to Exhibit 99.2 to Registration No. 333-214444)  |
| 4.20                         | BSA (Warrants) Subscription Plan 2016-1 (incorporated by reference to Exhibit 99.3 to Registration No. 333-214444)   |
| 4.21                         | BSA (Warrants) Subscription Plan 2016-2 (incorporated by reference to Exhibit 99.4 to Registration No. 333-214444)   |
| 4.22                         | BSA (Warrants) Issuance Agreement, dated June 28, 2016 (incorporated by reference to Exhibit 99.5 to Registration No. 333-214444)  |
| 4.23                         | Restricted Share Award Plan 2016-2 (incorporated by reference to Exhibit 99.1 to Registration No. 333-215911)  |
| 8.1*                         | List of Subsidiaries   |
| 12.1*                        | Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002   |

| <b><u>Exhibit<br/>Number</u></b> | <b><u>Description of Exhibit</u></b>   |
|----------------------------------|--|
| 12.2*                            | Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002 |
| 13.1*                            | Certificate of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002                                      |
| 13.2*                            | Certificate of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002                                      |
| 15.1*                            | Consent of Ernst & Young Audit, independent registered public accounting firm  |

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\* Filed herewith.

## **SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Sequans Communications S.A.

By: /s/ Dr. Georges Karam

Name: Dr. Georges Karam

Title: Chief Executive Officer and Chairman

Date: March 31, 2017

**Sequans Communications S.A.**  
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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Sequans Communications S.A.:

We have audited the accompanying consolidated statements of financial position of Sequans Communications S.A. (the “Company”) as of December 31, 2014, 2015 and 2016, and the related consolidated statements of operations, comprehensive income (loss), changes in equity (deficit), and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2014, 2015 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated March 31, 2017 expressed an unqualified opinion thereon.

Ernst & Young Audit

/s/ Ernst & Young Audit

Paris-La Défense, France

March 31, 2017

**Sequans Communications S.A.**  
**Consolidated Statements of Operations**

|  |      | Year ended December 31,                            |             |             |
|--|------|--|-------------|-------------|
|  | Note | 2014   | 2015        | 2016        |
|  |      | (in thousands, except share and per share amounts) |             |             |
| Revenue:   |      |  |             |             |
| Product revenue  |      | \$ 19,836  | \$ 24,669   | \$ 34,581   |
| Other revenue  |      | 2,766  | 7,863       | 10,998      |
| Total revenue  | 3    | 22,602   | 32,532      | 45,579      |
| Cost of revenue:   |      |  |             |             |
| Cost of product revenue  |      | 15,435   | 17,970      | 22,574      |
| Cost of other revenue  |      | 346  | 1,481       | 3,022       |
| Total cost of revenue  | 4.2  | 15,781   | 19,451      | 25,596      |
| Gross profit   |      | 6,821  | 13,081      | 19,983      |
| Operating expenses:  |      |  |             |             |
| Research and development   | 4.4  | 28,634   | 25,305      | 26,334      |
| Sales and marketing  |      | 5,278  | 5,985       | 7,126       |
| General and administrative                                       |      | 6,969  | 5,428       | 6,267       |
| Total operating expenses   | 4.2  | 40,881   | 36,718      | 39,727      |
| Operating income (loss)  |      | (34,060)   | (23,637)    | (19,744)    |
| Financial income (expense):                                      |      |  |             |             |
| Interest expense   | 4.1  | (145)  | (1,542)     | (3,734)     |
| Interest income  | 4.1  | 125  | 26          | 48          |
| Other financial expense  | 4.1  | —  | (145)       | (83)        |
| Change in the fair value of convertible debt embedded derivative | 4.1  | —  | (2,036)     | (1,583)     |
| Foreign exchange gain (loss), net                                | 4.1  | 118  | 249         | 593         |
| Profit (Loss) before income taxes                                |      | (33,962)   | (27,085)    | (24,503)    |
| Income tax expense (benefit)                                     | 5    | 162  | 317         | 284         |
| Profit (Loss)  |      | \$ (34,124)  | \$ (27,402) | \$ (24,787) |
| Attributable to:   |      |  |             |             |
| Shareholders of the parent                                       |      | (34,124)   | (27,402)    | (24,787)    |
| Non-controlling interests  |      | —  | —           | —           |
| Basic earnings (loss) per share                                  | 6    | \$ (0.58)  | \$ (0.46)   | \$ (0.39)   |
| Diluted earnings (loss) per share                                | 6    | \$ (0.58)  | \$ (0.46)   | \$ (0.39)   |
| Weighted average number of shares used for computing:            |      |  |             |             |
| Basic  |      | 59,141,716   | 59,144,905  | 63,805,442  |
| Diluted  |      | 59,141,716   | 59,144,905  | 63,805,442  |

The following notes form an integral part of the annual financial statements

**Sequans Communications S.A.**  
**Consolidated Statements of Comprehensive Income (Loss)**

|  | Year ended December 31, |                    |                    |
|--|-------------------------|--------------------|--------------------|
|  | 2014                    | 2015               | 2016               |
|  | (in thousands)          |                    |                    |
| Profit (Loss) for the year   | \$ (34,124)             | \$ (27,402)        | \$ (24,787)        |
| <b>Other comprehensive income (loss)</b>   |                         |                    |                    |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent years :</i>     |                         |                    |                    |
| Net gain (loss) on cash flow hedge   | (114)                   | 78                 | (91)               |
| Exchange differences on translation of foreign operations  | (150)                   | (150)              | (375)              |
| Net other comprehensive income to be reclassified to profit or loss in subsequent years          | (264)                   | (72)               | (466)              |
| <i>Other comprehensive income not to be reclassified to profit or loss in subsequent years :</i> |                         |                    |                    |
| Re-measurement gains (losses) on defined benefit plans   | (425)                   | 215                | 120                |
| Net other comprehensive income not to be reclassified to profit or loss in subsequent years      | (425)                   | 215                | 120                |
| Total other comprehensive income (loss)  | (689)                   | 143                | (346)              |
| Total comprehensive income (loss)  | <u>\$ (34,813)</u>      | <u>\$ (27,259)</u> | <u>\$ (25,133)</u> |
| Attributable to:   |                         |                    |                    |
| Shareholders of the parent   | (34,813)                | (27,259)           | (25,133)           |
| Non-controlling interests  | —                       | —                  | —                  |

The following notes form an integral part of the annual financial statements

**Sequans Communications S.A.**  
**Consolidated Statements of Financial Position**

|  |      | At December 31, |           |           |
|--|------|-----------------|-----------|-----------|
|  | Note | 2014            | 2015      | 2016      |
|  |      | (in thousands)  |           |           |
| ASSETS   |      |                 |           |           |
| Non-current assets:  |      |                 |           |           |
| Property, plant and equipment  | 7    | \$ 8,743        | \$ 7,116  | \$ 6,659  |
| Intangible assets  | 8    | 3,440           | 5,255     | 7,707     |
| Deposits and other receivables   | 19   | 320             | 345       | 332       |
| Available for sale financial assets  | 19   | 597             | 321       | 310       |
| Total non-current assets   |      | 13,100          | 13,037    | 15,008    |
| Current assets:  |      |                 |           |           |
| Inventories  | 9    | 9,199           | 4,065     | 8,693     |
| Trade receivables  | 10   | 7,749           | 16,497    | 15,285    |
| Prepaid expenses and other receivables   |      | 2,988           | 3,170     | 3,172     |
| Recoverable value added tax  |      | 447             | 541       | 470       |
| Research tax credit receivable   | 4.4  | 3,443           | 2,865     | 1,902     |
| Deposit  |      | 160             | 393       | 345       |
| Cash and cash equivalents  | 11   | 12,329          | 8,288     | 20,202    |
| Total current assets   |      | 36,315          | 35,819    | 50,069    |
| Total assets   |      | \$ 49,415       | \$ 48,856 | \$ 65,077 |
| EQUITY AND LIABILITIES   |      |                 |           |           |
| Equity:  |      |                 |           |           |
| Issued capital, euro 0.02 nominal value, 75,030,078 shares authorized, issued and outstanding at December 31, 2016 (59,166,741 and 59,144,741 at December 31, 2015 and 2014, respectively) | 12   | \$ 1,568        | \$ 1,568  | \$ 1,923  |
| Share premium  | 12   | 165,507         | 165,536   | 189,029   |
| Other capital reserves   | 13   | 15,997          | 16,864    | 28,257    |
| Accumulated deficit  |      | (157,363)       | (184,766) | (209,553) |
| Other components of equity   |      | (594)           | (450)     | (796)     |
| Total equity (deficit)   |      | 25,115          | (1,248)   | 8,860     |
| Non-current liabilities:   |      |                 |           |           |
| Government grant advances and loans  | 15   | 4,013           | 5,385     | 5,144     |
| Finance lease obligations  | 14   | 9               | —         | —         |
| Convertible debt and accrued interest  | 14   | —               | 8,984     | 16,338    |
| Provisions   | 16   | 1,228           | 1,396     | 1,306     |
| Other liabilities  | 17   | 2               | 3,267     | 22        |
| Deferred revenue   | 17   | —               | 1,940     | 1,940     |
| Total non-current liabilities  |      | 5,252           | 20,972    | 24,750    |
| Current liabilities:   |      |                 |           |           |
| Trade payables   | 18   | 11,231          | 9,498     | 18,358    |
| Interest-bearing financing of receivables  | 14   | 2,133           | 6,472     | 7,712     |
| Government grant advances and loans  | 15   | 603             | 916       | 601       |
| Convertible debt embedded derivative   | 14   | —               | 6,091     | —         |
| Finance lease obligations  | 14   | 202             | 12        | —         |
| Other current liabilities  | 18   | 4,017           | 4,604     | 4,415     |
| Deferred revenue   | 18   | 314             | 1,222     | 335       |
| Provisions   | 16   | 548             | 317       | 46        |
| Total current liabilities  |      | 19,048          | 29,132    | 31,467    |
| Total equity and liabilities   |      | \$ 49,415       | \$ 48,856 | \$ 65,077 |

The following notes form an integral part of the annual financial statements

**Sequans Communications S.A.**  
**Consolidated Statements of Changes in Equity (Deficit)**

| Attributable to the shareholders of the parent                                     |                 |           |               |                        |                     |                                    |   |                        |
|--|-----------------|-----------|---------------|------------------------|---------------------|------------------------------------|---|------------------------|
|  | Ordinary shares |           | Share premium | Other capital reserves | Accumulated deficit | Cumulative translation adjustments | Accumulated other comprehensive income (loss) | Total equity (deficit) |
|  | Shares          | Amount    |               |                        |                     |                                    |   |                        |
|  | (Note 12)       | (Note 12) | (Note 12)     | (Note 13)              |                     |                                    |   |                        |
| (in thousands, except share and per share amounts)                                 |                 |           |               |                        |                     |                                    |   |                        |
| At January 1, 2014   | 59,129,639      | \$ 1,567  | \$ 165,785    | \$ 14,721              | \$ (123,239)        | \$ 148                             | \$ (53)                                       | \$ 58,929              |
| Loss for the year  |                 |           |               |                        | (34,124)            |                                    |   | (34,124)               |
| Re-measurement gains (losses) on defined benefit plans                             |                 |           |               |                        |                     |                                    | (425)   | (425)                  |
| Foreign currency translation   |                 |           |               |                        |                     | (150)                              |   | (150)                  |
| Net loss on cash flow hedge  |                 |           |               |                        |                     |                                    | (114)   | (114)                  |
| Total comprehensive income (loss)  |                 |           |               |                        | (34,124)            | (150)                              | (539)   | (34,813)               |
| Issue of shares in connection with the exercise of options and warrants            | 15,102          | 1         | 22            |                        |                     |                                    |   | 23                     |
| Transaction costs  |                 |           | (300)         |                        |                     |                                    |   | (300)                  |
| Share-based payment  |                 |           |               | 1,276                  |                     |                                    |   | 1,276                  |
| At December 31, 2014   | 59,144,741      | \$ 1,568  | \$ 165,507    | \$ 15,997              | \$ (157,363)        | \$ (2)                             | \$ (592)                                      | \$ 25,115              |
| Loss for the year  |                 |           |               |                        | (27,402)            |                                    |   | (27,402)               |
| Re-measurement gains (losses) on defined benefit plans                             |                 |           |               |                        |                     |                                    | 215   | 215                    |
| Foreign currency translation   |                 |           |               |                        |                     | (150)                              |   | (150)                  |
| Net gain on cash flow hedge  |                 |           |               |                        |                     |                                    | 78  | 78                     |
| Total comprehensive income (loss)  |                 |           |               |                        | (27,402)            | (150)                              | 293   | (27,259)               |
| Issue of shares in connection with the exercise of options and warrants            | 22,000          |           | 29            |                        |                     |                                    |   | 29                     |
| Share-based payment  |                 |           |               | 867                    |                     |                                    |   | 867                    |
| At December 31, 2015   | 59,166,741      | \$ 1,568  | \$ 165,536    | \$ 16,864              | \$ (184,765)        | \$ (152)                           | \$ (299)                                      | \$ (1,248)             |
| Loss for the year  |                 |           |               |                        | (24,787)            |                                    |   | (24,787)               |
| Re-measurement gains (losses) on defined benefit plans                             |                 |           |               |                        |                     |                                    | 120   | 120                    |
| Foreign currency translation   |                 |           |               |                        |                     | (375)                              |   | (375)                  |
| Net loss on cash flow hedge  |                 |           |               |                        |                     |                                    | (91)  | (91)                   |
| Total comprehensive income (loss)  |                 |           |               |                        | (24,787)            | (375)                              | 29  | (25,133)               |
| Issue of shares in connection with the exercise of options and warrants            | 187,901         | 4         | 275           |                        |                     |                                    |   | 279                    |
| Issue of shares in connection with the public offering of September 2016 (Note 12) | 15,675,436      | 351       | 25,514        |                        |                     |                                    |   | 25,865                 |
| Transaction costs  |                 |           | (2,296)       |                        |                     |                                    |   | (2,296)                |
| Reclassification of embedded derivative of convertible debts                       |                 |           |               | 10,271                 |                     |                                    |   | 10,271                 |
| Share-based payment  |                 |           |               | 1,122                  |                     |                                    |   | 1,122                  |
| At December 31, 2016   | 75,030,078      | \$ 1,923  | \$ 189,029    | \$ 28,257              | \$ (209,552)        | \$ (527)                           | \$ (270)                                      | \$ 8,860               |

The following notes form an integral part of the annual financial statements

**Sequans Communications S.A.**  
**Consolidated Statements of Cash Flow**

|   |      | Year ended December 31, |             |             |
|---|------|-------------------------|-------------|-------------|
|   | Note | 2014                    | 2015        | 2016        |
|   |      | (in thousands)          |             |             |
| Operating activities:   |      |                         |             |             |
| Profit (Loss) before income taxes   |      | \$ (33,962)             | \$ (27,085) | \$ (24,503) |
| Non-cash adjustment to reconcile income (loss) before tax to net cash used in operating activities: |      |                         |             |             |
| Amortization and impairment of property, plant and equipment  | 7    | 3,510                   | 3,408       | 3,080       |
| Amortization and impairment of intangible assets  | 8    | 1,790                   | 1,867       | 2,215       |
| Share-based payment expense   | 4.3  | 1,276                   | 867         | 1,122       |
| Increase (Decrease) in provisions   |      | 308                     | 152         | (240)       |
| Financial expense   |      | 20                      | 1,516       | 3,686       |
| Change in fair value of convertible debt embedded derivative  | 14.1 | —                       | 2,036       | 1,583       |
| Other financial expenses  |      | —                       | 145         | 83          |
| Foreign exchange loss (gain)  |      | (15)                    | (340)       | (18)        |
| Loss on disposal of property, plant and equipment   |      | 34                      | 5           | 2           |
| Working capital adjustments:  |      |                         |             |             |
| Decrease (Increase) in trade receivables and other receivables                                      |      | (1,619)                 | (9,091)     | 705         |
| Decrease (Increase) in inventories  |      | (2,617)                 | 5,134       | (4,628)     |
| Decrease in research tax credit receivable  |      | 4,563                   | 578         | 963         |
| Increase in trade payables and other liabilities  |      | 3,424                   | 2,041       | 2,354       |
| Increase (Decrease) in deferred revenue   |      | (29)                    | 2,848       | (737)       |
| Decrease in government grant advances   |      | (816)                   | (170)       | (1,030)     |
| Income tax paid   |      | (273)                   | (312)       | (226)       |
| Net cash flow used in operating activities  |      | \$ (24,406)             | \$ (16,401) | \$ (15,589) |
| Investing activities:   |      |                         |             |             |
| Purchase of intangible assets and property, plant and equipment                                     | 7-8  | \$ (6,242)              | \$ (5,483)  | \$ (5,390)  |
| Sale of financial assets  |      | 652                     | 345         | 24          |
| Sale (Purchase) of short-term deposit   |      | (160)                   | (233)       | 48          |
| Interest received   |      | 125                     | 26          | 48          |
| Net cash flow used in investments activities  |      | \$ (5,625)              | \$ (5,345)  | \$ (5,270)  |
| Financing activities:   |      |                         |             |             |
| Public equity offering proceeds, net of transaction costs paid                                      |      | \$ (300)                | \$ —        | \$ 23,569   |
| Proceeds from issue of warrants and exercise of stock options/warrants, net of transaction costs    |      | 23                      | 29          | 279         |
| Proceeds from interest-bearing receivables financing  | 14.3 | 2,133                   | 4,339       | 1,240       |
| Proceeds from interest-bearing research project financing   | 15.2 | 3,648                   | —           | 1,021       |
| Proceeds from government loans, net of transaction cost   | 15.3 | —                       | 2,134       | —           |
| Proceeds from convertible debt, net of transaction cost   | 14.1 | —                       | 11,572      | 6,932       |
| Repayment of borrowings and finance lease liabilities   |      | (244)                   | (183)       | (12)        |
| Interest paid   |      | (139)                   | (181)       | (251)       |
| Net cash flows from financing activities  |      | \$ 5,121                | \$ 17,710   | \$ 32,778   |
| Net increase (decrease) in cash and cash equivalents  |      | (24,910)                | (4,036)     | 11,919      |
| Net foreign exchange difference   |      | (5)                     | (5)         | (5)         |
| Cash and cash equivalent at January 1   |      | 37,244                  | 12,329      | 8,288       |
| Cash and cash equivalents at period end   | 11   | \$ 12,329               | \$ 8,288    | \$ 20,202   |

The following notes form an integral part of the annual financial statements

# Sequans Communications S.A.

## Notes to the Consolidated Financial Statements

### 1. Corporate information

Sequans Communications S.A. (“Sequans”) is organized as a limited liability company (“*société anonyme*”) incorporated and domiciled in the Republic of France, with its principal place of business at 15-55 boulevard Charles de Gaulle, 92700 Colombes, France. Sequans, together with its subsidiaries (the “Company”), is a leading fabless designer, developer and supplier of 4G semiconductor solutions for wireless broadband applications. The Company’s semiconductor solutions incorporate baseband processor and radio frequency transceiver integrated circuits along with our proprietary signal processing techniques, algorithms and software stacks.

### 2. Summary of significant accounting and reporting policies

#### 2.1. Basis of preparation

The Consolidated Financial Statements are presented in U.S. dollars.

These Consolidated Financial Statements for the year ended December 31, 2016 have been prepared on a going concern assumption. The Company’s internal cash forecast is built from sales forecasts by products and by customer and a stable operating cost structure. Taking into account forecasted operating cash flow, government and customer funding of research programs, management believes that Company’s existing cash and cash equivalents plus cash generated from these activities will be sufficient at least for the 12 months following December 31, 2016.

#### *Statement of compliance*

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard Board (“IASB”) and whose application is mandatory for the year ending December 31, 2016. Comparative figures are presented for December 31, 2014 and 2015.

The accounting policies are consistent with those of the same period of the previous financial year, except for the changes disclosed in Note 2.2 to the Consolidated Financial Statements.

The Consolidated Financial Statements of the Company for the years ended December 31, 2014, 2015 and 2016 have been authorized for issue in accordance with a resolution of the board of directors on March 30, 2017.

#### *Basis of consolidation*

The Consolidated Financial Statements comprise the financial statements of Sequans Communications S.A., which is the ultimate parent of the group, and its subsidiaries at December 31, 2016:

| <u>Name</u>                               | <u>Country of<br/>incorporation</u> | <u>Year of<br/>incorporation</u> | <u>%<br/>equity<br/>interest</u> |
|---|-------------------------------------|----------------------------------|----------------------------------|
| Sequans Communications Ltd.               | United Kingdom                      | 2005                             | 100                              |
| Sequans Communications Inc.               | United States                       | 2008                             | 100                              |
| Sequans Communications Ltd. Pte.          | Singapore                           | 2008                             | 100                              |
| Sequans Communications Israel (2009) Ltd. | Israel                              | 2010                             | 100                              |

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The subsidiaries have been fully consolidated from their date of incorporation.

#### 2.2. Changes in accounting policy and disclosures

##### *New and amended standards and interpretations*

The accounting policies adopted in 2016 are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of January 1, 2016:

- *Amendments to IFRS 11: Accounting for acquisition of interests in Joint Operations*

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

- *Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortization*

IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

- *Annual Improvements to IFRS (2012-2014)*

These improvements relate to:

- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments : Disclosures
- IAS 19 Employee benefits
- IAS 34 Interim Financial Reporting

- *Amendments to IAS 1 - Disclosure initiative*

The amendments to IAS 1 are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

Adoption of these new standards and interpretations have no impact on the company's financial statements.

***Standards issued but not yet effective***

Standards and interpretations issued but not yet effective up to the date of issue of the Company's Consolidated Financial Statements are listed below. The Company intends to adopt these standards when they become effective.

*IFRS 9 - Financial Instruments: Classification and Measurement*

In July 2014 the IASB issued IFRS 9 (Financial Instruments). With effect from January 1, 2018, IFRS 9 will replace the currently applicable standards on the presentation, recognition and measurement of financial instruments (IAS 32 and IAS 39). IFRS 9 covers three key issues: classification and measurement, impairment, and hedge accounting. It also provides a new credit risk recognition model (using the expected losses approach versus the incurred losses approach), in particular as regards accounts receivable. The standard is mandatorily applicable to annual reporting periods beginning on or after January 1, 2018. Given the nature of its operations, the Company does not anticipate any major impact from the adoption of IFRS 9.

*IFRS 15 - Revenue from contracts with customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

*IFRS 16 - Leases*

In January 2016 the IASB issued IFRS 16 (Leases), which aligns the accounting treatment of operating leases with that already applied to finance leases (i.e. recognition in the balance sheet of a liability for future lease payments, and of an asset for the

associated rights of use). Application of IFRS 16 will also require a change in the presentation of lease expenses both in the income statement (i.e. depreciation and interest expense) and in the statement of cash flows (the amount allocated to repayment of the liability will be reported as a cash outflow from financing activities, while the amount allocated to the asset will be reported as a cash outflow from investing activities). IFRS 16 is applicable to annual reporting periods beginning on or after January 1, 2019. The impacts of IFRS 16 are currently under review.

*Amendments to IAS 7: Disclosure Initiative*

The amendments to IAS 7 require companies to provide information about changes in their financing liabilities and come as a response to requests from investors for information that helps them better understand changes in a company's debt. The amendments will help investors to evaluate changes in liabilities arising from financial activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments will be effective from annual periods commencing on or after 1 January 2017. The Company is currently assessing the impact of these amendments

*Amendments to IFRS2: Classification and measurement of share-based payment transactions*

The amendments clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based transactions with a net settlement feature for withholding tax obligations, and a modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments will be effective from annual periods commencing on or after 1 January 2018. The Company is currently assessing the impact of these amendments.

*Annual Improvements to IFRS (2014-2016)*

These improvements include:

- *IFRS 12 Disclosure of Interests in Other Entities*
- *IAS 28 Investments in associates and joint ventures*

These improvements will be effective from annual periods commencing on or after 1 January 2018. Based on the preliminary analysis performed, these improvements are not expected to have a significant impact on the Company's financial statements.

*IFRIC 22 Foreign Currency Transactions and Advance Considerations*

IFRIC Interpretation 22 address the exchange rate to use in transactions that involve advance considerations paid or received in a foreign currency. The interpretation will be effective from annual periods commencing on or after 1 January 2018. The Company is currently assessing the impact of these amendments.

## **2.3. Summary of significant accounting policies**

***Functional currencies and translation of financial statements denominated in currencies other than the U.S. dollar***

The Consolidated Financial Statements are presented in U.S. dollars, which is also the functional currency of Sequans Communications S.A. The Company uses the U.S. dollar as its functional currency due to the high percentage of revenues, cost of revenue, capital expenditures and operating costs, other than those related to headcount and overhead, which are denominated in U.S. dollars. Each subsidiary determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

As at the reporting date, the assets and liabilities of each subsidiary are translated into the presentation currency of the Company (the U.S. dollar) at the rate of exchange in effect at the Statement of Financial Position date and their Statement of Operations are translated at the weighted average exchange rate for the reporting period. The exchange differences arising on the translation are taken directly to a separate component of equity ("Cumulative translation adjustments").

### ***Foreign currency transactions***

Foreign currency transactions are initially recognized by Sequans Communications S.A. and each of its subsidiaries at their respective functional currency rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange in effect at the reporting date. All differences are taken to the Consolidated Statement of Operations within financial income or expense. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transactions.

The table below sets forth, for the periods and dates indicated, the average and closing exchange rate for the U.S. dollar (USD) to the euro (EUR), the U.K. pound sterling (GBP), the Singapore dollar (SGD) and the New Israeli shekel (NIS):

|                   | USD/EUR | USD/GBP | USD/SGD | USD/NIS |
|-------------------|---------|---------|---------|---------|
| December 31, 2014 |         |         |         |         |
| Average rate      | 1.3288  | 1.6474  | 0.7894  | 0.2800  |
| Closing rate      | 1.2141  | 1.5587  | 0.7561  | 0.2572  |
| December 31, 2015 |         |         |         |         |
| Average rate      | 1.1096  | 1.5285  | 0.7278  | 0.2573  |
| Closing rate      | 1.0887  | 1.4834  | 0.7062  | 0.2563  |
| December 31, 2016 |         |         |         |         |
| Average rate      | 1.1066  | 1.3555  | 0.7244  | 0.2605  |
| Closing rate      | 1.0541  | 1.2312  | 0.6919  | 0.2604  |

### ***Earnings (loss) per share***

Basic earnings (loss) per share amounts are computed using the weighted average number of shares outstanding during each period.

Diluted earnings per share include the effects of dilutive options and warrants as if they had been exercised.

### ***Revenue recognition***

The Company's total revenue consists of product revenue and other revenue.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured and when the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized.

#### ***Product revenue***

Substantially all of the Company's product revenue is derived from the sale of semiconductor solutions for 4G wireless broadband applications.

Revenue from the sale of products is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and when no continuing managerial involvement to the degree usually associated with ownership nor effective control over the sale of products is retained, which usually occurs on shipment of the goods. Products are not sold with a right of return but are covered by warranty. Although the products sold have embedded software, the Company believes that software is incidental to the products it sells.

#### ***Other revenue***

Other revenue consists of the sale of licenses to use the Company's technology solutions and fees for the associated annual software maintenance and support services, as well as the sale of technical support and development services. Development services include advanced technology development services for technology partners and product development and integration services for customers, and wireless operators.

Revenue from the sale of licenses is recognized when (i) there is a legally binding arrangement with the customer, (ii) the software has been delivered (assuming no other significant obligations exist), (iii) collection of the resulting receivable is

probable and (iv) the amount of fees is fixed and determinable. If any of these criteria are not met, revenue recognition is deferred until such time as all of the criteria are met. If the contract for a licensing agreement includes a clause allowing for free updates if and when available and if fair value for this post-contract customer support cannot be determined at the time the contract is signed, the revenue is recognized over the life of the contract.

Revenue from the sale of software maintenance and support services is recognized over the period of the maintenance (generally one year). When the first year of maintenance is included in the software license price, an amount equal to the negotiated rate for one year of maintenance is deducted from the value of the license and recognized as revenue over the period of maintenance as described above. The difference between license and maintenance services invoiced and the amount recognized in revenue is recorded as deferred revenue.

Revenue from technical support and development services is generally recognized using the percentage-of-completion method when the outcome of the contract can be estimated reliably. This occurs when total contract revenue and costs can be estimated reliably and it is probable that the economic benefits associated with the contract will flow to the Company and the stage of contract completion can be measured. In certain circumstances, when no incremental costs exist, revenue is recognized based on the achievement of contract milestones. The costs associated with these arrangements are recognized as incurred; no costs have been capitalized or deferred. Revenue from development contracts where no related incremental costs were identified amounted to \$4,252,000 for the year ended December 31, 2016 (\$2,636,000 in 2015 and \$1,707,000 in 2014).

In the case of multiple arrangements, the Company evaluates each component to determine whether they represent separate units of accounting, each with its own separate earnings process, and its relative fair value.

### ***Cost of revenue***

Cost of product revenue includes all direct and indirect costs incurred with the sale of products, including shipping and handling. Cost of other revenue includes incremental costs incurred to support the obligations covered by development services contracts (mainly employees and subcontractors costs). Research and development costs associated with product development (including normal customer support which generates product improvement) are recorded in research and development expenses.

### ***Research and development costs***

Research costs are expensed as incurred. Development costs are recognized as an intangible asset if the Company can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the asset and use or sell it;
- its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of adequate resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure during development.

The asset is tested for impairment annually.

Prior to January 1, 2015, all research and development costs were charged directly to expense in the Statement of Operations. Beginning in the year ended December 31, 2015, some development costs met the criteria for capitalization and have been recorded as intangible assets. (See Note 8 to the Consolidated Financial Statements). The Company operates in a highly innovative, dynamic and competitive sector. Therefore, the costs incurred from the point when the criteria for capitalization are met to the point when the product is made generally available on the market were not material prior to January 1, 2015. Beginning in 2015, certain development costs incurred at the end of the product development cycle when the criteria for capitalization are met, became material as the Company began making its product available on more operator networks which require significant testing and qualification work in order to finalize the product for sale on that network.

Research and development costs associated with product development (including normal customer support which generates product improvements) is recorded in operating expense. In some cases, the Company has negotiated agreements with customers and partners whereby the Company provides certain development services beyond its normal practices or planned product roadmap. Amounts received from these agreements are recorded in other revenue. Incremental costs incurred by the Company as a result of the commitments in the agreements are recorded in cost of other revenue. Other research and

development costs related to the projects covered by the agreements, but which would have been incurred by the Company without the existence of such agreements are recorded in research and development expense.

***Government grants, loans and research tax credits***

The Company operates in certain jurisdictions which offer government grants or other incentives based on the qualifying research expense incurred or to be incurred in that jurisdiction. These incentives are recognized as the qualify research expense is incurred if there is reasonable assurance that all related conditions will be complied with and the grant will be received. When the grant relates to an expense item, it is recognized as a reduction of the related expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Any cash received in advance of the expenses being incurred is recorded as a liability.

Some long-term research project are also financed through low-interest forgivable loans. The present value of foregivable loans is calculated based on expected future payments discounted using interest rate applied for standard loans with same maturity. The difference between present value and amount received is accounted for as a grant.

Where loans or similar assistance provided by governments or related institutions are interest-free, the present value is calculated based on expected future payments discounted using interest rate applied for standard loans with same maturity. The difference between present value and amount received is accounted for as a grant.

The Company also benefits from research incentives in the form of tax credits which are detailed in Note 4.4 to the Consolidated Financial Statements. When the incentive is available only as a reduction of taxes owed, such incentive is accounted for as a reduction of tax expense; otherwise, it is accounted for as a government grant with the benefit recorded as a reduction of research and development expenses.

***Financial income and expense***

Financial income and expense include:

- interest expense related to financial debt (financial debt consists of finance-lease liabilities, accounts receivable financing, the debt component of convertible debt and government loans, and a supplier payable with extended payment terms);
- other expenses paid to financial institutions for financing operations;
- foreign exchange gains and losses
- changes in fair value of financial assets and liabilities.

The Company reflects foreign exchange gains and losses related to hedges of euro-based operating expenses in operating expenses.

***Taxation***

***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

***Deferred income tax***

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except with respect to taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forwards of unused tax credits and unused tax losses can be utilized.

**Sequans Communications S.A.**  
**Notes to the Consolidated Financial Statements—(Continued)**

Deferred tax is computed based on the temporary difference that exists between tax and accounting basis for non-monetary items.

The carrying amount of deferred income tax assets is reviewed at the reporting date and adjusted to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax relating to items recognized directly in equity is recognized in equity.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right of offset exists.

*Value added tax*

Revenue, expenses and assets are recognized net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

Value added tax recoverable consists of value added tax paid by the Company to vendors and suppliers located in the European Union and recoverable from the tax authorities. Value added tax recoverable is collected on a quarterly basis.

*Inventories*

Inventories consist primarily of the cost of semiconductors, including wafer fabrication, assembly, testing and packaging; components; and modules purchased from subcontractors. Inventories are valued at the lower of cost (determined using the weighted average cost method) or net realizable value (estimated market value less estimated cost of completion and the estimated costs necessary to make the sale).

The Company writes down the carrying value of its inventories for estimated amounts related to the lower of cost or market value, obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value. The estimated market value of the inventory is based on historical usage and assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions on a product-by-product basis. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

*Financial assets*

*Receivables*

Receivables are initially recognized at fair value, which in most cases approximates the nominal value as the Company does not grant payment terms beyond normal business conditions. If there is any subsequent indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the receivable's original effective interest rate) is recorded in operating income (loss). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed. In that case, the reversal of the impairment loss is reported in operating income (loss).

*Short-term investments*

Short-term investments are money market funds with an initial maturity of greater than 90 days, but less than one year, and are reported as current financial assets.

**Sequans Communications S.A.**  
**Notes to the Consolidated Financial Statements—(Continued)**

*Deposits*

Deposits are reported as non-current financial assets (loans and receivables) when their initial maturity is more than twelve months.

*Cash and cash equivalents*

Cash and cash equivalents in the Consolidated Statements of Financial Position includes cash at banks, term deposits and money market funds, which correspond to highly liquid investments readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

*Property, plant and equipment*

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is computed using the straight-line method over the estimated useful lives of each component. The useful lives most commonly used are the following:

|                                     |              |
|-------------------------------------|--------------|
| Machinery and equipment             | 3 to 5 years |
| Building and leasehold improvements | 6 years      |
| Computer equipment                  | 3 years      |
| Furniture and office equipment      | 5 years      |

Impairment tests are performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any indication exists, the Company estimates the asset's recoverable amount, which is the higher of the fair value less cost to sell and the value in use. Where the carrying amount exceeds that recoverable amount, the asset is considered impaired and it is written down to its recoverable amount.

Depreciation expense is recorded in cost of revenue or operating expenses, based on the function of the underlying assets.

*Intangible assets*

Intangible assets, primarily purchased licenses for development or production technology and tools, as well as standard-related patent licenses, are stated at cost less accumulated amortization and any accumulated impairment loss. Amortization is computed using the straight-line method over the estimated useful life of each component, which generally is the life of the license or five years in the case of perpetual licenses.

Useful lives are reviewed on a regular basis and changes in estimates, when relevant, are accounted for on a prospective basis. The amortization expense is recorded in cost of revenue or operating expenses, based on the function of the underlying assets.

Impairment tests are performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any indication exists, the Company estimates the asset's recoverable amount, which is the higher of the fair value less cost to sell and the value in use. Where the carrying amount exceeds that recoverable amount, the asset is considered impaired and it is written down to its recoverable amount.

*Leases*

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest expense and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the Statement of Operations on a straight line basis over the lease term.

*Costs of Public Offerings*

Incremental costs directly attributable to the equity transaction are recorded as a deduction from equity.

### ***Provisions***

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in operating income (loss) net of any reimbursement.

Provisions include the provision for pensions and post-employment benefits. Pension funds in favor of employees are maintained in France, the United Kingdom, Singapore, the United States and Israel, and they comply with the respective legislation in each country and are financially independent of the Company. The pension funds are generally financed by employer and employee contributions and are accounted for as defined contribution plans with the employer contributions recognized as expense as incurred. There are no actuarial liabilities in connection with these plans.

French law also requires payment of a lump sum retirement indemnity to employees based on years of service and annual compensation at retirement. Benefits do not vest prior to retirement. This defined benefit plan is self-funded by the Company. It is calculated as the present value of estimated future benefits to be paid, applying the projected unit credit method whereby each period of service is seen as giving rise to an additional unit of benefit entitlement, each unit being measured separately to build up the final obligation. Following the application of IAS 19 revised, actuarial gains and losses are recognized in equity. The actualization rate is based on iBoxx Corporates AA.

### ***Share-based payment transactions***

Employees (including senior executives) and certain service providers of the Company receive remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions is measured by reference to the fair value at the date on which they are granted. The exercise price is based on closing market price on the date of grant.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the beneficiary become fully entitled to the award (the “vesting date”). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The Statement of Operations charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

### ***Financial liabilities***

#### ***Convertible debt***

As described in Note 14.1 to the Consolidated Financial Statements, the Company issued debt with an option to convert into shares of the Company. This option component has been accounted for as an embedded derivative and recorded as a financial liability:

- On the date of issue, the fair value of the embedded derivative is estimated based on a Black-Scholes valuation model. The debt component equals the present value of future contractual cash flows for a similar instrument with the same conditions (maturity, cash flows) excluding any option or any obligation for conversion or redemption in shares.
- Subsequently, the debt component is accounted for based on amortized cost, using the effective interest rate calculated at the date of issue and the embedded derivative is accounted as financial liability, with changes in fair value recognized in the statement of income until the date when the conversion rate is fixed. At this date, the fair value of the derivative - if not exercised - is reclassified in equity.

Costs incurred related to the convertible debt are deducted from the liability component and from the embedded derivative, proportionally. The part related to the embedded derivative has been recognized in the Consolidated Statements of Operations in “Other financial expenses”.

*Short-term debt secured by accounts receivables*

As described in Note 14.3 to the Consolidated Financial Statements, the Company has a factoring agreement with a French financial institution. The Company transfers to the finance company all invoices issued to qualifying customers, and the customers are instructed to settle the invoices directly with the finance company. Consequently, the Company retains all receivables on its Consolidated Statements of Financial Position until they are paid and any amounts drawn on the line of credit are reflected in short-term debt. The Company pays a commission on the face value of the accounts receivable submitted, which is recorded in General and Administration expense, and pays interest on any draw-down of the resulting line of credit.

***Derivative financial instruments and hedge accounting***

The Company uses financial instruments, including derivatives such as foreign currency forward and options contracts, to reduce the foreign exchange risk on cash flows from firm and highly probable commitments denominated in euros. The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is immediately accounted for in financial results in the Consolidated Statement of Operations. Amounts recognized as other comprehensive income are transferred to the Consolidated Statement of Operations when the hedged transaction affects profit or loss. If the forecasted transaction is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the Consolidated Statement of Operations.

All derivative financial instruments are recorded at fair value. Changes in fair value are recorded in current earnings or other comprehensive income, depending on whether the derivative is designated as a hedge, its effectiveness as a hedge, and the type of hedge transaction. Any change in the fair value of the derivatives deemed ineffective as a hedge is immediately recognized in earnings.

***Commitments***

Commitments comprise primarily future operating lease payments and purchase commitments with its third-party manufacturers for future deliveries of equipment and components, which are described in Note 20 to the Consolidated Financial Statements.

**2.4. Significant accounting judgments, estimates and assumptions**

In the process of applying the Company's accounting policies, management must make judgments and estimates involving assumptions. These judgments and estimates can have a significant effect on the amounts recognized in the financial statements and the Company reviews them on an ongoing basis taking into consideration past experience and other relevant factors. The evolution of the judgments and assumptions underlying estimates could cause a material adjustment to the carrying amounts of assets and liabilities as recognized in the financial statements. The most significant management judgments and assumptions in the preparation of these financial statements are:

***Revenue recognition***

The Company's policy for revenue recognition, in instances where multiple deliverables are sold contemporaneously to the same counterparty, is in accordance with paragraph 13 of IAS 18 *Revenue*. When the Company enters into contracts for the sale of products, licenses, maintenance and support services and development services, the Company evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting, each with its own separate earnings process, and its relative fair value. When the Company enters into contracts for development services for which revenues are recognized as the project advances, the Company evaluates the percentage of completion of the project. Such determinations (identification of deliverables, fair value evaluation of each component and percentage of completion evaluation for development contracts) require judgment and are based on an analysis of the facts and circumstances surrounding the transactions.

***Inventories***

As disclosed in Note 2.3 to the Consolidated Financial Statements, the Company writes down the carrying value of its inventory to the lower of cost or net realizable value which approximates estimated market value. The estimated market value of the inventory is based on historical usage and assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions on a product-by-product basis. Actual demand may differ from the forecast established by the Company, which may materially impact recorded inventory values and cost of revenue.

### ***Share-based compensation***

As disclosed in Note 13 to the Consolidated Financial Statements, the Company has various share-based compensation plans for employees and non-employees that may be affected, as to the expense recorded in the Consolidated Statements of Operations, by changes in valuation assumptions. Fair value of stock options is estimated by using the binomial model on the date of grant based on certain assumptions, including, among others expected volatility, the expected option term and the expected dividend payout rate. Prior January 1, 2015, the assumption as to volatility had been determined by reference to the historical volatility of similar entities (using a selection of publicly-traded semiconductor companies). Beginning in 2015, the assumption had been based on the Company's historical volatility since its initial public offering in 2011. The fair value of the Company's shares underlying stock option grants equals to the closing price on the New York Stock Exchange on the date of grant.

### ***Provision***

As disclosed in Note 16 to the Consolidated Financial Statements, in the year ended December 31, 2015, the Company was subject to a tax audit on research tax credit that could have resulted in tax re-assessment, with respect to the tax regime applied 2014. Based on the Company's assessment of the potential exposure in this dispute, the Company recorded a provision for potential tax adjustments or penalties while the Company contested the proposed tax adjustments. In 2016 the audit was concluded and the final assessment was not significantly different from the provision recorded.

### ***Fair value of financial instruments***

Fair value corresponds to the quoted price for listed financial assets and liabilities. Where no active market exists, the Company establishes fair value by using a valuation technique determined to be the most appropriate in the circumstances, for example:

- available-for-sale assets: comparable transactions, multiples for comparable transactions, discounted present value of future cash flows;
- loans and receivables, financial assets at fair value through profit and loss: net book value is deemed to be approximately equivalent to fair value because of their relatively short holding period;
- trade payables: book value generally is deemed to be equivalent to fair value because of their relatively short holding period. Trade payables with extended payment terms are discounted to present value;
- convertible debt and embedded derivative: Company's convertible debt has optional redemption periods/dates occurring before their contractual maturity, as described in Notes **14.1** to the Company's Consolidated Financial Statements. The holder of the convertible debt has the right to request conversion at any time from their issue. Specifically and as described in Note **14.1** to the Consolidated Financial Statements, the option component of the convertible debt has been recorded as an embedded derivative at fair value in accordance with the provisions of AG 28 of IAS 39 *Financial Instruments: Recognition and Measurement*. The fair value was determined using a valuation model that requires judgment, including estimating the change in value of the Company at different dates and market yields applicable to the Company's straight debt (without the conversion option). The assumptions used in calculating the value of the conversion represent the Company's best estimates based on management's judgment and subjective future expectations, and
- Other derivatives: fair value based on mark to market value.

### **3. Segment information**

The Company has one operating segment, which is the design and marketing of semiconductor components for 4G broadband wireless systems. All information required to be disclosed under IFRS 8 *Operating Segments* is shown in the Consolidated Financial Statements and these associated Notes.

Sales to external customers disclosed below are based on the geographical location of the customers. The following table sets forth the Company's total revenue by region for the periods indicated. The Company categorizes its total revenue geographically based on the location to which it invoices.

**Sequans Communications S.A.**  
**Notes to the Consolidated Financial Statements—(Continued)**

|                                     | <b>Europe,<br/>Middle East,<br/>Africa</b> | <b>Americas</b> | <b>Asia</b> | <b>Total</b> |
|-------------------------------------|--|-----------------|-------------|--------------|
|                                     | <b>(in thousands)</b>                      |                 |             |              |
| <b>Year ended December 31, 2014</b> |  |                 |             |              |
| Total revenue                       |  |                 |             |              |
| Sales to external customers         | \$ 101                                     | \$ 2,517        | \$ 19,984   | \$ 22,602    |
| <b>Year ended December 31, 2015</b> |  |                 |             |              |
| Total revenue                       |  |                 |             |              |
| Sales to external customers         | \$ 3,635                                   | \$ 3,954        | \$ 24,943   | \$ 32,532    |
| <b>Year ended December 31, 2016</b> |  |                 |             |              |
| Total revenue                       |  |                 |             |              |
| Sales to external customers         | \$ 5,593                                   | \$ 6,669        | \$ 33,317   | \$ 45,579    |

The substantial majority of the Company's non-current assets are held by the parent company, Sequans Communications S.A. and located in France. See Note 19.3 to these Consolidated Financial Statements for information about major customers.

#### **4. Other revenues and expenses**

##### **4.1. Financial income and expenses**

Financial income:

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2014</b>                    | <b>2015</b> | <b>2016</b> |
|  | <b>(in thousands)</b>          |             |             |
| Income from short-term investments and term deposits and other finance revenue | \$ 125                         | \$ 26       | \$ 48       |
| Foreign exchange gain  | 1,246                          | 1,769       | 2,069       |
| Total financial income   | \$ 1,371                       | \$ 1,795    | \$ 2,117    |

Financial expenses:

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2014</b>                    | <b>2015</b> | <b>2016</b> |
|  | <b>(in thousands)</b>          |             |             |
| Interests on loans and finance leases                            | \$ 34                          | \$ 1,401    | \$ 3,212    |
| Interests on supplier payable with extended payment terms        | —                              | —           | 411         |
| Other bank fees and financial charges                            | 111                            | 141         | 111         |
| Other financial expenses   | —                              | 145         | 83          |
| Change in the fair value of convertible debt embedded derivative | —                              | 2,036       | 1,583       |
| Foreign exchange loss  | 1,128                          | 1,520       | 1,476       |
| Total financial expenses   | \$ 1,273                       | \$ 5,243    | \$ 6,876    |

For the year ended December 31, 2016, interest on loans and finance leases included \$3,039,000 related to convertible debts issued in 2016 and 2015 and government loans granted in 2015 (\$1,350,000 for the year ended December 31, 2015). (See Note 14.1 to the Consolidated Financial Statements).

The net foreign exchange gain of \$593,000 for the year ended December 31, 2016 (2015: net foreign exchange gain \$249,000; 2014: net foreign exchange gain \$118,000) arises primarily from euro-based monetary assets.

For the years ended December 31, 2016 and 2015, expenses of \$1,583,000 and \$2,036,000, respectively, were recognized, related to the change in fair value of the convertible debt embedded derivative. (See Note 14.1 to the Consolidated Financial Statements). Other financial expenses of \$83,000 and \$145,000 for the years ended December 31, 2016 and 2015, respectively, correspond to costs related to the embedded derivative.

#### 4.2. Cost of revenue and operating expenses

The tables below present the cost of revenue and operating expenses by nature of expense :

|  | Note | Year ended December 31, |           |           |
|--|------|-------------------------|-----------|-----------|
|  |      | 2014                    | 2015      | 2016      |
| (in thousands)                         |      |                         |           |           |
| Included in cost of revenue:           |      |                         |           |           |
| Cost of components                     |      | \$ 13,213               | \$ 15,343 | \$ 20,277 |
| Depreciation and impairment            | 7    | 682                     | 905       | 1,270     |
| Amortization of intangible assets      | 8    | —                       | —         | 157       |
| Wages and benefits                     |      | 756                     | 1,571     | 2,374     |
| Share-based payment expense            | 13   | 47                      | 17        | 11        |
| Assembly services, royalties and other |      | 1,083                   | 1,615     | 1,507     |
|  |      | \$ 15,781               | \$ 19,451 | \$ 25,596 |

|   | Note | Year ended December 31, |           |           |
|---|------|-------------------------|-----------|-----------|
|   |      | 2014                    | 2015      | 2016      |
|   |      | (in thousands)          |           |           |
| Included in operating expenses (between gross profit and operating result): |      |                         |           |           |
| Depreciation and impairment   | 7    | \$ 2,829                | \$ 2,472  | \$ 1,811  |
| Amortization of intangible assets   | 8    | 1,790                   | 1,897     | 2,057     |
| Wages and benefits  |      | 23,787                  | 20,436    | 22,615    |
| Share-based payment expense   | 13   | 1,230                   | 850       | 1,111     |
| Foreign exchange gains and losses related to hedges of euro                 |      | —                       | 296       | 12        |
| Other   |      | 11,245                  | 10,767    | 12,121    |
|   |      | \$ 40,881               | \$ 36,718 | \$ 39,727 |

#### 4.3. Employee benefits expense

|   | Note | Year ended December 31, |           |           |
|---|------|-------------------------|-----------|-----------|
|   |      | 2014                    | 2015      | 2016      |
|   |      | (in thousands)          |           |           |
| Wages and salaries                            |      | \$ 18,555               | \$ 16,555 | \$ 18,996 |
| Social security costs and other payroll taxes |      | 5,787                   | 5,219     | 5,805     |
| Other benefits                                |      | 112                     | 93        | 100       |
| Pension costs                                 |      | 89                      | 140       | 88        |
| Share-based payment expenses                  | 13   | 1,277                   | 867       | 1,122     |
| Total employee benefits expense               |      | \$ 25,820               | \$ 22,874 | \$ 26,111 |

The amount recognized as an expense for defined contributions plans amounts to \$1,077,000 for the year ended December 31, 2016 (\$1,137,000 and \$957,000 for the years ended December 31, 2014 and 2015, respectively).

#### **4.4. Research and development expense and tax credit receivable**

The research tax credit in France is deducted from corporate income taxes due; if taxes due are not sufficient to cover the full amount of the credit, the balance is received in cash three years later (one year later if the Company is below certain size criteria). Total research tax credit receivable as of December 31, 2016 is \$1,901,000, relating to tax credits receivables for 2016, which are expected to be recovered in 2017 in cash.

The Company also has research tax credits available in the United Kingdom. In May 2015, the United Kingdom tax authorities made inquiries regarding the calculation method used in 2014 and discussions with the authorities were ongoing at December 31, 2015. As described in Note 16 to the Consolidated Financial Statements, the Company had decided to record a provision for risk related to the 2014 tax credit and had opted to calculate the 2015 tax credit using a less favorable regime pending outcome of the inquiry. In 2016, the audit was concluded and the final assessment was not significantly different from the provision.

The reduction of research and development expense from government grants, research tax credit and development costs capitalized was as follows:

|  | Year ended December 31, |                  |                  |
|--|-------------------------|------------------|------------------|
|  | 2014                    | 2015             | 2016             |
|  | (in thousands)          |                  |                  |
| Research and development costs         | \$ 33,043               | \$ 29,528        | \$ 30,022        |
| Research tax credit                    | (4,047)                 | (2,658)          | (1,962)          |
| Government grants                      | (362)                   | (1,179)          | (1,704)          |
| Development costs capitalized          | —                       | (386)            | (22)             |
| Total research and development expense | <u>\$ 28,634</u>        | <u>\$ 25,305</u> | <u>\$ 26,334</u> |

#### **5. Income tax**

The major components of income tax expense are:

|   | Year ended December 31, |        |        |
|---|-------------------------|--------|--------|
|   | 2014                    | 2015   | 2016   |
|   | (in thousands)          |        |        |
| Consolidated Statement of Operations                                    |                         |        |        |
| Current income tax  | \$ 197                  | \$ 311 | \$ 272 |
| Deferred income tax   | (35)                    | 6      | 12     |
| Income tax expense reported in the Consolidated Statement of Operations | \$ 162                  | \$ 317 | \$ 284 |

A reconciliation of income taxes computed at the French statutory rate (34.43% from the year ended December 31, 2014, 2015 and 2016) to the income tax expense (benefit) is as follows:

|  | Year ended December 31, |               |               |
|--|-------------------------|---------------|---------------|
|  | 2014                    | 2015          | 2016          |
|  | (in thousands)          |               |               |
| Accounting profit (loss) before income tax                               | \$ (33,962)             | \$ (27,085)   | \$ (24,503)   |
| At France's statutory income tax rate of 34.43%                          | (11,693)                | (9,325)       | (8,436)       |
| Non-deductible share-based payment expense                               | 440                     | 299           | 386           |
| Tax credits  | (1,393)                 | (915)         | (676)         |
| Unrecognized benefit of tax loss carryforwards and permanent differences | 12,808                  | 10,258        | 9,010         |
| Income tax expense reported in the Consolidated Statement of Operations  | <u>\$ 162</u>           | <u>\$ 317</u> | <u>\$ 284</u> |

As of December 31, 2016 the Company had accumulated tax losses which arose in France of \$186,872,000 that are available for offset against future taxable profits of Sequans Communications S.A within a limit of one million euro per year, plus 50% of the profit exceeding this limit. Remaining unapplied losses would continue to be carried forward indefinitely.

Deferred tax assets were recognized in 2014, 2015 and 2016 only to the extent that deferred tax liabilities existed in the same jurisdiction.

As non-monetary assets and liabilities are measured in their functional currency and the Company taxable profit is determined in another currency, deferred tax has to be computed based on the temporary difference that exists between tax and accounting basis. Company's analysis led to a deferred tax liability of \$264,000 which has been recognized and offset by a deferred tax asset, computed on accumulated tax losses, of an equivalent amount.

## 6. Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing net income (loss) for the year attributable to all shareholders of the Company by the weighted average number of all shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the exercise of all the dilutive stock options and warrants. Dilution is defined as a reduction of earnings per share or an increase of loss per share. As the exercise of all outstanding stock options and warrants would decrease loss per share, they are considered to be anti-dilutive and excluded from the calculation of loss per share.

The following reflects the income and share data used in the basic and diluted earnings (loss) per share computations:

|   | Year ended December 31,                         |             |             |
|---|---|-------------|-------------|
|   | 2014  | 2015        | 2016        |
|   | (in thousands, except share and per share data) |             |             |
| Profit (Loss)   | \$ (34,124)                                     | \$ (27,402) | \$ (24,787) |
| Weighted average number of shares outstanding for basic EPS   | 59,141,716                                      | 59,144,905  | 63,805,442  |
| Net effect of dilutive stock options                          | —   | —           | —           |
| Net effect of dilutive warrants                               | —   | —           | —           |
| Weighted average number of shares outstanding for diluted EPS | 59,141,716                                      | 59,144,905  | 63,805,442  |
| Basic earnings (loss) per share                               | \$ (0.58)                                       | \$ (0.46)   | \$ (0.39)   |
| Diluted earnings (loss) per share                             | \$ (0.58)                                       | \$ (0.46)   | \$ (0.39)   |

## 7. Property, plant and equipment

Property, plant and equipment include:

|                                  |                    | <u>Leasehold<br/>improvements</u> | <u>Plant and<br/>equipment</u> | <u>IT and office<br/>equipment</u> | <u>Total</u>     |
|----------------------------------|--------------------|-----------------------------------|--------------------------------|------------------------------------|------------------|
| (in thousands)                   |                    |                                   |                                |                                    |                  |
| Cost:                            |                    |                                   |                                |                                    |                  |
|                                  | At January 1, 2014 | \$ 1,380                          | \$ 19,540                      | \$ 4,221                           | \$ 25,141        |
| Additions                        |                    | 1,060                             | 4,133                          | 486                                | 5,679            |
| Disposals                        |                    | (1,114)                           | (70)                           | (388)                              | (1,572)          |
| Exchange difference              |                    | (13)                              | (81)                           | (19)                               | (113)            |
| At December 31, 2014             |                    | 1,313                             | 23,522                         | 4,300                              | 29,135           |
| Additions                        |                    | —                                 | 1,713                          | 85                                 | 1,798            |
| Disposals                        |                    | —                                 | (4)                            | (1)                                | (5)              |
| Exchange difference              |                    | (14)                              | (64)                           | (19)                               | (97)             |
| At December 31, 2015             |                    | 1,299                             | 25,167                         | 4,365                              | 30,831           |
| Additions                        |                    | 34                                | 2,549                          | 78                                 | 2,661            |
| Disposals                        |                    | —                                 | (345)                          | (643)                              | (988)            |
| Exchange difference              |                    | (30)                              | (221)                          | (51)                               | (302)            |
| At December 31, 2016             |                    | <u>\$ 1,303</u>                   | <u>\$ 27,150</u>               | <u>\$ 3,749</u>                    | <u>\$ 32,202</u> |
| Depreciation and impairment:     |                    |                                   |                                |                                    |                  |
|                                  | At January 1, 2014 | \$ 1,306                          | \$ 13,392                      | \$ 3,821                           | \$ 18,519        |
| Depreciation charge for the year |                    | 189                               | 2,827                          | 495                                | 3,511            |
| Disposals                        |                    | (1,114)                           | (69)                           | (361)                              | (1,544)          |
| Exchange difference              |                    | (6)                               | (47)                           | (41)                               | (94)             |
| At December 31, 2014             |                    | 375                               | 16,103                         | 3,914                              | 20,392           |
| Depreciation charge for the year |                    | 208                               | 2,904                          | 296                                | 3,408            |
| Disposals                        |                    | —                                 | (1)                            | (1)                                | (2)              |
| Exchange difference              |                    | (5)                               | (40)                           | (38)                               | (83)             |
| At December 31, 2015             |                    | 578                               | 18,966                         | 4,171                              | 23,715           |
| Depreciation charge for the year |                    | 214                               | 2,678                          | 189                                | 3,081            |
| Disposals                        |                    | —                                 | (346)                          | (641)                              | (987)            |
| Exchange difference              |                    | (9)                               | (140)                          | (117)                              | (266)            |
| At December 31, 2016             |                    | <u>\$ 783</u>                     | <u>\$ 21,158</u>               | <u>\$ 3,602</u>                    | <u>\$ 25,543</u> |
|                                  | At January 1, 2014 | \$ 74                             | \$ 6,148                       | \$ 400                             | \$ 6,622         |
| At December 31, 2014             |                    | 938                               | 7,419                          | 386                                | 8,743            |
| At December 31, 2015             |                    | 721                               | 6,201                          | 194                                | 7,116            |
| At December 31, 2016             |                    | <u>\$ 520</u>                     | <u>\$ 5,992</u>                | <u>\$ 147</u>                      | <u>\$ 6,659</u>  |

The cost of equipment purchased under capital leases included in tangible assets totaled \$346,000 at December 31, 2015 and \$730,000 at December 31, 2014. Accumulated amortization of this equipment totaled \$337,000 at December 31, 2015 and \$512,000 at December 31, 2014. There was no equipment purchased under capital leases at December 31, 2016.

**Sequans Communications S.A.**  
**Notes to the Consolidated Financial Statements—(Continued)**

**8. Intangible assets**

Intangible assets include:

|                                     | <b>Licenses and other<br/>intangible assets</b> |
|-------------------------------------|---|
|                                     | <b>(in thousands)</b>                           |
| <b>Cost:</b>                        |   |
| At January 1, 2014                  | \$ 12,732                                       |
| Additions                           | 560   |
| Disposals                           | (8)   |
| Exchange difference                 | (12)  |
| At December 31, 2014                | 13,272  |
| Additions                           | 3,686   |
| Disposals                           | —   |
| Exchange difference                 | (12)  |
| At December 31, 2015                | 16,946  |
| Additions                           | 4,836   |
| Disposals                           | (3,620)   |
| Exchange difference                 | (47)  |
| At December 31, 2016                | <u>\$ 18,115</u>                                |
| <b>Depreciation and impairment:</b> |   |
| At January 1, 2014                  | \$ 8,053  |
| Amortization                        | 1,790   |
| Disposals                           | (3)   |
| Exchange difference                 | (8)   |
| At December 31, 2014                | 9,832   |
| Amortization                        | 1,867   |
| Disposals                           | —   |
| Exchange difference                 | (8)   |
| At December 31, 2015                | 11,691  |
| Amortization                        | 2,214   |
| Disposals                           | (3,468)   |
| Exchange difference                 | (29)  |
| At December 31, 2016                | <u>\$ 10,408</u>                                |
| <b>Net book value:</b>              |   |
| At January 1, 2014                  | \$ 4,679  |
| At December 31, 2014                | 3,440   |
| At December 31, 2015                | 5,255   |
| At December 31, 2016                | <u>\$ 7,707</u>                                 |

Prior January 1, 2015, the only intangible assets recorded in the Consolidated Statements of Financial Position were acquired licenses for technology used primarily in the product development process, as no development costs had been capitalized. For the years ended December 31, 2015 and 2016, the Company identified certain external development costs that met the criteria for capitalization (see note 4.4).

## 9. Inventories

|   | At December 31,  |                 |                  |
|---|------------------|-----------------|------------------|
|   | 2014             | 2015            | 2016             |
|   | (in thousands)   |                 |                  |
| Components  | \$ 3,192         | \$ 1,486        | \$ 4,686         |
| Finished goods (at lower of cost or net realizable value) | 8,809            | 5,519           | 6,975            |
| Total inventories at cost                                 | <u>\$ 12,001</u> | <u>\$ 7,005</u> | <u>\$ 11,661</u> |
| Depreciation of components (at cost)                      | \$ 595           | \$ 268          | \$ 277           |
| Depreciation of finished goods                            | 2,207            | 2,672           | 2,691            |
| Total depreciation  | <u>\$ 2,802</u>  | <u>\$ 2,940</u> | <u>\$ 2,968</u>  |
| Components, net   | \$ 2,597         | \$ 1,218        | \$ 4,409         |
| Finished goods, net                                       | 6,602            | 2,847           | 4,284            |
| Total net inventories                                     | <u>\$ 9,199</u>  | <u>\$ 4,065</u> | <u>\$ 8,693</u>  |

In the year ended December 31, 2014, the Company decided to depreciate all WiMAX inventory (components and finished goods) except units to serve the remaining expected demand for identified customers and projects. This resulted in a provision of \$1,884,000 included in the Consolidated Statements of Operations in “Cost of product revenue.”

In the year ended December 31, 2015, the Company sold a portion of the WiMAX inventory but decided to depreciate the remaining WiMAX finished goods inventory as the previously anticipated demand from identified customers and projects was canceled, reduced or delayed. This resulted in a provision of \$760,000 included in the Consolidated Statements of Operations in “Cost of product revenue.”

In the year ended December 31, 2016, there was no significant change in the provision on components and finished goods.

## 10. Trade receivables

Trade receivables are non-interest bearing and are generally on 30-90 day payment terms.

|                                 | At December 31, |                  |                  |
|---------------------------------|-----------------|------------------|------------------|
|                                 | 2014            | 2015             | 2016             |
|                                 | (in thousands)  |                  |                  |
| Trade receivables               | \$ 9,611        | \$ 16,345        | \$ 14,427        |
| Unbilled revenue                | 137             | 740              | 1,624            |
| Unissued credit notes           | (34)            | —                | (138)            |
| Provisions on trade receivables | (1,965)         | (588)            | (628)            |
| Net trade receivables           | <u>\$ 7,749</u> | <u>\$ 16,497</u> | <u>\$ 15,285</u> |

The movements in the provision for impairment of receivables were as follows:

|                     | December 31,    |               |               |
|---------------------|-----------------|---------------|---------------|
|                     | 2014            | 2015          | 2016          |
|                     | (in thousands)  |               |               |
| At January 1,       | \$ 1,720        | \$ 1,965      | \$ 588        |
| Charge for the year | 295             | 15            | 40            |
| Utilized amounts    | (50)            | (1,392)       | —             |
| At year end         | <u>\$ 1,965</u> | <u>\$ 588</u> | <u>\$ 628</u> |

**Sequans Communications S.A.**  
**Notes to the Consolidated Financial Statements—(Continued)**

As at year end, the aging analysis of trade receivables that were not impaired is as follows:

|                      | Total     | Neither past<br>due nor<br>Impaired | Past due but not impaired |            |             |           |
|----------------------|-----------|-------------------------------------|---------------------------|------------|-------------|-----------|
|                      |           |                                     | <30 days                  | 30-60 days | 60-120 days | >120 days |
|                      |           |                                     | (in thousands)            |            |             |           |
| At December 31, 2014 | 7,749     | 5,420                               | 1,873                     | 4          | 76          | 376       |
| At December 31, 2015 | \$ 16,497 | \$ 12,589                           | \$ 3,520                  | \$ 138     | \$ 250      | \$ —      |
| At December 31, 2016 | \$ 15,285 | \$ 12,995                           | \$ 412                    | \$ 374     | \$ 1,494    | 10        |

## 11. Cash and cash equivalents

|                           | At December 31,  |                 |                  |
|---------------------------|------------------|-----------------|------------------|
|                           | 2014             | 2015            | 2016             |
|                           | (in thousands)   |                 |                  |
| Cash at banks             | \$ 1,998         | \$ 2,408        | \$ 8,765         |
| Cash equivalents          | 10,331           | 5,880           | 11,437           |
| Cash and cash equivalents | <u>\$ 12,329</u> | <u>\$ 8,288</u> | <u>\$ 20,202</u> |

Cash at banks earns no interest. Cash equivalents in money market funds are invested for short-term periods depending on the immediate cash requirements of the Company, and earn interest at market rates for short-term investments. The fair value of cash and cash equivalents is equal to book value. Most of the cash and cash equivalents is held in U.S. dollar and euros as follows:

|                                       | At December 31,  |                 |                  |
|---------------------------------------|------------------|-----------------|------------------|
|                                       | 2014             | 2015            | 2016             |
|                                       | (in thousands)   |                 |                  |
| U.S. dollar denominated accounts      | \$ 12,088        | \$ 7,352        | \$ 19,122        |
| Euro denominated accounts             | 74               | 826             | 949              |
| GBP denominated accounts              | 47               | 15              | 23               |
| SGP denominated accounts              | 47               | 31              | 53               |
| NIS denominated accounts              | 27               | 25              | 36               |
| RMB denominated accounts              | 30               | 18              | 2                |
| Other currencies denominated accounts | 16               | 21              | 17               |
| Cash and cash equivalents             | <u>\$ 12,329</u> | <u>\$ 8,288</u> | <u>\$ 20,202</u> |

## 12. Issued capital and reserves

The share capital of Sequans Communications S.A. is denominated in euros, as required by law in France. Any distributions to shareholders are denominated in euros. Amounts of capital and reserves presented in the Consolidated Statements of Financial Position in U.S. dollars have been translated using historical exchange rates.

### *Authorized capital, in number of shares*

Authorized capital includes all shares issued as well as all potential shares which may be issued upon exercise of stock options, founders warrants, other warrants and restricted share awards, or which the shareholders have otherwise authorized for specific capital increases. December 31, 2016, authorized capital was 98,462,155 ordinary shares with a nominal of 0.02 each (80,680,889 and 93,277,508 ordinary shares at December 31, 2014 and 2015, respectively).

There is one category of authorized shares: ordinary shares.

**Sequans Communications S.A.**  
**Notes to the Consolidated Financial Statements—(Continued)**

***Shares issued and fully paid***

|  | At December 31,                       |          |            |          |            |          |
|--|---------------------------------------|----------|------------|----------|------------|----------|
|  | 2014                                  |          | 2015       |          | 2016       |          |
|  | Shares                                | Amount   | Shares     | Amount   | Shares     | Amount   |
|  | (in thousands, except for share data) |          |            |          |            |          |
| Ordinary shares  | 59,144,741                            | € 1,183  | 59,166,741 | € 1,183  | 75,030,078 | € 1,501  |
| Converted to U.S. dollars at historical exchange rates |                                       | \$ 1,568 |            | \$ 1,568 |            | \$ 1,923 |

***Other capital reserves***

Other capital reserves include the cumulated share-based payment expense as of period end, the counterpart of which is in retained earnings (deficit) as the expense is reflected in profit and loss.

***Dividend rights***

Dividends may be distributed from the statutory retained earnings and additional paid-in capital, subject to the requirements of French law and the by-laws of Sequans Communications S.A. There were no distributable retained earnings at December 31, 2014, 2015 or 2016. Dividend distributions by the Company, if any, will be made in euros.

***Capital transactions***

On September 16, 2016, the Company increased its capital in connection with a public offering by issuing 15,151,520 ordinary shares at \$ 1.65 per share. On October 7, 2016, the underwriters purchased an additional 523,916 ordinary shares at the public offering price. The total offering amounted to \$ 25,864,486. \$350,456 were recorded in share capital in the Consolidated Statement of Financial Position and \$25,514,030 in share premium. Costs directly attributable to the equity transaction amounting to approximately \$2.3 million were deducted from the share premium.

In the years ended December 31, 2014, 2015 and 2016, ordinary shares were issued upon exercise of options and warrants as described in Note 13 to the Consolidated Financial Statements.

**13. Share-based payment plans**

The expense recognized for employee and other services received during the year ended December 31, 2016 and arising from equity-settled share-based payment transactions was \$1,122,000 (2014: \$1,276,000; 2015: \$867,000). Of this total, \$14,000 in 2016 (2014: \$4,000; 2015: \$13,000), related to warrants plans for consultants considered equivalent to employees.

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during the years ended December 31, 2014, 2015 or 2016.

***General employee stock option, founders warrant plans and restricted shares awards***

All employees of the French parent company and its subsidiaries are entitled to a grant of stock options or restricted shares awards. Founders warrants were granted to residents of France prior to the Company's IPO. Founders warrants are a specific type of option available to qualifying young companies in France and had more favorable tax treatment for both the employee and the employer compared to stock options. Otherwise, founders warrants function in the same manner as stock options.

In general, vesting of the founders warrants and stock options occurs over four years, with 25% vesting after the first anniversary of grant and the remaining 75% vesting monthly over the remaining 36 months. From time to time, vesting may be linked to employee performance. Restricted shares awards (RSA) vest over four years, with either 25% vesting after the one-year anniversary of the grant and the remaining 75% of the grant vesting quarterly over the remaining three years, or with 50% vesting after the two-year anniversary of the grant and the remaining 50% vesting quarterly over the remaining two years. Restricted shares may be sold only after two years.

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**Notes to the Consolidated Financial Statements—(Continued)**

All expenses related to these plans have been recorded in the Consolidated Statement of Operations in the same line items as the related employees' cash-based compensation.

***Warrant plans for certain consultants considered equivalent to employees***

The Company awards warrants to a limited number of consultants who have long-term relationships with the Company and who are considered equivalent to employees. Vesting may be either on a monthly basis over a two-year, three-year or four-year period, or may be immediate, depending on the nature of the service contract. All expenses related to these plans have been recorded in the Consolidated Statements of Operations in the same line items as the related service provider's cash-based compensation.

Founders warrants, stock options, warrants and restricted share awards give the right to acquire ordinary shares. Following completion of the initial public offering of the Company's shares, the exercise price for options and warrants is based on the closing market price on the date of grant. There is no exercise price for restricted share awards; the beneficiary receives title to the underlying ordinary shares with no cash payment at the end of the vesting period. In general, the contractual life of the founders warrants, stock options and warrants is ten years. There are no cash settlement alternatives and the Company has not developed a practice of cash settlement.

***Movements in the periods presented***

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, founders warrants, stock options, warrants and restricted shares awards during the period:

|   | December 31, |         |           |         |           |         |
|---|--------------|---------|-----------|---------|-----------|---------|
|   | 2014         |         | 2015      |         | 2016      |         |
|   | Number       | WAEP    | Number    | WAEP    | Number    | WAEP    |
| Outstanding at January 1,   | 5,319,848    | \$ 4.50 | 6,455,048 | \$ 3.93 | 7,428,931 | \$ 3.58 |
| Granted during the year   | 1,318,800    | \$ 1.47 | 1,321,850 | \$ 1.74 | 1,278,070 | \$ 1.91 |
| Forfeited during the year   | (168,498)    | \$ 3.18 | (325,967) | \$ 3.01 | (317,880) | \$ 2.97 |
| Exercised during the year <sup>(1)</sup>                          | (15,102)     | \$ 1.34 | (22,000)  | \$ 1.70 | (187,901) | \$ 1.53 |
| Expired during the year   | —            |         | —         |         | (389,000) | \$ 3.12 |
| Outstanding at period end   | 6,455,048    | \$ 3.93 | 7,428,931 | \$ 3.58 | 7,812,220 | \$ 3.41 |
| <i>Of which, warrants for consultants equivalent to employees</i> | 369,798      | \$ 3.54 | 369,798   | \$ 3.38 | 404,798   | \$ 3.23 |
| Exercisable at period end   | 3,923,600    | \$ 5.18 | 4,691,741 | \$ 4.69 | 5,049,015 | \$ 4.28 |
| <i>Of which, warrants for consultants equivalent to employees</i> | 351,798      | \$ 3.49 | 360,798   | \$ 3.44 | 360,215   | \$ 3.41 |

(1) The weighted average share estimated fair value at the dates of exercise of these options was \$2.21 in 2016, \$1.73 in 2015 and \$2.70 in 2014.

Prior to the initial public offering in April 2011, exercise prices were denominated in euros. Since the IPO, exercise prices are denominated in U.S. dollars. Euro-denominated exercise prices have been converted to U.S. dollars at the historical exchange rate for purposes of presentation in this table.

The weighted average remaining contractual life of founders warrants, stock options, restricted shares and warrants outstanding as at December 31, 2016 was 7.0 years (2015 : 6.3 years; 2014: 6.7 years).

The range of exercise prices, with euro-denominated exercise prices converted to U.S. dollars at the year-end exchange rate, for founders warrants, stock options, and warrants outstanding at December 31, 2016, 2015 and 2014 was \$1.20—\$8.50.

The weighted average fair value of founders warrants, stock options, warrants and restricted shares awards granted during the year ended December 31, 2016 was €1.31 (2015: €0.84 ; 2014: €0.47). The fair value is measured at the grant date. The following table lists the inputs to the models used for determining the value of the grants made for the years ended December 31, 2014, 2015 and 2016:

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**Notes to the Consolidated Financial Statements—(Continued)**

|   | December 31, |             |                |
|---|--------------|-------------|----------------|
|   | 2014         | 2015        | 2016           |
| Dividend yield (%)                              | —            | —           | —              |
| Expected volatility (%)                         | 43 - 44      | 68 - 70     | 63 - 69        |
| Risk-free interest rate (%)                     | 0.70 - 1.66  | 0.34 - 0.87 | 0.00 - 0.47    |
| Assumed annual lapse rate of options (%)        | 10           | 10          | 10 (5 for RSA) |
| Sell price multiple (applied to exercise price) | 2            | 2           | 2              |
| Weighted average share price (€)                | 1.13         | 1.59        | 1.76           |
| Model used                                      | Binomial     | Binomial    | Binomial       |

Prior to January 1, 2015, as the Company had a short history of being publicly traded, it was not practicable to determine the volatility of the underlying shares based on the Company's own experience. Therefore, as allowed by Appendix B (paragraphs 26 to 29) of IFRS2 *Share-based Payment*, the historical volatility of similar entities (a selection of publicly-traded semiconductor companies) after a comparable period in such companies' lives was used). For the years ended December 31, 2016 and 2015 the assumption has been based on the Company's volatility.

Founders warrants, stock options, restricted shares and warrants can be exercised during a period after the vesting date until the plan terminates. In the pricing model, the assumption was made that plan participants will exercise before the end of the exercise period if the share price reaches a certain multiple of the exercise price.

If a sell-price multiple of 3 instead of 2 had been used and if the weighted average share price used in the pricing model had been decreased by 10%, share-based payment total compensation for founders warrants, stock options, warrants and restricted shares awards granted through December 31, 2016 would have decreased by approximately 7.09% (2015: 3.57%; 2014: 10.25%).

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

#### **14. Interest-bearing loans and borrowings**

|  |      | At December 31, |                  |                  |
|--|------|-----------------|------------------|------------------|
|  | Note | 2014            | 2015             | 2016             |
|  |      | (in thousands)  |                  |                  |
| Current                                |      |                 |                  |                  |
| Convertible debt embedded derivative   | 14.1 | \$ —            | \$ 6,091         | \$ —             |
| Finance lease obligation               | 14.2 | 202             | 12               | —                |
| Interest-bearing receivables financing | 14.3 | 2,133           | 6,472            | 7,712            |
| Total current portion                  |      | <u>\$ 2,335</u> | <u>\$ 12,575</u> | <u>\$ 7,712</u>  |
| Non-current                            |      |                 |                  |                  |
| Convertible debt and accrued interest  | 14.1 | \$ —            | \$ 8,984         | \$ 16,338        |
| Finance lease obligation               | 14.2 | 9               | —                | —                |
| Total non-current portion              |      | <u>\$ 9</u>     | <u>\$ 8,984</u>  | <u>\$ 16,338</u> |

As of December 31, 2016, the Company had no drawn or undrawn committed borrowing or overdraft facilities in place.

#### 14.1. Convertible debt

On April 14, 2015, the Company entered into a convertible note agreement with Nokomis Capital, L.L.C., one of the Company's existing shareholders, regarding the issuance and sale of a convertible note in the principal amount of \$12 million (the "2015 note", which note shall be convertible into the Company's American Depositary Shares ("ADSs"), each representing one ordinary share, nominal value €0.02 per share, at a conversion rate of 540.5405 ADSs for each \$1,000 principal amount of the 2015 note, subject to certain adjustments, which equates to an initial conversion price of \$1.85 per ADS.

On April 27, 2016, the Company entered into a convertible note agreements with Nokomis Capital, L.L.C. and two other financial institutions (the "Holders") regarding the issuance and sale of convertible notes in the aggregate principal amount of \$7.16 million (the "2016 notes"), which are convertible into the Company's ADS. The conversion price of the 2016 notes is \$2.7126 per ADS.

The 2015 note and the 2016 notes (together, "the Notes") are unsecured obligation of the Company, will mature on the third anniversary of the issuance dates and are not redeemable prior to maturity at the option of the Company. The accreted principal amount of the notes are convertible at any time or times on or after the issuance dates until maturity, in whole or in part, subject to certain adjustments for significant corporate events, including dilutive issuances, dividends, stock splits and other similar events. Interest accrues on the unconverted portion of the notes at the rate of 7% per year, paid in kind annually on the anniversaries of the issuance of the Notes. The notes also provide for customary events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the notes to become or to be declared due and payable.

In the event of a recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets or other transaction, which in each case results in the Company's shareholders receiving stock, securities or assets with respect to or in exchange for their ADSs or ordinary shares, the holders shall elect, at their option, either (a) to require the Company to repurchase for cash the entire accreted principal amount of the Notes or (b) to convert the Notes in their entirety.

The notes contain customary ongoing covenants of the Company. In addition, the notes provide that the Company will not grant a consensual security interest or pledge its personal property assets to a third party lender (with certain limited exceptions) during the time that the notes are outstanding. Any amendment or waiver of the terms of the notes requires the affirmative consent of the holders.

Due to the potential adjustment of the conversion rate of the 2015 note during the first twelve months of the term under certain conditions, and of the 2016 notes during the period beginning on April 28, 2016 and ending on May 12, 2016, the notes were accounted for as compound financial instruments with two components:

- A liability component reflecting the Company's contractual obligation to pay interest and redeem the bonds in cash; and
- An embedded derivative, which is the Holders' call option whereby the Company can be required to issue a number of shares in exchange for notes at a rate which may vary during the first twelve months after issuance of the 2015 Note and during the period beginning on April 28, 2016 and ending on May 12, 2016 for the 2016 Notes.

The initial fair value of the Notes was split between these two components.

The fair value of the liability component on the issuance date represents the fair value of a similar liability that does not have an associated equity conversion feature, calculated as the net present value of contractually determined future cash flows, discounted at the rate of interest applied by the market at the time of issue to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The Company has used 24.26% as the market rate of interest in order to value the liability component of the 2015 note and 25.69% for the 2016 notes.

The embedded derivatives of the notes were valued using the Black-Scholes valuation model. On April 14, 2015, the initial fair value of the embedded derivative of the 2015 note was calculated to be \$4,055,000. The change in fair value was remeasured and recorded as financial income or loss at each balance sheet date and on the date on which the conversion price became fixed: April 14, 2016. At December 31, 2015, the recalculated fair value was \$6,091,000 and the change of this fair value of \$2,036,000 for the year ended December 31, 2015 was recorded in the Consolidated Statement of Operations. On April 14, 2016, when the conversion rate of the 2015 notes was fixed, the fair value of the embedded derivative was calculated to be

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**Notes to the Consolidated Financial Statements—(Continued)**

\$8,324,000. The change in fair value was recorded as financial expense and the fair value of the embedded derivative was transferred from liabilities to Other Capital Reserves in shareholders' equity.

The fair value of the embedded derivative of the 2016 notes on the issuance date of April 27, 2016 was calculated to be \$2,597,000 and was recalculated to be \$1,947,000 when the conversion rate of the 2016 Notes was fixed on May 12, 2016. The change in fair value was recorded as financial income in the year ended December 31, 2016 and the value of the embedded derivative as of May 12, 2016 was transferred from liabilities to Other Capital Reserves in shareholders' equity.

#### **14.2. Finance lease obligation**

In June 2012, the Company entered into a finance lease agreement with a French financial institution whereby the Company had the possibility to finance acquisitions of qualifying equipment with a total purchase price of up to €1,500,000 (\$1,918,000), through finance leases which are reimbursed over a 36-month period at an effective rate of interest of 4.6%. The finance lease obligation was secured by pledged money market funds with the financial institution equal to one-third of the original principal financed. This agreement expired February 28, 2013. The outstanding debt was secured by \$51,000 at December 31, 2015 (\$240,000 at December 31, 2014) in pledged money market funds, which was included in available-for-sale financial assets.

The finance lease obligations were reimbursed in full by December 31, 2016.

#### **14.3. Interest-bearing financing of receivables**

In June 2014, the Company entered into a factoring agreement with a French financial institution whereby a line of credit was made available equal to 90% of the face value of accounts receivable from qualifying customers. The Company transfers to the finance company all invoices issued to qualifying customers, and the customers are instructed to settle the invoices directly with the finance company. The Company pays a commission on the face value of the accounts receivable submitted and interest at the rate of 1.20% (LIBOR 3 months +0.75%) in 2015 and 1.60% (LIBOR 3 months +1%) from September 30, 2016 on any draw-down of the resulting line of credit. In the event that the customer does not pay the invoice within 60 days of the due date, the receivable is excluded from the line of credit, and recovery becomes the Company's responsibility. At December 31, 2016, \$7,712,000 (\$6,472,000 at December 31, 2015 and \$2,133,000 at December 31, 2014) had been drawn on the line of credit and recorded as a current borrowing.

#### **15. Government grant advances and loans**

|                            |      | December 31,    |                 |                 |
|----------------------------|------|-----------------|-----------------|-----------------|
|                            | Note | 2014            | 2015            | 2016            |
|                            |      | (in thousands)  |                 |                 |
| Current                    |      |                 |                 |                 |
| Government grant advances  | 15.1 | \$ 603          | \$ 916          | \$ 390          |
| Government loans           | 15.3 | —               | —               | 211             |
| Total current portion      |      | <u>\$ 603</u>   | <u>\$ 916</u>   | <u>\$ 601</u>   |
| Non-current                |      |                 |                 |                 |
| Government grant advances  | 15.1 | \$ 360          | \$ 587          | \$ 197          |
| Research project financing | 15.2 | 3,647           | 2,889           | 3,223           |
| Government loans           | 15.3 | —               | 1,851           | 1,571           |
| Accrued interest           | 15.2 | 6               | 58              | 153             |
| Total non-current portion  |      | <u>\$ 4,013</u> | <u>\$ 5,385</u> | <u>\$ 5,144</u> |

##### **15.1. Government grant advances**

In 2014, the Company was named as a participant in one new collaborative projects with funding of €176,000 (\$227,000), which is expected to be released to the Consolidated Statement of Operations over the life of the project, estimated to be between one and two years.

In 2015, the Company was named as a participant in two new collaborative projects with funding of €816,000 (\$909,000), which is expected to be released to the Consolidated Statement of Operations over the life of the project, estimated to be between one and two years.

In 2016, the Company was named as a participant in one new collaborative project with funding of €121,000 (\$131,000), which is expected to be released to the Consolidated Statement of Operations over the life of the project, estimated to be between one and four years

### **15.2. Research project financing**

In October 2014, Bpifrance, one of the Company's shareholder and the financial agency of the French government, provided funding to the Company in the context of a long-term research project, estimated to be completed over a 3-year period. In December 2016, Bpifrance and the Company signed an amendment to extend the period from three to four years. The total funding remains unchanged and amounts to €6,967,000 (\$8,988,000) comprising a portion in the form of a grant (€2,957,000 or \$3,815,000) and a portion in the form of a forgivable loan (€4,010,000 or \$5,173,000). The funding will be paid in three installments: the first tranche at the contract signature date, the second and the third installments after milestones defined in the contract. The grant will be recognized as a reduction of research and development expense when corresponding expense is incurred. The forgivable loan advance will be repaid, except if the project is in commercial failure, from June 30th, 2018 to June 30th, 2020 and bears interests at a 1.53% fixed contractual rate. The difference between the amount of grant received and the present value amounted to a reduction of \$115,000 in the debt carrying value, such difference to be amortized over the contract period. In the event of commercial success, defined as sales in excess of €350 million (\$425 million) of the product developed under this program during a period of three years, then the Company shall pay a bonus to Bpifrance of 1% of annual revenues generated by products issued from the project.

In January 2016, Bpifrance provided a funding to the Company for a new long-term research project, estimated to be completed over a 27-month period. The total of the funding amounts to €2,095,000 (\$2,288,000) comprising a portion in the form of a grant (€668,000 or \$729,000) and a portion in the form of a forgivable loan (€1,427,000 or 1,558,000). The funding will be paid in four installments: the first tranche at the contract signature date, the second, the third and the fourth installments after milestones defined in the contract. The grant will be recognized as a reduction of research and development expense when corresponding expense is incurred. The forgivable loan advance will be repaid, except if the project is in commercial failure, from July 1st, 2019 to July 1st, 2023 and bears interests at a 1.17% fixed contractual rate. The difference between the amount of grant received and the present value amounted to a reduction of \$30,000 in the debt carrying value, such difference to be amortized over the contract period. In the event of commercial success, defined as sales in excess of €3 million (\$3.3 million) of the product developed under this program, then the Company shall pay for 4 consecutive years after the date of the termination of the refund 13% of the revenues generated by the sales of the products or services (up to a maximum of €600,000 or \$655,000 over a period of 10 years).

In 2014, the Company received €2,092,000 (\$2,651,000) as grant and €968,000 (\$1,227,000) as forgivable loan. No funds were received from this project in 2015. In 2016, the Company received for the two foregoing projects €342,000 (\$379,000) as grant and €594,000 (\$642,000) as forgivable loan.

The market rate of interest applied in 2016, 2015 and 2014 was 2.30%. Accrued interest of \$83,000 was recorded as of December 31, 2016 (\$46,000 as of December 2015 and \$6,000 as of December 31, 2014).

### **15.3. Government loans**

In September 2015, the Company received two loans from BPI France for a total amount of €2,000,000 (\$2,228,000). One loan of €1,000,000 bears interest at 5.24% per year, paid quarterly; the second loan of €1,000,000 is interest-free. The interest-free loan has been revalued using the 5.24% interest rate payable on the other loan. Both loans have seven year terms with the principal being amortized on a quarterly basis beginning in June 2017.

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**Notes to the Consolidated Financial Statements—(Continued)**

**16. Provisions**

|                                    | Post-<br>employment<br>benefits | Others        | Total           | Current      | Non-current     |
|------------------------------------|---------------------------------|---------------|-----------------|--------------|-----------------|
|                                    | (in thousands)                  |               |                 |              |                 |
| At January 1, 2014                 | \$ 460                          | \$ 583        | \$ 1,043        | \$ 583       | \$ 460          |
| Arising (released) during the year | 433                             | 842           | 1,275           | —            | —               |
| Released (used) during the year    | —                               | (201)         | (201)           | —            | —               |
| Released (unused) during the year  | —                               | (341)         | (341)           | —            | —               |
| At December 31, 2014               | 893                             | 883           | 1,776           | 548          | 1,228           |
| Arising (released) during the year | (165)                           | 670           | 505             | —            | —               |
| Released (used) during the year    | —                               | (467)         | (467)           | —            | —               |
| Released (unused) during the year  | —                               | (101)         | (101)           | —            | —               |
| At December 31, 2015               | 728                             | 985           | 1,713           | 317          | 1,396           |
| Arising (released) during the year | (29)                            | 75            | 46              | —            | —               |
| Released (used) during the year    | (11)                            | (269)         | (280)           | —            | —               |
| Released (unused) during the year  | —                               | (127)         | (127)           | —            | —               |
| At December 31, 2016               | <u>\$ 688</u>                   | <u>\$ 664</u> | <u>\$ 1,352</u> | <u>\$ 46</u> | <u>\$ 1,306</u> |

The provision for post-employment benefits is for the lump sum retirement indemnity required to be paid to French employees. The comprehensive income of the year includes \$ 121,000 of actuarial gain (actuarial loss of \$215,000 in 2015 and actuarial gain of \$425,000 in 2014). One employee has retired during the year ended December 31, 2016. No employee retired in 2015 or 2014.

The main assumptions used in the calculation are the following:

|                                      | 2014                           | 2015                           | 2016                           |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Discount rate                        | 1.49%                          | 2.03%                          | 1.31%                          |
| Salary increase                      | 3%                             | 3%                             | Between 1.5% and 3.5%          |
| Retirement age                       | 60-62. years                   | 60-62 years                    | 60-62 years                    |
| Turnover: depending on the seniority | 3.32%, nil as from 64 year old | 3.32%, nil as from 64 year old | 4.35%, nil as from 64 year old |

In May 2015, the Company was notified by the United Kingdom tax authorities of inquiries regarding the calculation method used in 2014 UK research tax credit. As described in Note 4.4 to the Consolidated Financial Statements, in the year ended December 31, 2015, the Company recorded a provision for risk related to the UK tax credit in the amount of £170,000 (\$252,000). In May 2016, the review was finalized and the assessment was not significant different from the amount accrued. In 2014, the Company canceled a final shipment of components from a supplier and was invoiced a contractual penalty of \$507,000. The Company had recorded the full amount as a provision, which has been recorded in G&A expense. In the year ended December 31, 2015, the supplier and the Company came to an agreement to reduce this penalty to \$402,000 and the amount was paid during 2015.

At December 31, 2014, 2015 and 2016, “Other provisions” include primarily estimated royalty payments assessed on sales of modules to holders of patents which may be deemed as essential under the requirements of the LTE standard. The royalty provision is based on management’s judgment, taking into consideration the various articles, reports, industry discussions on the subject which were available, and is recorded in the cost of product revenue. The Company’s modules are considered as final products incorporating the full LTE function, and therefore may have royalties assessed on their sale; no royalties are accrued on the sales of chips as the full LTE functionality is not included in the chip. In the year ended December 31, 2016, the Company revised the estimated royalty provision and reduced provisions from 2014 and 2015 by a total of \$127,000.

## 17. Other non-current liabilities

|                                     | At December 31, |          |          |
|-------------------------------------|-----------------|----------|----------|
|                                     | 2014            | 2015     | 2016     |
|                                     | (in thousands)  |          |          |
| Payables                            | \$ —            | \$ 3,257 | —        |
| Deferred tax                        | 2               | 10       | 22       |
| Total other non-current liabilities | \$ 2            | \$ 3,267 | \$ 22    |
| Deferred revenue                    | \$ —            | \$ 1,940 | \$ 1,940 |

In the year ended December 31, 2015, the Company signed a contract with a supplier for a total amount of €5,000,000 (\$5,368,000), to be paid in three installments in 2016 and 2017. The total debt has been recorded for \$4,744,000 corresponding to the discounted value calculated with an interest rate of 8.34% of which \$3,257,000 was recorded as non-current liabilities and \$1,487,000 as trade payables in 2015. At December 31, 2016, the liability was recorded in trade payables.

The first installment of €1,500,000 was due on December 31, 2016, the two others during the year ended 2017. At December 31, 2015, the amount of \$3,257,000 related to the discounted value of the 2017 payments has been recorded as non-current liabilities. At December 31, 2016, the liability was recorded in trade payables.

In December 2015, the Company entered into a contract with a customer for certain development services which resulted in the recognition of deferred revenues for \$1,940,000. As revenues are expected to be recognized subsequent to December 31, 2017, these deferred revenues are presented as non-current liabilities as of December 31, 2016 and 2015 (reclassification from prior year to conform to the presentation as of December 2016).

## 18. Trade payables and other current liabilities

|                                 | At December 31, |          |           |
|---------------------------------|-----------------|----------|-----------|
|                                 | 2014            | 2015     | 2016      |
|                                 | (in thousands)  |          |           |
| Trade payables                  | \$ 11,231       | \$ 9,498 | \$ 18,358 |
| Other current liabilities:      |                 |          |           |
| Employees and social debts      | 3,329           | 3,254    | 3,283     |
| Others                          | 688             | 1,350    | 1,132     |
| Total other current liabilities | \$ 4,017        | \$ 4,604 | \$ 4,415  |
| Deferred revenue                | \$ 314          | \$ 1,222 | \$ 335    |

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are generally settled on 30-day terms.
- Other payables, primarily accrued compensation and related social charges, are non-interest bearing.

In 2015 and 2016, trade payables included the current part of a supplier debt recorded at the discounted value and amounted to \$1,487,000 and \$5,061,000, respectively (see note 17).

In 2014 and 2015, deferred revenue is related to maintenance revenue, recognized over the 12-month maintenance period. In 2015, in addition to deferred maintenance revenue, the Company recognized deferred revenue related to development services agreements. At December 31, 2015, deferred development services revenue totaled \$978,000, which was expected to be recognized during the year ending December 31, 2016.

## 19. Information about financial instruments

### 19.1. Financial assets and liabilities

|   | Carrying amount |           |           | Fair value   |           |           |
|---|-----------------|-----------|-----------|--------------|-----------|-----------|
|   | December 31,    |           |           | December 31, |           |           |
|   | 2014            | 2015      | 2016      | 2014         | 2015      | 2016      |
| (in thousands)  |                 |           |           |              |           |           |
| Financial assets:   |                 |           |           |              |           |           |
| Trade and other receivables   |                 |           |           |              |           |           |
| Trade receivables   | \$ 7,749        | \$ 16,497 | \$ 15,285 | \$ 7,749     | \$ 16,497 | \$ 15,285 |
| Loans and other receivables   |                 |           |           |              |           |           |
| Deposits  | 320             | 345       | 332       | 320          | 345       | 332       |
| Available for sale instruments  |                 |           |           |              |           |           |
| Long-term investments   | 597             | 321       | 310       | 597          | 321       | 310       |
| Cash, cash equivalents and short-term investments                       | 12,489          | 8,681     | 20,547    | 12,489       | 8,681     | 20,547    |
| Total financial assets  | \$ 21,155       | \$ 25,844 | \$ 36,474 | \$ 21,155    | \$ 25,844 | \$ 36,474 |
| Total current   | \$ 20,238       | \$ 25,178 | \$ 35,832 | \$ 20,238    | \$ 25,178 | \$ 35,832 |
| Total non-current   | \$ 917          | \$ 666    | \$ 642    | \$ 917       | \$ 666    | \$ 642    |
| Financial liabilities:  |                 |           |           |              |           |           |
| Interest-bearing loans and borrowings:                                  |                 |           |           |              |           |           |
| Finance lease liability   | 211             | 12        | —         | 211          | 12        | —         |
| Interest-bearing receivables financing                                  | 2,133           | 6,472     | 7,712     | 2,133        | 6,472     | 7,712     |
| Convertible debt and accrued expenses                                   | —               | 8,984     | 16,338    | —            | 8,984     | 16,115    |
| Government loans  | —               | 1,851     | 1,852     | —            | 1,851     | 1,852     |
| Research project financing  | 3,653           | 2,947     | 3,306     | 3,653        | 2,947     | 3,306     |
| Trade and other payables (current and non current)                      | 11,231          | 12,755    | 18,358    | 11,231       | 12,755    | 18,358    |
| Financial instruments at fair value through other comprehensive income: |                 |           |           |              |           |           |
| Cash flow hedges  | 133             | 39        | 150       | 133          | 39        | 150       |
| Financial instruments at fair value through profit and loss:            |                 |           |           |              |           |           |
| Convertible debt embedded derivative                                    | —               | 6,091     | —         | —            | 6,091     | —         |
| Total financial liabilities   | \$ 17,361       | \$ 39,151 | \$ 47,716 | \$ 17,361    | \$ 39,151 | \$ 47,493 |
| Total current   | \$ 13,699       | \$ 22,112 | \$ 26,431 | \$ 13,699    | \$ 22,112 | \$ 26,431 |
| Total non-current   | \$ 3,662        | \$ 17,039 | \$ 21,062 | \$ 3,662     | \$ 17,039 | \$ 21,062 |

The carrying values of current financial instruments (cash and cash equivalents, short-term investments, trade receivables and trade and other payables, and interest-bearing receivables financing) approximate their fair values, due to their short-term nature.

Available for sale long-term investments are primarily related to:

- a bank guarantee secured by pledges of investments in money market funds issued in favor of the owners of leased office space to secure annual lease payments by the Company for its office space in Colombes;
- bank credit lines used in connection with the purchase of hedging instruments and finance lease, also secured by pledged money market funds.

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**Notes to the Consolidated Financial Statements—(Continued)**

New government loans received from the financial agency of the French government were recorded as financial instruments in compliance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

The convertible debts are compound financial instruments. The fair value of the embedded derivative convertible debt was recalculated at the end of each reporting period until the related conversion prices were fixed. At December 31, 2016, as the conversion prices of both convertible debt issues had been fixed during the year, there was no longer any embedded derivative.

***Fair Value Hierarchy***

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at December 31, 2014, the Company held the following financial instruments carried at fair value on the statement of financial position:

***Assets measured at fair value***

|                                 | <u>At December 31,</u><br><u>2014</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------------|---------------------------------------|----------------|----------------|----------------|
|                                 |                                       | (in thousands) |                |                |
| Available-for-sale instruments: |                                       |                |                |                |
| Long-term investments           | \$ 597                                | —              | \$ 597         | —              |

***Liabilities measured at fair value***

|   | <u>At December 31,</u><br><u>2014</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---|---------------------------------------|----------------|----------------|----------------|
|   |                                       | (in thousands) |                |                |
| Financial instruments at fair value through other comprehensive income: |                                       |                |                |                |
| Cash flow hedge   | \$ (133)                              | —              | \$ (133)       | —              |

As at December 31, 2015, the Company held the following financial instruments carried at fair value on the statement of financial position:

***Assets measured at fair value***

|                                 | <u>At December 31,</u><br><u>2015</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------------|---------------------------------------|----------------|----------------|----------------|
|                                 |                                       | (in thousands) |                |                |
| Available-for-sale instruments: |                                       |                |                |                |
| Long-term investments           | \$ 321                                | —              | \$ 321         | —              |

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**Notes to the Consolidated Financial Statements—(Continued)**

***Liabilities measured at fair value***

|   | <u>At December 31,</u><br><u>2015</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---|---------------------------------------|----------------|----------------|----------------|
|   |                                       | (in thousands) |                |                |
| Financial instruments at fair value through other comprehensive income: |                                       |                |                |                |
| Cash flow hedge   | \$ (39)                               | —              | \$ (39)        | —              |
| Financial instruments at fair value through profit and loss:            |                                       |                |                |                |
| Convertible debt embedded derivative                                    | \$ (6,091)                            |                | \$ (6,091)     |                |

As at December 31, 2016, the Company held the following financial instruments carried at fair value on the statement of financial position:

***Assets measured at fair value***

|                                 | <u>At December 31,</u><br><u>2016</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------------|---------------------------------------|----------------|----------------|----------------|
|                                 |                                       | (in thousands) |                |                |
| Available-for-sale instruments: |                                       |                |                |                |
| Long-term investments           | \$ 310                                | —              | \$ 310         | —              |

***Liabilities measured at fair value***

|   | <u>At December 31,</u><br><u>2016</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---|---------------------------------------|----------------|----------------|----------------|
|   |                                       | (in thousands) |                |                |
| Financial instruments at fair value through other comprehensive income: |                                       |                |                |                |
| Cash flow hedge   | \$ (150)                              | —              | \$ (150)       | —              |

**19.2. Financial instruments at fair value**

The Company uses financial instruments, including derivatives such as foreign currency forward and options contracts, to reduce the foreign exchange risk on cash flows from firm and highly probable commitments denominated in euros.

The following tables present fair values of derivative financial instruments at December 31, 2014, 2015 and 2016.

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**Notes to the Consolidated Financial Statements—(Continued)**

|  | At December 31, 2014 |            |
|--|----------------------|------------|
|  | Notional Amount      | Fair value |
|  | (in thousands)       |            |
| Forward contracts (buy U.S. dollars, sell euros) | € 3,000              | \$ (116)   |
| Options (buy euros, sell U.S. dollars)           | 1,500                | (17)       |
| Total  | € 4,500              | \$ (133)   |

|  | At December 31, 2015 |            |
|--|----------------------|------------|
|  | Notional Amount      | Fair value |
|  | (in thousands)       |            |
| Forward contracts (buy euros, sell U.S. dollars) | € 2,300              | \$ (38)    |
| Options (buy euros, sell U.S. dollars)           | 2,500                | (1)        |
| Total  | € 4,800              | \$ (39)    |

|  | At December 31, 2016 |            |
|--|----------------------|------------|
|  | Notional Amount      | Fair value |
|  | (in thousands)       |            |
| Forward contracts (buy euros, sell U.S. dollars) | € 5,750              | \$ (142)   |
| Options (buy euros, sell U.S. dollars)           | 1,500                | (8)        |
| Total  | € 7,250              | \$ (150)   |

The fair value of foreign currency related derivatives are included in the Consolidated Statement of Financial Position in “Other current financial liabilities” for the periods presented. The earnings impact of cash flow hedges relating to forecasted operating expense transactions is reported in operating expense. Realized and unrealized gains and losses on these instruments deemed effective for hedge accounting are deferred in accumulated other comprehensive income until the underlying transaction is recognized in earnings or the instruments are designated as hedges.

During the year ended December 31, 2016, the Company recorded a loss of \$91,000 (gain of \$78,000 and loss of \$114,000 for the years ended December 31, 2015 and 2014, respectively) in other comprehensive income related to the effective portion of the change in fair value of its cash flow hedges. During the year ended December 31, 2016, the amount transferred from other comprehensive income to Consolidated Statement of Operations was a loss of \$44,000 (loss of \$309,000 during the year ended December 31, 2015). During the year ended December 31, 2014, there was no amount transferred from other comprehensive income to Consolidated Statement of Operations.

During the year ended December 31, 2015, the Company recognized a net loss of \$6,000 (gain of \$3,000 for the year ended December 31, 2014) related to the ineffective position of its hedging instrument. There was no ineffective portion of hedging instrument in the year ended December 31, 2016.

The derivatives have maturity dates of less than 12 months. Management believes counterparty risk on financial instruments is minimal since the Company deals with major banks and financial institutions.

The use of different estimations, methodologies and assumptions could have a material effect on the estimated fair value amounts. The methodologies are as follows:

- Cash, cash equivalents, short-term investments, accounts receivable, accounts payable, other receivable and accrued liabilities: due to the short-term nature of these balances, carrying amounts approximate fair value.
- Available for sale long-term investments are composed of debt-based mutual funds with traded market prices. Their fair values amounted to \$597,000, \$321,000 and \$310,000 at December 31, 2014, 2015 and 2016, respectively.
- Foreign exchange forward and option contracts: the fair values of foreign exchange forward and option contracts were calculated using the market price that the Company would pay or receive to settle the related agreements, by reference to published exchange rates.

### 19.3. Financial risk management objectives and policies

The Company's principal financial liabilities comprise trade payables (current and non-current), interest-bearing receivables financing, government loans and convertible debt. The Company has various financial assets such as trade receivables and cash and cash equivalents, which arise directly from its operations, as well as from capital increases.

The main risks arising from the Company's financial instruments are foreign currency risk, credit risk, interest rate risk and cash flow liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

#### **Foreign currency risk**

The Company faces the following foreign currency exposures:

- Transaction risk arising from:
- Operating activities, when revenues or expenses are denominated in different currencies from the functional currency of the entity carrying out these transactions.
- Non derivative monetary financial instruments that are denominated and settled in a currency different from the functional currency of the entity which holds them.

Nearly 100% of total revenues and approximately 88% of total cost of sales are denominated in U.S. dollars. However, as a result of significant headcount and related costs from operations in France, which are denominated and settled in euros (the "structural costs"), the Company has transactional currency exposures which can be affected significantly by movements in the US dollar/euro exchange rates. Approximately 54% of operating expense is denominated in euros. The Company seeks to mitigate the effect of its structural currency exposure by raising capital in euros sufficient to cover euro-based operating expenses. The Company has not used the possibility offered by paragraph 72 of IAS 39 *Financial Instruments: Recognition and Measurement* to designate non-derivative financial assets (cash and cash equivalents plus trade accounts receivables less trade accounts payable, denominated in euro) as a hedging instrument for a hedge of a foreign currency risk (US dollar versus euro fluctuations) corresponding to structural cost related future cash outflows. (See Note 19.2 regarding the hedging arrangement in progress as of December 31, 2016).

If there were a 10% increase or decrease in exchange rate of the U.S. dollar to the euro, the Company estimates the impact, in absolute terms, on operating expenses for the year ended December 31, 2016 would have been approximately \$2.2 million.

#### **Credit risk**

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Company has subscribed to a credit insurance policy which provides assistance in determining credit limits and collection, in addition to some coverage of uncollectible amounts. In addition, receivable balances are monitored on an ongoing basis.

The following table summarizes customers representing a significant portion of the Company's total revenue:

| Customer | Customer Location | % of total revenues for the year ended December 31, |               |               | Accounts receivables at December 31, |              |              |
|----------|-------------------|---|---------------|---------------|--------------------------------------|--------------|--------------|
|          |                   | 2016  | 2015          | 2014          | 2016                                 | 2015         | 2014         |
| A        | Taiwan            | 29%   | —             | —             | \$ 4,870,327                         | \$ —         | —            |
| B        | China             | 15%   | 14%           | 39%           | \$ (100,000)                         | \$ 1,167,000 | 2,552,000    |
| C        | China             | Less than 10%                                       | 27%           | Less than 10% | \$ (3,191)                           | \$ 3,102,000 | \$ 758,000   |
| D        | Taiwan            | —   | 16%           | 12%           | —                                    | \$ 2,222,000 | \$ 1,353,000 |
| E        | China             | —   | Less than 10% | 25%           | \$ —                                 | \$ —         | \$ 1,308,000 |

With respect to credit risk arising from the other financial assets, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Nearly all cash and cash equivalents are held in France at two large and international banks.

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**Notes to the Consolidated Financial Statements—(Continued)**

**Vendor concentration risk**

Access to foundry capacity is critical to the Company's operations as a fabless semiconductor company. The Company depends on a sole independent foundry in Taiwan to manufacture its semiconductor wafers.

**Liquidity risk**

The Company monitors its risk of a shortage of funds using a cash flow planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

|  | Within 1<br>year | 1 to 2<br>years | 2 to 3<br>years  | 3 to 4<br>years | 4 to 5<br>years | More<br>than 5<br>years | Total            |
|--|------------------|-----------------|------------------|-----------------|-----------------|-------------------------|------------------|
| (in thousands)                         |                  |                 |                  |                 |                 |                         |                  |
| <b>At December 31, 2014</b>            |                  |                 |                  |                 |                 |                         |                  |
| Research project financing             | \$ 1,630         | \$ —            | \$ —             | \$ 368          | \$ 719          | \$ 936                  | \$ 3,653         |
| Interest-bearing receivables financing | 2,133            | —               | —                | —               | —               | —                       | 2,133            |
| Finance lease                          | 202              | 9               | —                | —               | —               | —                       | 211              |
| Trade payables                         | 11,231           | —               | —                | —               | —               | —                       | 11,231           |
| Other financial liabilities            | 4,017            | —               | —                | —               | —               | —                       | 4,017            |
|  | <u>\$ 19,213</u> | <u>\$ 9</u>     | <u>\$ —</u>      | <u>\$ 368</u>   | <u>\$ 719</u>   | <u>\$ 936</u>           | <u>\$ 21,245</u> |
| <b>At December 31, 2015</b>            |                  |                 |                  |                 |                 |                         |                  |
| Research project financing             | \$ 1,132         | \$ —            | \$ 330           | \$ 645          | \$ 840          | \$ —                    | \$ 2,947         |
| Interest-bearing receivables financing | 6,472            | —               | —                | —               | —               | —                       | 6,472            |
| Government loans                       | —                | 93              | 370              | 370             | 370             | 648                     | 1,851            |
| Convertible debt and accrued expenses  | —                | —               | 8,984            | —               | —               | —                       | 8,984            |
| Finance lease                          | 39               | —               | —                | —               | —               | —                       | 39               |
| Trade payables                         | 9,498            | 3,257           | —                | —               | —               | —                       | 12,755           |
| Other financial liabilities            | 4,604            | —               | —                | —               | —               | —                       | 4,604            |
|  | <u>\$ 21,745</u> | <u>\$ 3,350</u> | <u>\$ 9,684</u>  | <u>\$ 1,015</u> | <u>\$ 1,210</u> | <u>\$ 648</u>           | <u>\$ 37,652</u> |
| <b>At December 31, 2016</b>            |                  |                 |                  |                 |                 |                         |                  |
| Research project financing             | \$ 1,376         | \$ 631          | \$ 742           | \$ 425          | \$ 19           | \$ 30                   | \$ 3,223         |
| Interest-bearing receivables financing | 7,712            | —               | —                | —               | —               | —                       | 7,712            |
| Government loans                       | 167              | 376             | 373              | 370             | 368             | 198                     | 1,852            |
| Convertible debt and accrued expenses  | —                | —               | 16,338           | —               | —               | —                       | 16,338           |
| Trade payables                         | 18,358           | —               | —                | —               | —               | —                       | 18,358           |
| Other financial liabilities            | 4,415            | —               | —                | —               | —               | —                       | 4,415            |
|  | <u>\$ 32,028</u> | <u>\$ 1,007</u> | <u>\$ 17,453</u> | <u>\$ 795</u>   | <u>\$ 387</u>   | <u>\$ 228</u>           | <u>\$ 51,898</u> |

Company's liquidity risk for the next 12 months is described in note 2.1.

**Capital management**

The primary objective of the Company's capital management is to continue to execute according to its business plans and budgets in order to achieve profitability and positive cash flow, and to maximize shareholder value.

## 20. Commitments and contingencies

### *Contingencies*

From time to time, the Company has been and may become involved in legal proceedings arising in the ordinary course of its business.

Management is not aware of any legal proceedings that, if concluded unfavorably, would have a significant impact of financial position or cash flows.

In May 2015, the United Kingdom tax authorities made inquiries regarding the calculation method used in 2014 UK research tax credit and discussions with the authorities are ongoing. The Company disagreed with tax authorities position and intended to defend its position. As described in Note 16, the Company recorded a provision for risk of £170,000 (\$252,000) related to the 2014 tax credit at December 31, 2015 and opted to calculate the 2015 tax credit using a less favorable regime pending outcome of the inquiry. The UK tax authorities completed their review in 2016 and the final assessment did not differ significantly from the provision recorded.

### *Bank guarantee*

A bank guarantee was issued in favor of the owners of new leased office space in France, in order to secure six months of lease payments, for an amount of \$310,000 as of December 31, 2016. This guarantee was secured by the pledge of certificates of deposit and mutual funds for 100% of the amount of the guarantee. The total value of investments secured to cover this bank guarantee was \$310,000 at December 31, 2016.

### *Operating leases*

The Company has long-term operating leases for office rental. Future minimum undiscounted lease payments under long-term operating leases are as follows:

|   | December 31,   |          |          |
|---|----------------|----------|----------|
|   | 2014           | 2015     | 2016     |
|   | (in thousands) |          |          |
| Within one year                             | \$ 720         | \$ 909   | \$ 879   |
| After one year but not more than five years | 2,898          | 2,358    | 1,932    |
| More than five years                        | 238            | —        | —        |
| Total minimum lease payments                | \$ 3,856       | \$ 3,267 | \$ 2,811 |

Total operating lease expense for the year ended December 31, 2016 was \$1,440,000 (2015: \$1,370,000; 2014: \$1,750,000).

### *Purchase commitments*

December 31, 2016, the Company had \$4.4 million of non-cancelable purchase commitments with its third-party manufacturer and suppliers for future deliveries of equipment and components, principally during the first half of 2017.

## 21. Related party disclosures

There is no single investor who has the ability to control the Board of Directors or the vote on shareholder resolutions. There is one investor who owns in excess of 10% of the share capital of the Company: BPI France Participation – Fonds Large Venture. BPI provided funding to a consortium which includes the Company in the context of a long-term research project (See Note 15.2 Research project financing) and in loans (See Note 19.3 Government loans).

On December 11, 2014, the Board of Directors approved a consulting agreement with Alok Sharma, member of the board of directors, for services in business development and strategy. This agreement was renewed in 2015 and 2016, and expired in July 2016. During the years ended December 31, 2015 and 2016, Mr Sharma earned fees totaling \$155,000 and \$108,000, respectively, under this contract. No consulting fees were paid or accrued during the year ended December 31, 2014.

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**Notes to the Consolidated Financial Statements—(Continued)**

In April 2015 we completed the sale of a \$12 million convertible note, and in April 2016 the sale of a \$7.1 million convertible note, to an affiliate of Nokomis Capital, L.L.C., an investor who owns in excess of 5% of the share capital of the Company, in private placement transactions (See Note **14.1** Convertible debt).

No other transactions have been entered into with these or any other related parties in 2014, 2015 and 2016, other than normal compensation (including share based payment arrangements) for and reimbursement of expenses incurred in their roles as Directors or employees of the Company.

***Compensation of key management personnel***

|  | Year ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2014                    | 2015     | 2016     |
|  | (in thousands)          |          |          |
| Fixed and variable wages, social charges and benefits expensed in the year | \$ 2,237                | \$ 2,112 | \$ 1,896 |
| Share-based payment expense for the year                                   | 591                     | 380      | 490      |
| Board members fees to non-executive members                                | 186                     | 196      | 188      |
| Total compensation expense for key management personnel                    | \$ 3,014                | \$ 2,688 | \$ 2,574 |

Key management personnel comprises the chief executive officer and all executive vice presidents reporting directly to him.

The employment agreement with the chief executive officer calls for the payment of a termination indemnity of an amount equal to one year of his gross annual base remuneration and bonus in the event of his dismissal by the Board of Directors of the Company.

In 2014 through 2016, the Company had in place a consulting agreement with a non-executive board member as described above.

***Directors' interests in an employee share incentive plan***

The Company granted warrants to certain members of the Board of Directors during the years ended December 31, 2014, 2015 and 2016:

- On June 26, 2014, the shareholders authorized the Board of Directors to grant to Messrs. de Pesquidoux, Delfassy, Patterson, Pitteloud, Sharma and Slonimsky 10,000 warrants each and to Mr Maitre 25,000 warrants. On June 26, 2014, the Board used this authorization to make such grants with an exercise price of \$1.77 per ordinary share.
- On June 29, 2015, the shareholders authorized the Board of Directors to grant to Messrs. de Pesquidoux, Maitre, Patterson, Pitteloud, Sharma and Slonimsky 10,000 warrants each. On June 29, 2015, the Board used this authorization to make such grants with an exercise price of \$1.59 per ordinary share.
- On June 28, 2016, the shareholders authorized the Board of Directors to grant to Messrs. de Pesquidoux, Maitre, Pitteloud, Sharma and Slonimsky 20,000 warrants each and to Mr Nottenburg 40,000 warrants. On June 29, 2016, the Board used this authorization to make such grants with an exercise price of \$1.86 per ordinary share.

The board members were required to subscribe to the warrants at a price of €0.01 per warrant, as required by French law. There is no subscription required for founders warrants.

Share-based payment expense incurred in connection with these transactions amounted to \$35,000 in the year ended December 31, 2016 (2015: \$48,000 ; 2014: \$51,000).

**22. Events after the reporting date**

In its meeting of February 7, 2017, the Board of Directors granted 86,250 restricted share awards.