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

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the fiscal year ended December 31, 2020

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the transition period from to

Commission file number: 001-38618

ARLO TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-4061754**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*
3030 Orchard Parkway	
San Jose, California	**95134**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number including area code

(408) 890-3900

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	**ARLO**	**New York Stock Exchange**

Securities registered pursuant to 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☐	Accelerated filer	☑
Non-accelerated filer	☐	Smaller reporting company	☑
		Emerging growth company	☑

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of June 28, 2020 was $161.7 million. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the New York Stock Exchange on June 26, 2020 (the last business day of the Registrant's most recently completed fiscal second quarter). Shares of the registrant's common stock held by each executive officer and director and certain entities that own 15% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant's Common Stock, $0.001 par value, was 80,503,730 shares as of February 19, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2021 annual meeting of stockholders, which will be filed within 120 days of the registrant's fiscal year end, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K ("Form 10-K"), including Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 below, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this Form 10-K, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect" and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in "Risk Factors" in Part I, Item 1A below, and elsewhere in this Annual Report on Form 10-K, including, among other things: health epidemics, including the recent COVID-19 pandemic, and other outbreaks could significantly disrupt our operations; future demand for our products may be lower than anticipated; consumers may choose not to adopt our new product offerings or adopt competing products; the actual price, performance and ease of use of our products may not meet the price, performance and ease of use requirements of consumers; our dependence on certain significant customers; our reliance on a limited number of third-party suppliers and manufacturers; new cyber threats may challenge the effectiveness or threaten the security of our products; the collaboration with Verisure may not be successful; the financial capacity available under the revolving credit line; and the impact and timing of the restructuring plan and our business strategies and development plans may not be successful. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. All forward-looking statements in this Annual Report on Form 10-K are based on information available to us as of the date hereof, such information may be limited or incomplete, and we assume no obligation to update any such forward-looking statements. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements. The following discussion should be read in conjunction with our consolidated financial statements and the accompanying notes contained in this Annual Report on Form 10-K.

Summary of Risk Factors

Below is a summary of the principal factors that make an investment in our common stock speculative or risky. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below under the heading "Item 1A — Risk Factors" in Part I of *this Form 10-K and should be carefully considered, together with other information in this Form 10-K and our other filings with the SEC, before making an investment decision regarding our common stock.*

- The effects of health epidemics, including the recent COVID-19 pandemic, could have an adverse impact on our business, operations and the markets and communities in which we, our partners and customers operate.
- We expect our results of operations to fluctuate on a quarterly and annual basis, which could cause our stock price to fluctuate or decline.
- If we fail to continue to introduce or acquire new products or services that achieve broad market acceptance on a timely basis, or if our products or services are not adopted as expected, we will not be able to compete effectively and we will be unable to increase or maintain revenue and gross margin.
- We obtain several key components from limited or sole sources, and if these sources fail to satisfy our supply requirements or we are unable to properly manage our supply requirements with our third-party manufacturers, we may lose sales and experience increased component costs.
- We may need additional financing to meet our future long-term capital requirements and may be unable to raise sufficient capital on favorable terms or at all.
- Some of our competitors have substantially greater resources than we do, and to be competitive we may be required to lower our prices or increase our sales and marketing expenses, which could result in reduced margins and loss of market share.
- If we lose the services of key personnel, we may not be able to execute our business strategy effectively.
- We entered into an asset purchase agreement (the "Asset Purchase Agreement") and supply agreement (the "Supply Agreement") with Verisure Sàrl ("Verisure") that will give Verisure exclusive marketing and distribution rights for our products in Europe as well as the ability to sell our products through their direct channel globally. We cannot provide assurance that the arrangement with Verisure will be a successful collaboration.
- We are subject to financial and operating covenants in our business financing agreement with Western Alliance Bank (the "Credit Agreement") and any failure to comply with such covenants, or obtain waivers in the event of non-compliance, could limit our borrowing availability under the Credit Agreement, resulting in our being unable to borrow under the Credit Agreement and materially adversely impact our liquidity. In addition, our operations may not provide sufficient cash to meet the repayment obligations of debt incurred under the Credit Agreement.
- We are dependent on information technology systems, infrastructure and data. System security risks, data protection breaches and cyber-attacks could disrupt our products, services, internal operations, or information technology systems, and could lead to theft of our intellectual property, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation, and cause our stock price to decline significantly.
- Our future success depends on our ability to increase sales of our paid subscription services.
- We depend on a limited number of third-party manufacturers for substantially all of our manufacturing needs. If these third-party manufacturers experience any delay, disruption, or quality control problems in their operations, including due to the COVID-19 pandemic, we could lose market share and our brand may suffer.
- If disruptions in our transportation network occur or our shipping costs substantially increase, we may be unable to sell or timely deliver our products, and our operating expenses could increase.

- Interruptions with the cloud-based systems that we use in our operations provided by an affiliate of Amazon.com, Inc. ("Amazon"), which is also one of our primary competitors, may materially adversely affect our business, results of operations, and financial condition.
- Our current and future products may experience quality problems, including defects or errors, from time to time that can result in adverse publicity, product recalls, litigation, regulatory proceedings, and warranty claims resulting in significant direct or indirect costs, decreased revenue, and operating margin, and harm to our brand.

Item 1. Business

Overview

Arlo Technologies, Inc. (“we”, “Arlo” or the “Company”) combines an intelligent cloud infrastructure and mobile app with a variety of smart connected devices that is transforming the way people experience the connected lifestyle. Arlo’s deep expertise in product design, wireless connectivity, cloud infrastructure and cutting-edge AI capabilities focuses on delivering a seamless, smart home experience for Arlo users that is easy to setup and interact with every day. Our cloud-based platform provides users with visibility, insight and a powerful means to help protect and connect in real-time with the people and things that matter most, from any location with a Wi-Fi or a cellular connection. To date, we have launched several categories of award-winning smart connected devices, including wired and wire-free smart Wi-Fi and LTE-enabled cameras, audio and video doorbells, and floodlight cameras. In addition, Arlo’s broad compatibility allows the platform to seamlessly integrate with third-party internet-of-things (“IoT”) products and protocols, such as Amazon Alexa, Apple HomeKit, Apple TV, Google Assistant, IFTTT, Stringify and Samsung SmartThings. Since the launch of our first product in December 2014, we have shipped over 19.2 million smart connected devices, and, as of December 31, 2020, our smart platform had approximately 5.0 million cumulative registered accounts across more than 100 countries around the world. We plan to continue to introduce new smart connected devices to the Arlo platform both in cameras and new categories, increase the number of registered accounts on our platform, keep them highly engaged through our mobile app and generate incremental recurring revenue by offering them paid subscription services.

On February 6, 2018, NETGEAR, Inc. (“NETGEAR”) announced that its board of directors had unanimously approved the pursuit of a separation of its Arlo business from NETGEAR (the “Separation”) to be effected through an initial public offering (the “IPO”) of newly issued shares of the common stock of Arlo, then a wholly owned subsidiary of NETGEAR. On July 6, 2018, the Company filed a registration statement (as amended, the "IPO Registration Statement") relating to the IPO of common stock of Arlo with the U.S. Securities and Exchange Commission (the "SEC"). Following a series of restructuring steps prior to the completion of the IPO of Arlo common stock, the Arlo business was transferred from NETGEAR to Arlo (collectively, the " Contribution").

On August 2, 2018, NETGEAR and Arlo announced the pricing of the IPO of 10,215,000 shares of Arlo’s common stock at a price to the public of $16.00 per share. On August 3, 2018, Arlo’s shares began trading on the New York Stock Exchange under the ticker symbol “ARLO.” On August 7, 2018, the Company completed its IPO of 11,747,250 shares of common stock (including 1,532,250 shares of common stock pursuant to the underwriters’ option to purchase additional shares, which was exercised in full on August 3, 2018), at $16.00 per share, before underwriting discounts and commissions and estimated offering costs. Cash proceeds from the IPO were $173.4 million, net of the portion of the offering cost paid by Arlo, which portion was $1.4 million. The total offering cost was $4.6 million, of which $3.2 million was paid by NETGEAR.

Prior to the completion of the IPO, the Company was a wholly owned subsidiary of NETGEAR and upon the closing of the IPO (including the issuance of additional shares of common stock pursuant to the underwriters' option to purchase additional shares, which was exercised in full) on August 7, 2018, NETGEAR owned approximately 84.2% of the shares of Arlo’s outstanding common stock.

On November 29, 2018, NETGEAR announced that its board of directors had approved a special stock dividend (the “Distribution”) to NETGEAR stockholders of the 62,500,000 shares of Arlo common stock owned by NETGEAR.

The Distribution was made on December 31, 2018 (the "Distribution Date") to all NETGEAR stockholders of record as of the close of business on December 17, 2018 (the "Record Date"). In the Distribution, each NETGEAR stockholder of record on the Record Date received 1.980295 shares of Arlo common stock for every share of NETGEAR common stock held on the Record Date, subject to cash in lieu of fractional shares. The Distribution was intended to qualify as generally tax free to NETGEAR stockholders for U.S. federal income tax purposes. In connection with the Distribution, 62,500,000 shares of Arlo common stock held by NETGEAR were distributed to its stockholders and NETGEAR is no longer considered a related party to the Company.

Market

Our total addressable market consists of individuals and business owners who use connected devices to enhance their lives. Outside of the home, we have seen adoption of our cellular-enabled products in a variety of use cases, such as neighborhood watch, construction site monitoring, wildlife and outdoor trail surveillance and event monitoring. We believe the small business, government and direct home monitoring channels provide growth areas for us in addition to our retail and e-commerce presence. In early 2020, we launched Arlo SmartCloud a Software as a Service (“SaaS”) solution to deliver scalable security cloud services for business. With Arlo SmartCloud, we are extending our platform to partners to help innovate and deploy new opportunities beyond our own camera ecosystem. We believe we are well-positioned to extend our current reach to the broader connected lifestyle market both within and beyond the home as we continue to launch new products and services within our connected lifestyle platform.

Products

Smart Connected Devices

Arlo Q and Arlo Q Plus, released in the fourth quarter of 2015, bring Arlo’s performance and design to an indoor wired solution that allows users to easily monitor their surroundings with 1080p HD video quality. With two-way audio communication, users cannot only watch but also interact with their children, pets or other guests in their home or business. Arlo Q and Arlo Q Plus also feature optional 24/7 recording on a subscription basis. Arlo Q Plus includes the additional functionality of being powered-over-ethernet, which is common for business environments.

Arlo Go, released in the first quarter of 2017, is the world’s first commercially available LTE-enabled wire-free camera and provides untethered mobile security with support by major networks in key markets around the world, including AT&T and Verizon in the United States. Its IP65-rated weather-resistant design, 720p HD video quality, two-way audio and battery-powered operation allow small business owners, construction sites, outdoor enthusiasts and anyone in need of a truly mobile solution to virtually be at any location, anytime, and maintain monitoring capabilities.

Arlo Baby, released in the second quarter of 2017, combines performance and convenience with smart features that give added peace of mind for parents and caregivers. With 1080p HD video quality, air quality and temperature sensors, motion and audio detection, and advanced night vision, parents can be alerted to movement and changes in their child’s environment, and they can also remotely engage with their child using Arlo’s two-way audio feature, play music or custom recordings or even turn on Arlo Baby’s multi-colored night light to soothe their child to sleep. Parents can also easily move Arlo Baby, powered by its rechargeable batteries or by an electrical outlet, to different rooms.

Arlo Chime, released in the third quarter of 2018 and designed to plug into any standard wall outlet and pairs with the Arlo Audio Doorbell to play a variety of ringtones or act as a siren, and even contains a silent mode for those times when users don’t want to be bothered. The Arlo Chime runs on two standard AA batteries which can last up to an entire year based on normal usage and features a weather-resistant exterior finish. For added ease and versatility, users also have the option to connect with their existing door chimes without needing to install any additional hardware or wiring.

Arlo Ultra, released in the first quarter of 2019 and designed with advanced 4K high dynamic range ("HDR") video quality with color night vision, wire-free setup, a 180-degree diagonal field-of-view, an integrated spotlight and crystal-clear two-way audio with advanced noise cancellations, Ultra delivers ultimate peace of mind for anyone looking to monitor their home or business. Users will experience enhanced detail and clarity and are able to zoom in on video clips to uncover details such as license plate and clothing. Ultra delivers one of the widest viewing angles in the wire-free security camera industry. Ultra is paired with a new Arlo SmartHub that functions as the nucleus of the smart home and engineered with Arlo RF™, a proprietary two-way audio frequency technology. Arlo Ultra also includes one year of free Arlo Smart so the users can experience the benefits we deliver.

Arlo Pro 3, released in the third quarter of 2019 and designed to provide home and small business owners with a high-performance, simple, wire-free security solution, Pro 3 features 2K resolution with HDR, an integrated spotlight with color night vision and a super-wide 160-degree field of view. Engineered to work indoors or outdoors, Pro 3 offers advanced image quality for DIY security that anyone can easily install in minutes and monitor from anywhere using the Arlo app. Pro 3 also includes a new Arlo SmartHub that securely manages network traffic to the camera in addition to enhancing power and WiFi performance for better range and battery life. Arlo Pro 3 includes a three-month trial period of Arlo Smart.

Arlo Video Doorbell, released in the fourth quarter of 2019 and designed to capture what traditional video doorbells can't, the new smart entry solution boasts an industry-leading vertical field-of-view, allowing users to get a bigger, more precise picture of their front porch. The Video Doorbell captures footage in a square aspect ratio to allow users to fully view packages on the ground, or visitors from head to toe. It also offers features such as HD resolution image quality along with clear, two-way audio for users to simultaneously see and speak to visitors. Unlike conventional doorbell cameras, the Arlo Video Doorbell delivers direct-to-mobile video calls and personalized alerts when packages, people, vehicles, or animals are detected, allowing for users to quickly reply or take action provided they are an Arlo Smart subscriber or in a trial period. The Arlo Video Doorbell connects to an existing mechanical or digital chime for simple installation and continuous power. Arlo Video Doorbell includes a three-month trial period of Arlo Smart.

Arlo Floodlight Camera, released in the first quarter of 2020 and is the first wire-free variant on the market. The floodlight camera brings powerful LEDs, an integrated 2K HDR camera, 160-degree field of view, two-way audio, custom lighting configurations and a built-in siren to any home or small business. The floodlight camera can automatically measure the amount of surrounding light to allow for true customization for when the floodlight automatically turns on. The floodlight camera also offers three different light patterns – constant, flashing, and pulsating – which users can control manually on-demand or via automation rules. Arlo Floodlight Camera includes a three-month trial period of Arlo Smart.

Arlo Essential Spotlight, released in the second quarter of 2020 and designed with an industry-leading, 180-degree viewing angle with a square, 1:1 aspect ratio that ensures users can see packages on the ground or visitors from head-to-toe on their mobile devices. Arlo Essential Spotlight features HD video resolution combined with direct-to-mobile video calls, clear, two-way audio, an integrated spotlight with color night vision, built in siren and personalized alerts that allow users to quickly reply to guests or take action. Able to connect directly to WiFi, the latest solution can be powered by its rechargeable battery or be hardwired for continuous charging. Arlo Essential Spotlight includes a three-month trial period of Arlo Smart.

Arlo Ultra 2, released in the second quarter of 2020 and designed to deliver an enhanced user experience with improved range, building on advanced features such as 4K video with HDR, an ultra-wide, 180-degree field of view, auto zoom and tracking on moving object with clarity and detail, color night vision allowing you to see video in color rather than traditional black and white, built-in siren that automatically triggered by motion or audio, or manually triggered via the Arlo App and more. Arlo Ultra 2 works with Amazon Alexa, Google Assistant, Apple Homekit, and IFTTT for easy interaction, automation and control. Arlo Ultra 2 includes a three-month trial period of Arlo Smart.

Arlo Essential XL Spotlight, released in the third quarter of 2020 and which features an integrated, wire-free, extended-life battery that works for up to one year on one charge, an integrated spotlight with color night vision, HD video, two-way audio, motion detection alerts and a built-in siren. A direct to a WiFi connection enables the Arlo Essential XL Spotlight camera to function as a stand-alone home security solution without the need for a separate Arlo SmartHub or Base Station. Arlo Essential XL Spotlight includes a three-month trial period of Arlo Smart.

Arlo Essential Wire-Free Video Doorbell, released in the third quarter of 2020, features an easy-to-install, wire-free, battery-powered design. Arlo's latest front-entry solution – which joins a robust ecosystem of home security products and services – captures what conventional video doorbells can't. An industry-leading, 180-degree viewing angle with a square, 1:1 aspect ratio ensures users can see packages on the ground or visitors from head-to-toe on their mobile devices. HD video resolution combined with direct-to-mobile video calls, clear, two-way audio and personalized alerts, allow users to quickly reply to guests or take action. Able to connect directly to WiFi, the latest solution can be powered by its rechargeable battery or be hardwired for continuous charging. Arlo Essential Wire-Free Video Doorbell includes a three-month trial period of Arlo Smart.

Arlo Pro 4 Wire-Free Spotlight, released in the fourth quarter of 2020 and designed with weather resistance, wide 160-degree field of view, 2K video resolution with HDR, and six-month battery life. Pro 4 also includes two-way audio, built-in siren, and integrated spotlight. The updated Pro 4 has the ability to connect directly to home Wi-Fi networks without the need for a dedicated Arlo SmartHub or Base Station, which allows the camera to work as a standalone system for easier installation and setup. Arlo Pro 4 Wire-Free Spotlight camera includes a three-month trial period of Arlo Smart.

Arlo Accessories

Arlo Charging Accessories are designed to offer additional convenient ways to keep Arlo wire-free cameras up and running even longer. With the Arlo Charging Station, users can charge up to two Arlo Pro, Arlo Pro 2 or Arlo Go batteries with fast-charging technology so there is always a battery ready to go. For those looking to eliminate battery swaps entirely, the mountable and weather-resistant Arlo Solar Panel connects to Arlo Pro or Arlo Go cameras to keep batteries charged with just a few hours of direct sunlight.

Arlo Mounts feature innovative designs that allow users to mount their cameras outdoors or indoors, on ceilings or countertops. The Arlo Quadpod is a flexible mount featuring four legs crafted from flexible stainless steel and silicone that allows users to mount their camera even in challenging spots such as tree branches or metal poles.

Arlo Skins allow Arlo owners to customize their Arlo cameras to blend into their environments or add a pop of personality. Popular with outdoor enthusiasts, Arlo Camouflage and Ghillie skins are ultraviolet and water-resistant and made of durable silicone material for easy slip-on, slip-off convenience. Arlo Baby accessory characters add some playfulness to the nursery with fun disguises that turn Arlo Baby cameras into puppies, kittens or bunnies.

The Arlo App

The Arlo app, available for iOS and Android devices, is designed to provide our users with an easy-to-use, flexible, mobile-first experience that connects our users to the people and things that matter most to them. Our proprietary AI-based capabilities generate relevant and actionable real-time notifications, which enable users to live stream video or contact emergency services through the app notifications when Arlo devices detect motion or sound. The Arlo app also enables users to view their library of video clips and share them via text, email or social networks, and varies depending on the types of service plans that the user has. The app has four main screens: devices, library, mode, and setting:

- The Devices screen provides a quick at-a-glance dashboard of the user's devices linked to their account, with valuable status icons like device battery life, and actionable buttons to live stream from their Arlo camera, call e911, activate a siren, or access the device's settings.
- The Library screen delivers a timeline view of recorded video clips in the user's Arlo Smart account, with additional tagging of clips that contain subject matter identified by Arlo Smart's AI- and CV-based object detection, such as person, package, vehicle or even animal.
- The Mode screen enables users to quickly Arm or Disarm their Arlo system.
- The Settings screen provides access to additional device or account level information and features, including customization of Arlo Smart notifications and detection capabilities.

Services

Launched in 2018, Arlo Smart is a paid subscription service that adds powerful AI capabilities to our cameras that enhance the user experience. Arlo Smart incorporates and replaces our legacy paid subscription services. Through real-time computer vision algorithms, Arlo Smart provides users a more personalized experience, deeper insights into detected activity and streamlined access to take responsive actions in urgent situations, such as contacting local emergency services. A three-month free trial period of Arlo Smart is provided with various Arlo camera and doorbell products. Our paid services subscriber base has grown from over 144,000 paid accounts as of December 31, 2018 to about 435,000 as of December 31, 2020. In addition, some of our older camera products come with a prepaid service that provides users with rolling seven-day cloud video storage, the ability to connect up to five cameras and 90 days of customer support.

In January 2020, we launched Arlo SmartCloud, a SaaS solution to deliver scalable security cloud services for business. Its comprehensive offering includes computer vision, multi-object detection, audio analysis, security services, scaled storage and numerous ecosystem integrations. Arlo SmartCloud is a fully managed robust global platform of capabilities built for security, scalability, and reliability that can be deployed as part of advanced subscription services for hardware companies, automotive companies, service providers, insurance companies, home builders, smart communities, smart cities, traditional security companies, and other related verticals.

Our services also include certain development services provided to Verisure S.à.r.l. under a Non-recurring Engineering arrangement as part of the disposal of our commercial operations in Europe in the fourth quarter of 2019. Refer to the "*Agreements with Verisure*" section below for details.

Sales Channels

We sell our products through multiple sales channels worldwide, including traditional and online retailers, wholesale distributors, broadcast channels, wireless carriers and security solution providers.

Retailers. We sell to traditional and online retailers, either directly or through wholesale distributors. We work directly with our retail channels on market development activities, such as co-advertising, including digital and traditional media, online promotions and video demonstrations, instant rebate programs, event sponsorship and sales associate training. Our largest retailers include Costco, Best Buy, and Amazon and their affiliates. For the year ended December 31, 2020, we derived 20.6%, 14.6% and 12.2% of our revenue from Costco, Best Buy and Amazon and their respective affiliates, respectively. In the third quarter of 2019, we launched our online direct to consumer store to sell our products directly to our customers.

Wholesale Distributors. Our distribution channel supplies our products to retailers, e-commerce resellers, wireless carriers and broadcast channels. We sell directly to our distributors, including Ingram Micro, Inc., D&H Distributing Company, and Synnex Corporation.

Broadcast Channels. We also sell our products through TV shopping networks such as HSN.

Wireless Carriers. We supply our products to major wireless carriers around the world, including AT&T, Verizon, Telstra and Vodafone. This sales channel is and will continue to be the key route-to-market for our current portable LTE-enabled camera and any future cellular-enabled connected lifestyle devices.

Security Solution Providers. We sell our products and services to security solution providers, including Verisure S.à.r.l, from which we derived 17.3% of our revenue, and Securitas Security Services USA, Inc.

Agreements with Verisure S.à.r.l.

On November 4, 2019, we concurrently entered into an Asset Purchase Agreement (the "Purchase Agreement") and Supply Agreement (the "Supply Agreement" and together with the Purchase Agreement, the "Verisure Agreements") with Verisure S.à.r.l. ("Verisure"). Verisure is a leading European provider of professionally monitored security systems with 24/7 response services to both residential and small business customers. The Verisure Agreements created a strategic partnership that leverages both the Company and Verisure's capabilities to create incremental scale to address the ever-growing demand for residential and commercial security. The strategic partnership will combine our innovative connected cameras and cloud services platform with Verisure's professionally monitored security solutions to provide a new level of smart security for European customers. The transactions contemplated by the Verisure Agreements closed on December 30, 2019.

The Purchase Agreement provided that, upon the terms and subject to the conditions set forth in the Purchase Agreement, we transferred, sold and assigned to Verisure certain assets (the "Assets") related to our commercial operations in Europe (the "Business") to Verisure for $50.0 million in cash plus additional cash for certain inventory. The Purchase Agreement contains customary representations and warranties regarding Verisure, the Business and the Assets, indemnification provisions, termination rights and other customary provisions. Further, we agreed not to engage in any business that competes with the Business for a period of three years.

The Supply Agreement provides that, upon the terms and subject to the conditions set forth in the Supply Agreement, Verisure will become the exclusive distributor of our products in Europe for all channels, and will non-exclusively distribute our products through its direct channels globally in connection with Verisure's security business. During the five-year period commencing January 1, 2020, Verisure has an aggregate purchase commitment of $500.0 million. As of December 31, 2020, $47.3 million of the purchase commitment has been fulfilled. On December 30, 2019, Verisure prepaid $20.0 million for product purchases in fiscal 2020 and on December 21, 2020, Verisure prepaid $40.0 million for product purchases in fiscal 2021 and fiscal 2022.

The Supply Agreement also provides for certain development services to Verisure under the Non-recurring Engineering ("NRE") arrangement, including development of certain custom products specified by Verisure, in exchange for an aggregate of $10.0 million, payable in installments upon meeting certain development milestones. In the second fiscal quarter of 2020, an additional $3.5 million was added to the contract price as a result of a modification to Verisure's specification for the Outdoor Custom Camera.

As part of the Purchase Agreement, we also entered into a Transition Services Agreement with Verisure ("Verisure TSA") to assist Verisure with the transition of the Company's European commercial operations. These transition services primarily include IT support and other services, including sales and marketing, operations and supply chain, finance, legal, and human resources. As compensation for these transition services, we will be reimbursed by Verisure based on actual direct costs plus allocation of overhead.

Competition

We believe we are well-positioned to compete within the broader connected lifestyle market, both within and beyond the home as we continue to launch new product lines and services within our smart platform. However, our market is highly competitive and evolving, and we expect competition to increase in the future. We believe the principal competitive factors impacting the market for our products include price, service offerings, functionality, brand, technology, design, distribution channels and customer service.

We believe that we compete favorably in these areas on the basis of our market leadership position in the U.S. consumer network connected camera systems market, best-in-class technology, direct relationship with users and user engagement, trusted Arlo platform, strong Arlo brand and channel partners and deep strategic partnerships with key suppliers, such as Cypress Semiconductor Co., OmniVision Technologies Inc. and Qualcomm Incorporated. Moreover, our focus on building a connected lifestyle platform, combined with our leadership in innovation in the consumer network connected camera systems market, has led to the strength of our Arlo brand worldwide. We believe this focus allows us to compete favorably with companies that have introduced or have announced plans to introduce devices with connected lifestyle functionalities. Nevertheless, the connected lifestyle market remains highly competitive, and has a multitude of participants, including: large global technology companies, such as Amazon (Ring and Blink) and Google (Nest); security service vendors, such as ADT; telecom service providers, such as AT&T and Comcast; and smaller point product companies.

Many of our existing and potential competitors have longer operating histories, greater name recognition and substantially greater financial, technical, sales, marketing and other resources than we do. We anticipate that current and potential competitors will also intensify their efforts to penetrate our target markets. For additional information, see "*Risk Factors-Risks Related to Our Business-Some of our competitors have substantially greater resources than we do, and to be competitive we may be required to lower our prices or increase our sales and marketing expenses, which could result in reduced margins and loss of market share*."

Research and Development

We are passionate about developing new and innovative products and services that enable the connected lifestyle. Our research and development team collaborates with our product team to design and build differentiated new products and improve upon our existing products and services. Our goal is to create unique user experiences within the connected lifestyle. For example, our original Arlo camera was the world's first commercially available 100% battery-operated Wi-Fi security camera with 720p HD video, IP65-rated weather resistance and night vision. The groundbreaking nature of the product, first launched in December 2014, gathered critical acclaim and market success. Our research and development team has taken this same approach to all of our subsequent product releases, constantly innovating to stay ahead of the competition.

As of December 31, 2020, our research and development staff consisted of 137 employees, located in our offices worldwide, and was comprised of front-end and back-end software engineers, RF engineers, electrical engineers, mechanical engineers, system test engineers, computer vision scientists and data analysis engineers, UX and industrial design engineers and mobile app developers. We intend to continue to invest in research and development to expand our platform and capabilities in the future.

Manufacturing

While all of our products are primarily designed in North America, we currently outsource manufacturing to Foxconn Cloud Network Technology Singapore Pte. Ltd., Pegatron Corporation, and Sky Light Industrial Ltd. , which are all headquartered in Asia. Although we do not have any long-term purchase contracts, we have executed master product supply agreements with these manufacturers, which typically provide indemnification for intellectual property infringement, epidemic failure clauses, agreed-upon price concessions, division of each party's intellectual property and product quality requirements. Since we outsource our manufacturing, we have the flexibility and ability to adapt to market changes, product supply and component pricing while keeping our costs low. In addition to their responsibility for the manufacturing of our products, our manufacturers typically purchase all necessary parts and materials to produce finished goods. To maintain quality standards for our suppliers, we have established our own product quality organization based in Vietnam, Hong Kong, Taiwan, Indonesia, and mainland China, which is responsible for auditing and inspecting process and product quality on the premises of our manufacturers. Our strategic relationships with our manufacturers are an important component of our ability to introduce new products and grow our business.

We focus on driving alignment of our product roadmaps with our manufacturers and determining what we can do collectively to reduce costs across the supply chain. Our operations teams based in the United States, Hong Kong, Taiwan, Vietnam, Indonesia and mainland China coordinate with our manufacturers' engineering, manufacturing and quality control personnel to develop the requisite manufacturing processes, quality checks and testing and general oversight of the manufacturing activities. We believe this model has enabled us to quickly and efficiently deliver high-quality and innovative products, while enabling us to minimize costs and manage inventory.

Our products are manufactured and packaged for retail sale by our manufacturers mostly in Vietnam and Indonesia, with minimal manufacturers in China, and shipped to our logistics hubs located in the United States, Hong Kong and Australia. Our operations team coordinates with our manufacturers to ensure that the shipment of our products from the manufacturers to these logistics hubs meets customer demand.

Marketing

Our marketing programs are focused on building global brand awareness, increasing product adoption and driving sales. Our marketing efforts target individuals interested in a connected lifestyle and we believe our marketing programs allow us to attract and engage with customers efficiently and at scale. We also increase brand awareness by augmenting word-of-mouth recommendations from Arlo customers and key influencers, interact digitally with current and prospective customers and maintain and develop our strong channel partnerships and strong shelf presence. We collaborate with our retail partners on market development activities to drive in-store and online engagement with the brand and drive purchases.

Customer Care

We provide customer care to Arlo users globally through a variety of communication channels, including phone, chat, email, social media and our Arlo Community, as well as self-guided resources such as knowledge-base articles, how-to videos and technical documentation on our website. We believe that providing timely, responsive customer support and educational content to our users helps foster an ongoing engagement that builds loyalty to our brand and also enables Arlo to understand user needs as they evolve. The online Arlo Community in particular serves as an efficient and engaging platform through which we can deliver customer care and receive feedback from users. We gather and analyze user feedback from all platforms to help inform our design and engineering teams about future enhancements to our products and services.

In order to best serve our users globally, we manage and continually adjust our resources worldwide through a mixture of permanent employees and subcontracted, outsourced resources. As our installed base continues to grow in new geographies, new categories and technologies, we will continue to focus on building a scalable support infrastructure that enables our users to engage with us through the channel that is most convenient and efficient for their needs.

Arlo Cloud Engineering Operations

We currently serve our users from third-party data center hosting facilities. Our cloud platform runs in data centers in the United States and a data center in Ireland to serve our European Union users. We also utilize data centers in Singapore, Australia and China. We have designed our cloud environments to be highly resilient with built-in redundancy and provide failover to other data centers in our network.

Fiscal periods

Our fiscal year begins on January 1 of the year stated and ends on December 31 of the same year. We report our results on a fiscal quarter basis rather than on a calendar quarter basis. Under the fiscal quarter basis, each of the first three fiscal quarters ends on the Sunday closest to the calendar quarter end, with the fourth quarter ending on December 31.

Seasonality

Historically, we have generated higher revenue in the third and fourth quarters of each year compared to the first and second quarters due to seasonal demand from consumer markets, primarily relating to the beginning of the school year and the holiday season. For example, for the years ended December 31, 2020, 2019 and 2018, our third and fourth quarters collectively represented 63.0%, 61.8% and 54.5%, respectively, of our revenue for such years. Therefore, timely and effective product and service introductions are critical to our results of operations.

Backlog

Our backlog consists of products for which customer purchase orders have been received and that are scheduled or in the process of being scheduled for shipment. As of December 31, 2020, we had a backlog of $5.7 million, compared to $5.4 million as of December 31, 2019 and $18.9 million as of December 31, 2018. As we typically fulfill orders received within a relatively short period after receipt, our revenue in any fiscal year depends primarily upon orders booked and the availability of supply of our products in that year. In addition, most of our backlog is subject to rescheduling or cancellation with minimal penalties. As a result, our backlog as of any particular date may not be an indicator of revenue for any succeeding period. Similarly, there is a lack of meaningful correlation between year-over-year changes in backlog as compared with year-over-year changes in revenue. Accordingly, we do not believe that backlog information is material to an understanding of our overall business, and backlog as of any particular date should not be considered a reliable indicator of our ability to achieve any particular level of revenue or financial performance.

Intellectual Property

Our ability to protect our intellectual property will be an important factor in the success and continued growth of our business. We rely upon a combination of patent, copyright, trade secret, and trademark laws and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our proprietary rights. Some of our technology relies upon third-party licensed intellectual property.

We currently hold 72 U.S. issued patents, 32 pending U.S. patent applications, seven international patents, including patents issued by China and and the EU, 13 pending patent applications outside of the United States. All the patents and patent applications generally relate to certain aspects of our hardware devices, accessories, software and services. We continually review our development efforts to assess the existence and patentability of new intellectual property.

We also pursue the registration of our domain names and trademarks and service marks in the United States and in certain locations outside the United States. We currently have six registered trademarks and three pending trademark applications in the United States, as well as 38 registered trademarks and 10 pending trademark applications outside of the United States. We currently hold trademark registrations for “ARLO” in nine countries, including the United States, Australia, Canada, China, and Japan, as well as the World Intellectual Property Organization. For more information, see “*Risk Factors-Risks Related to Our Business-If we are unable to secure and protect our intellectual property rights, our ability to compete could be harmed*.”

Environmental Laws

Our products and manufacturing processes are subject to numerous governmental regulations, which cover both the use of various materials and environmental concerns. Environmental issues such as pollution and climate change have had significant legislative and regulatory efforts on a global basis, and there are expected to be additional changes to the regulations in these areas. These changes could directly increase the cost of energy, which may have an impact on the way we manufacture products. In addition, any new regulations or laws in the environmental area might increase the cost of the raw materials we use in our products and the cost of compliance. Other regulations in the environmental area may require us to continue to monitor and ensure proper disposal or recycling of our products. To the best of our knowledge, we maintain compliance with all current government regulations concerning our production processes for all locations in which we operate. Since we operate on a global basis, this is also a complex process that requires continual monitoring of regulations and an ongoing compliance process to ensure that we and our suppliers are in compliance with all existing regulations.

Our Culture and Our Employees

Our culture, mission and core values are a critical part of our success. Our culture is built on a foundation that encourages creativity through entrepreneurship, diversity, empowerment, ethics and open dialogue to continually innovate and improve our technology, solutions, brand and partnerships. We continue to recruit and hire exceptionally talented, diverse and ethical employees and are proud of Arlo culture we have been able to build. We believe that we maintain a good working relationship with our employees, and we have not experienced any labor disputes. As of December 31, 2020, we had 359 full-time employees.

Company Information

We were incorporated in Delaware in January 2018 in connection with the Separation. We have dual corporate headquarters and our principal executive offices are located at 3030 Orchard Parkway, San Jose, California 95134, and our telephone number is (408) 890-3900. Our secondary executive offices are located at 2200 Faraday Ave., Suite #150, Carlsbad, CA 92008. Our website is www.arlo.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are available free of charge on our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities Exchange Commission (the “SEC”). The contents of our websites are not incorporated into this Annual Report. Further, our references to the URLs for these websites are intended to be inactive textual reference only.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the SEC. We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements, and other information with the SEC. You may read and copy our reports, proxy statements and other information filed by us at the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. Our filings are also available to the public over the Internet at the SEC’s website at http://www.sec.gov.

Our website provides a link to our SEC filings, which are available free of charge on the same day such filings are made. The specific location on the website where these reports can be found is http://investor.arlo.com. Our website also provides a link to Section 16 filings which are available free of charge on the same day as such filings are made. Information contained on these websites is not a part of this Annual Report on Form 10-K.

Information about our Executive Officers

The following table sets forth the names, ages and positions of our executive officers as of February 19, 2021.

Name	Age	Position(s)
Matthew McRae	47	Chief Executive Officer and Director
Gordon Mattingly	50	Chief Financial Officer
Brian Busse	52	General Counsel and Corporate Secretary

Matthew McRae. Matthew McRae has served as our Chief Executive Officer since February 2018 and as a member of our Board since August 2018. Mr. McRae served as NETGEAR's Senior Vice President of Strategy from October 2017 until August 2018. Mr. McRae previously served as the Chief Technology Officer of Vizio Inc. from 2010 to March 2017, and prior to that served as its Vice President and General Manager, Advanced Products Group, from 2008 to 2010. From 2007 to 2008, Mr. McRae was Vice President of Marketing and Business Development of Fabrik (now part of HGST, Inc.), a provider of data storage and next generation web services, and prior to that, from 2001 to 2007, was the Senior Director, Worldwide Business Development at Cisco Systems Inc., a leader in networking services. Mr. McRae has served on the board of directors of Dedicated Hosting Services, Inc. (d/b/a Streaming Media Hosting), a private content delivery network company, since 2014, and he has been on the board of directors of the UC Irvine Institute for Innovation since 2015. He previously served on the board of directors of the Leatherby Center for Entrepreneurship and Business Ethics at the Business School of Chapman University from 2012 to 2015.

Gordon Mattingly. Gordon Mattingly has served as our Chief Financial Officer since June 15, 2020. Mr. Mattingly served as our Senior Vice President, Finance from July 2018 to June 2020. From 2003 through June 2018, Mr. Mattingly held various financial roles with NETGEAR and its affiliates, most recently serving as Vice President, Financial Planning & Analysis from August 2011 through June 2018. Before joining NETGEAR, Inc., Mr. Mattingly held various European finance positions within U.S. technology companies such as RealNetworks, Inc., International Business Machines Corporation and Tivoli Systems Inc. Mr. Mattingly began his career in finance with the London audit firm of Mazars Group, where he specialized in audits at Lloyd's of London and qualified as a member of the Institute of Chartered Accountants in England and Wales. Mr. Mattingly also qualified in 2013 as a member of the Chartered Institute of Taxation. Mr. Mattingly received a BSc in Economics and Accountancy from the University of Southampton.

Brian Busse. Brian Busse has served as our General Counsel since July 2018. Previously, Mr. Busse was NETGEAR's Vice President Intellectual Property & Litigation where he was responsible for overseeing NETGEAR's worldwide litigation, intellectual property, privacy and licensing matters. Before joining NETGEAR in September 2009, Mr. Busse served as Counsel in the Intellectual Property Litigation Department of O'Melveny & Myers LLP in Menlo Park, California beginning in December 2008 where he represented public and private technology companies in a wide range of intellectual property litigation matters, including all aspects of patent litigation, including trial, discovery, law and motion, and claim construction. Mr. Busse began practicing law with the New York firm of Skadden, Arps, Slate, Meagher & Flom LLP, advising clients on various areas of litigation. Mr. Busse holds a J.D. from The University of Texas at Austin School of Law, an M.S. and Ph.D. in Physics from Oregon State University, and a B.S. in Physics from Virginia Tech. Mr. Busse is admitted to practice law in California and New York.

Item 1A. Risk Factors

Investing in our common stock involves substantial risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including our financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," when evaluating our business and before deciding whether to invest in shares of our common stock. We describe below what we believe are currently the material risks and uncertainties we face, but they are not the only risks and uncertainties we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occur, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the market price of our common stock could decline and you could lose part or all of your investment.

Risks Related to Our Business

The effects of health epidemics, including the recent COVID-19 pandemic, could have an adverse impact on our business, operations and the markets and communities in which we, our partners and customers operate.

Our business and operations could be adversely affected by health epidemics, including the recent COVID-19 pandemic, impacting the markets and communities in which we, our partners and our customers operate. On March 11, 2020, the World Health Organization announced that COVID-19, a respiratory illness, caused by a novel coronavirus is a pandemic. The President of the United States has declared the COVID-19 pandemic a national emergency. In response to the COVID-19 pandemic, many state, local and foreign governments have put in place, and others in the future may put in place, quarantines, executive orders, shelter-in-place orders and similar government orders and restrictions in order to control the spread of the disease. Such orders or restrictions, or the perception that such orders or restrictions could occur, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellation of events, among other effects that could negatively impact productivity and disrupt our operations and those of our partners and our customers. For example, we have implemented a work-from-home policy for the vast majority of employees, and we may take further actions that alter our operations as may be required by federal, state or local authorities, or which we determine are in the best interests of our employees, customers, partners and stockholders. The effects of pandemic adversely affected our product shipments and financial results for the year ended December 31, 2020.

In addition, while the potential impact and duration of the COVID-19 pandemic on the global economy and our business in particular may be difficult to assess or predict, the pandemic has resulted in, and may continue to result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. The COVID-19 pandemic also could reduce demand for our products and services as our largest channel partners focus on selling essential goods, temporarily close stores or experience decreases in foot traffic. In addition, a recession or market correction resulting from the spread of COVID-19 could further decrease technology spending, adversely affecting demand for our products and services, our business and the value of our common stock. As of December 31, 2020, our retail channel inventory in Americas declined compared to December 31, 2019 due to disruption to our sales channel, contributing to a decline in net revenue in Americas by 6.8%, compared to the year ended December 31, 2019.

The COVID-19 pandemic may adversely affect the ability of our third-party manufacturers and other suppliers to fulfill their obligations to us. We rely on these manufacturers to procure components and, in some cases, subcontract engineering work. We cannot guarantee that our third-party manufacturers or other suppliers will be able to meet our near-term or long-term manufacturing requirements. If we experience supply constraints from our third-party manufacturers, we may be required to allocate the affected products amongst our customers, which could have a material adverse effect on our relationships with these customers and on our financial condition. In addition, if we are unable to meet customer demand due to fluctuating or late supply from our third-party manufacturers and other suppliers, it could result in lost sales and have a material adverse effect on our business. We also rely on other suppliers such as cloud infrastructure services providers, distribution centers and logistics and transportation services providers. If our manufacturers and other suppliers are unable to fulfill their obligations to us, we could face products shortages, delay in new product introductions, services to our customers could be interrupted, and our products distribution could be delayed and thus adversely affecting our revenue. For the year ended December 31, 2020, our freight-in expense increased by 56%, compared to the prior year.

The global pandemic of COVID-19 continues to rapidly evolve, and we will continue to monitor the COVID-19 situation closely. The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, operations or the global economy as a whole.

We expect our results of operations to fluctuate on a quarterly and annual basis, which could cause our stock price to fluctuate or decline.

Our results of operations are difficult to predict and may fluctuate substantially from quarter-to-quarter or year-to-year for a variety of reasons, many of which are beyond our control. If our actual results were to fall below our estimates or the expectations of public market analysts or investors, our quarterly and annual results would be negatively impacted and the price of our stock could decline. Other factors that could affect our quarterly and annual operating results include, but are not limited to:

- changes in the pricing policies of, or the introduction of new products by, us or our competitors;
- delays in the introduction of new products by us or market acceptance of these products;
- health epidemics and other outbreaks, including the COVID-19 pandemic, which could significantly disrupt our operations;
- introductions of new technologies and changes in consumer preferences that result in either unanticipated or unexpectedly rapid product category shifts;
- competition with greater resources may cause us to lower prices and in turn could result in reduced margins and loss of market share;
- epidemic or widespread product failure, or unanticipated safety issues, in one or more of our products;
- slow or negative growth in the connected lifestyle, home electronics, and related technology markets;
- seasonal shifts in end-market demand for our products;
- unanticipated decreases or delays in purchases of our products by our significant retailers, distributors, and other channel partners;
- component supply constraints from our vendors;
- unanticipated increases in costs, including air freight, associated with shipping and delivery of our products;
- the inability to maintain stable operations by our suppliers and other parties with whom we have commercial relationships;
- discovery of security vulnerabilities in our products, services or systems, leading to negative publicity, decreased demand, or potential liability;

- foreign currency exchange rate fluctuations in the jurisdictions where we transact sales and expenditures in local currency;
- excess levels of inventory and low turns;
- changes in or consolidation of our sales channels and wholesale distributor relationships or failure to manage our sales channel inventory and warehousing requirements;
- delay or failure to fulfill orders for our products on a timely basis;
- delay or failure of our retailers, distributors, and other channel partners to purchase at their historic volumes or at the volumes that they or we forecast;
- changes in tax rates or adverse changes in tax laws that expose us to additional income tax liabilities;
- changes in U.S. and international tax policy, including changes that adversely affect customs, tax or duty rates such as tariffs on product imports, as well as income tax legislation and regulations that affect the countries where we conduct business;
- operational disruptions, such as transportation delays or failure of our order processing system, particularly if they occur at the end of a fiscal quarter;
- disruptions or delays related to our financial and enterprise resource planning systems;
- our inability to accurately forecast product demand, resulting in increased inventory exposure;
- allowance for credit losses exposure with our existing retailers, distributors and other channel partners and new retailers, distributors and other channel partners, particularly as we expand into new international markets;
- geopolitical disruption, including sudden changes in immigration policies, leading to disruption in our workforce or delay or even stoppage of our operations in manufacturing, transportation, technical support, and research and development;
- terms of our contracts with channel partners or suppliers that cause us to incur additional expenses or assume additional liabilities;
- an increase in price protection claims, redemptions of marketing rebates, product warranty and stock rotation returns or allowance for credit losses;
- litigation involving alleged patent infringement;
- failure to effectively manage our third-party customer support partners, which may result in customer complaints and/or harm to the Arlo brand;
- our inability to monitor and ensure compliance with our code of ethics, our anti-corruption compliance program, and domestic and international anti-corruption laws and regulations, whether in relation to our employees or with our suppliers or retailers, distributors, or other channel partners;
- labor unrest at facilities managed by our third-party manufacturers;

- workplace or human rights violations in certain countries in which our third-party manufacturers or suppliers operate, which may affect the Arlo brand and negatively affect our products' acceptance by consumers;
- unanticipated shifts or declines in profit by geographical region that would adversely impact our tax rate;
- failure to implement and maintain the appropriate internal controls over financial reporting, which may result in restatements of our financial statements; and
- any changes in accounting rules.

As a result, period-to-period comparisons of our results of operations may not be meaningful, and you should not rely on them as an indication of our future performance.

If we fail to continue to introduce or acquire new products or services that achieve broad market acceptance on a timely basis, or if our products or services are not adopted as expected, we will not be able to compete effectively and we will be unable to increase or maintain revenue and gross margin.

We operate in a highly competitive, quickly changing environment, and our future success depends on our ability to develop or acquire and introduce new products and services that achieve broad market acceptance. Our future success will depend in large part upon our ability to identify demand trends in the connected lifestyle market and quickly develop or acquire, and design, manufacture and sell, products and services that satisfy these demands in a cost-effective manner.

In order to differentiate our products and services from our competitors' products, we must continue to increase our focus and capital investment in research and development, including software development. We have committed a substantial amount of resources to the manufacture, development and sale of our Arlo Smart services and our wire-free smart Wi-Fi cameras, advanced baby monitors, and smart lights, and to introducing additional and improved models in these lines. In addition, we plan to continue to introduce new categories of smart connected devices to the Arlo platform in the near future. If our existing products and services do not continue, or if our new products or services fail, to achieve widespread market acceptance, if existing customers do not subscribe to our paid subscription services such as Arlo Smart, if those services do not achieve widespread market acceptance, or if we are unsuccessful in capitalizing on opportunities in the connected lifestyle market, as well as in the related market in the small business segment, our future growth may be slowed and our business, results of operations, and financial condition could be materially adversely affected. Successfully predicting demand trends is difficult, and it is very difficult to predict the effect that introducing a new product or service will have on existing product or service sales. It is possible that Arlo may not be as successful with its new products and services, and as a result our future growth may be slowed and our business, results of operations and financial condition could be materially adversely affected. Also, we may not be able to respond effectively to new product or service announcements by our competitors by quickly introducing competitive products and services.

In addition, we may acquire companies and technologies in the future and, consistent with our vision for Arlo, introduce new product and service lines in the connected lifestyle market. In these circumstances, we may not be able to successfully manage integration of the new product and service lines with our existing suite of products and services. If we are unable to effectively and successfully further develop these new product and service lines, we may not be able to increase or maintain our sales, and our gross margin may be adversely affected.

We may experience delays and quality issues in releasing new products and services, which may result in lower quarterly revenue than expected. In addition, we may in the future experience product or service introductions that fall short of our projected rates of market adoption. Currently, reviews of our products and services are a significant factor in the success of our new product and service launches. If we are unable to generate a high number of positive reviews or quickly respond to negative reviews, including end-user reviews posted on various prominent online retailers, our ability to sell our products and services will be harmed. Any future delays in product and service development and introduction, or product and service introductions that do not meet broad market acceptance, or unsuccessful launches of new product and service lines could result in:

- loss of or delay in revenue and loss of market share;
- negative publicity and damage to our reputation and brand;
- a decline in the average selling price of our products and services;
- adverse reactions in our sales channels, such as reduced shelf space, reduced online product visibility, or loss of sales channels; and
- increased levels of product returns.

Throughout the past few years, Arlo has significantly increased the rate of new product and service introductions, with the introduction of new lines of Arlo cameras, smart lights, and doorbell products, as well as the introduction of our Arlo Smart services. If we cannot sustain that pace of product and service introductions, either through rapid innovation or acquisition of new products and services or product and service lines, we may not be able to maintain or increase the market share of our products and services or expand further into the connected lifestyle market in accordance with our current plans. In addition, if we are unable to successfully introduce or acquire new products and services with higher gross margin, our revenue and overall gross margin would likely decline.

We obtain several key components from limited or sole sources, and if these sources fail to satisfy our supply requirements or we are unable to properly manage our supply requirements with our third-party manufacturers, we may lose sales and experience increased component costs.

Any shortage or delay in the supply of key product components would harm our ability to meet scheduled product deliveries. Many of the components used in our products are specifically designed for use in our products, some of which are obtained from sole source suppliers. These components include lens, lens-sensors, and passive infrared ("PIR") sensors that have been customized for the Arlo application, as well as custom-made batteries that provide power conservation and safety features. In addition, the components used in our end products have been optimized to extend battery life. Our third-party manufacturers generally purchase these components on our behalf, and we do not have any contractual commitments or guaranteed supply arrangements with our suppliers. If demand for a specific component increases, we may not be able to obtain an adequate number of that component in a timely manner. In addition, if worldwide demand for the components increases significantly, the availability of these components could be limited. For example, increased demand for electronics as a result of the COVID-19 pandemic, effects of the U.S. trade war with China, increased demand for chips in the automotive industry and certain other factors have led to a global shortage of semiconductors. Due to such shortage, starting in the fourth quarter of 2020 we started to experience component shortages, including longer lead times for components, and supply constraints, which we expect to continue into 2021. Such shortages and constraints are affecting our ability to meet scheduled product deliveries and worldwide demand for our products in the first quarter of 2021 and potentially beyond. Further, our suppliers may experience financial or other difficulties as a result of uncertain and weak worldwide economic conditions. Other factors that may affect our suppliers' ability or willingness to supply components to us include internal management or reorganizational issues, such as roll-out of new equipment which may delay or disrupt supply of previously forecasted components, or industry consolidation and divestitures, which may result in changed business and product priorities among certain suppliers. It could be difficult, costly, and time consuming to obtain alternative sources for these components, or to change product designs to make use of alternative components. In addition, difficulties in transitioning from an existing supplier to a new supplier could create delays in component availability that would have a significant impact on our ability to fulfill orders for our products.

We provide our third-party manufacturers with a rolling forecast of demand, which they use to determine our material and component requirements. Lead times for ordering materials and components vary significantly and depend on various factors, such as the specific supplier, contract terms, and demand and supply for a component at a given time.

Some of our components have long lead times, such as wireless local area network chipsets, physical layer transceivers, connector jacks, and metal and plastic enclosures. If our forecasts are not timely provided or are less than our actual requirements, our third-party manufacturers may be unable to manufacture products in a timely manner. If our forecasts are too high, our third-party manufacturers will be unable to use the components they have purchased on our behalf. The cost of the components used in our products tends to drop rapidly as volumes increase and the technologies mature. Therefore, if our third-party manufacturers are unable to promptly use components purchased on our behalf, our cost of producing products may be higher than our competitors due to an oversupply of higher-priced components. Moreover, if they are unable to use components ordered at our direction, we will need to reimburse them for any losses they incur.

If we are unable to obtain a sufficient supply of components, or if we experience any interruption in the supply of components, our product shipments could be reduced or delayed or our cost of obtaining these components may increase. For example, in December 2018 we announced a delay in the expected timing of shipment of our Ultra product due to a battery-related issue from one of our suppliers. Component shortages and delays affect our ability to meet scheduled product deliveries, damage our brand and reputation in the market, and cause us to lose sales and market share. For example, component shortages and disruptions in supply in the past have limited our ability to supply all the worldwide demand for our products, and our revenue was affected. At times, we have elected to use more expensive transportation methods, such as air freight, to make up for manufacturing delays caused by component shortages, which reduces our margins. In addition, at times sole suppliers of highly specialized components have provided components that were either defective or did not meet the criteria required by our retailers, distributors, or other channel partners, resulting in delays, lost revenue opportunities, and potentially substantial write-offs.

We may need additional financing to meet our future long-term capital requirements and may be unable to raise sufficient capital on favorable terms or at all.

We have recorded a net loss of $101.3 million, $86.0 million and $75.5 million for the years ended December 31, 2020, 2019 and 2018, respectively, and we have a history of losses and may continue to incur operating and net losses for the foreseeable future. As of December 31, 2020 and 2019, our accumulated deficit was $232.8 million and $131.5 million, respectively.

As of December 31, 2020, our cash and cash equivalents and short-term investments totaled $206.1 million. In November 2019, we entered into a business financing agreement with Western Alliance Bank providing for a credit facility to up to $40.0 million and as of December 31, 2020, we have not borrowed against this credit facility. Refer to Note 10. *Debt* in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for further details on such business financing agreement. While based on our current plans, the business financing agreement with Western Alliance Bank, and market conditions, we believe that such sources of liquidity will be sufficient to satisfy our anticipated cash requirements for at least the next 12 months, we may require additional funds, either through equity or debt financings or collaborative agreements or from other sources. We have no commitments to obtain such additional financing, and we may not be able to obtain any such additional financing on terms favorable to us, or at all. If adequate financing is not available, we may further delay, postpone or terminate product and service expansion and curtail certain selling, general and administrative operations. The inability to raise additional financing may have a material adverse effect on our future performance. In addition, the COVID-19 pandemic has already resulted in a significant disruption of global financial markets. If the disruption persists and deepens, we could experience an inability to access additional capital.

Some of our competitors have substantially greater resources than we do, and to be competitive we may be required to lower our prices or increase our sales and marketing expenses, which could result in reduced margins and loss of market share.

We compete in a rapidly evolving and fiercely competitive market, and we expect competition to continue to be intense, including price competition. Our principal competitors include Amazon (Blink and Ring), Google (Nest), Swann, Night Owl, Wyze, Foxconn Corporation (Belkin), Samsung, D-Link, and Canary. Other competitors include numerous local vendors such as Netatmo, Logitech, Bosch, Instar, and Uniden. In addition, these local vendors may target markets outside of their local regions and may increasingly compete with us in other regions worldwide. Many of our existing and potential competitors have longer operating histories, greater brand recognition, and substantially greater financial, technical, sales, marketing, and other resources. These competitors may, among other things, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, obtain more favorable pricing from suppliers and manufacturers, and exert more influence on sales channels than we can. In addition, certain competitors may have different business models, such as integrated manufacturing capabilities, that may allow them to achieve cost savings and to compete on the basis of price. Other competitors may have fewer resources, but may be more nimble in developing new or disruptive technology or in entering new markets.

We anticipate that current and potential competitors will also intensify their efforts to penetrate our target markets. For example, price competition is intense in our industry in certain geographical regions and product categories. Many of our competitors price their products significantly below our product costs. Average sales prices have declined in the past and may again decline in the future. These competitors may have more advanced technology, more extensive distribution channels, stronger brand names, greater access to shelf space in retail locations, bigger promotional budgets, and larger retailers, distributors, and other channel partners, and end-user bases than we do.

In addition, many of these competitors leverage a broader product portfolio and offer lower pricing as part of a more comprehensive end-to-end solution. These companies could devote more capital resources to develop, manufacture, and market competing products than we could.

Amazon is both a competitor and a distribution channel for our products as well as a provider of services to support our cloud-based storage. If Amazon decided to end our distribution channel relationship or ceased providing cloud storage services to us, our sales and product performance could be harmed, which could seriously harm our business, financial condition, results of operations, and cash flows.

Our competitors may also acquire other companies in the market and leverage combined resources to gain market share. If any of these companies are successful in competing against us, our sales could decline, our margins could be negatively impacted, and we could lose market share, any of which could seriously harm our business, financial condition, and results of operations.

If we lose the services of key personnel, we may not be able to execute our business strategy effectively.

Our future success depends in large part upon the continued services of our key technical, engineering, sales, marketing, finance, and senior management personnel. The competition for qualified personnel with significant experience in the design, development, manufacturing, marketing, and sales in the markets in which we operate is intense, both where our U.S. operations are based, including Silicon Valley, and in global markets in which we operate. Our inability to attract qualified personnel, including hardware and software engineers and sales and marketing personnel, could delay the development and introduction of, and harm our ability to sell, our products and services. Decreases in our stock price may negatively affect our efforts to attract and retain qualified personnel. Changes to U.S. immigration policies that restrict our ability to attract and retain technical personnel may negatively affect our research and development efforts. We will continue to replace key personnel, from within or looking outside, wherever we find the best candidates.

We do not maintain any key person life insurance policies. Our business model requires extremely skilled and experienced senior management who are able to withstand the rigorous requirements and expectations of our business. Our success depends on senior management being able to execute at a very high level. The loss of any of our senior management or other key engineering, research, development, sales, or marketing personnel, particularly if lost to competitors, could harm our ability to implement our business strategy and respond to the rapidly changing needs of our business. If we suffer the loss of services of any key executive or key personnel, our business, results of operations, and financial condition could be materially adversely affected. In addition, we may not be able to have the proper personnel in place to effectively execute our long-term business strategy if key personnel retire, resign or are otherwise terminated.

We entered into an asset purchase agreement (the "Asset Purchase Agreement") and supply agreement (the "Supply Agreement") with Verisure Sàrl ("Verisure") that will give Verisure exclusive marketing and distribution rights

for our products in Europe as well as the ability to sell our products through their direct channel globally. We cannot provide assurance that the arrangement with Verisure will be a successful collaboration.

Verisure will have the exclusive right to market and distribute our products in Europe. Our results of operations may be negatively impacted if Verisure is not successful in selling our products in Europe. Even though the Supply Agreement provides for minimum purchase commitments, if Verisure fails to pay on a timely basis, or at all, including because of effects from COVID-19, or otherwise does not perform under the Supply Agreement our cash flow would be reduced. We are also exposed to increased credit risk if Verisure fails or becomes insolvent. We also cannot provide any assurance that we will successfully develop custom products as specified by Verisure under the Supply Agreement.

The Purchase Agreement and Supply Agreement with Verisure contains customary representations and warranties regarding, the Business and the Assets, indemnification provisions, termination rights, certain financial covenants and other customary provisions. Additionally, we have agreed not to engage in any business that competes with the Business for a period of three years. Our failure to comply with these provisions may have a material adverse effect on our future performance.

We are subject to financial and operating covenants in our business financing agreement with Western Alliance Bank (the "Credit Agreement") and any failure to comply with such covenants, or obtain waivers in the event of non-compliance, could limit our borrowing availability under the Credit Agreement, resulting in our being unable to borrow under the Credit Agreement and materially adversely impact our liquidity. In addition, our operations may not provide sufficient cash to meet the repayment obligations of debt incurred under the Credit Agreement.

The Credit Agreement contains provisions that limit our future borrowing availability to the lesser of (x) $40.0 million and (y) an amount equal to 60% of our eligible receivables and eligible accounts receivable, less such reserves as Western Alliance Bank may deem proper and necessary from time to time. The Credit Agreement also contains other customary covenants, including certain restrictions on maintaining a minimum cash balance, our ability to incur additional indebtedness, consolidate or merge, enter into acquisitions, pay any dividend or distribution on our capital stock, redeem, retire or purchase shares of our capital stock, make investments or pledge or transfer assets, in each case subject to limited exceptions.

There can be no assurance that we will be able to comply with the financial and other covenants in the Credit Agreement, and the effects of the COVID-19 pandemic may increase the risk of our inability to comply with such covenants. Our failure to comply with these covenants could cause us to be unable to borrow under the Credit Agreement and may constitute an event of default which, if not cured or waived, could result in the acceleration of the maturity of any indebtedness then outstanding under the Credit Agreement, which would require us to pay all amounts then outstanding. If we are unable to repay those amounts, the Lender could proceed against the collateral granted to them to secure that debt, which would seriously harm our business. Such an event could materially adversely affect our financial condition and liquidity. Additionally, such events of non-compliance could impact the terms of any additional borrowings and/or any credit renewal terms. Any failure to comply with such covenants may be a disclosable event and may be perceived negatively. Such perception could adversely affect the market price for our common stock and our ability to obtain financing in the future.

We are dependent on information technology systems, infrastructure and data. System security risks, data protection breaches and cyber-attacks could disrupt our products, services, internal operations, or information technology systems, and could lead to theft of our intellectual property, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation, and cause our stock price to decline significantly.

Information security risks have significantly increased in recent years in part due to the proliferation of new technologies and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign private parties and state actors. Our products and services may contain unknown security vulnerabilities. For example, the firmware, software, and open source software that we or our manufacturing partners have installed on our products may be susceptible to hacking, unauthorized manipulation, or misuse. In addition, we offer a comprehensive online cloud management service, Arlo Smart, paired with our end products, including our cameras, baby monitors, and smart lights and we recently launched our direct to consumer store to sell our products directly to our customers. If malicious actors compromise this cloud service or our direct to consumer store, or if customer confidential information is accessed without authorization, our business will be harmed. Operating an online cloud service and direct to consumer store are a relatively new businesses for us, and we may not have the expertise to properly manage risks related to data security and systems security. We rely on third-party providers for a number of critical aspects of our cloud services and customer support, including web hosting services, billing, and payment processing, and consequently we do not maintain direct control over the security or stability of the associated systems. If we or our third-party providers are unable to properly secure our system or successfully prevent breaches of security relating to our products, services, or user private information, including user videos and user personal identification information, or if these third-party systems fail for other reasons, our management could need to spend increasing amounts of time and effort in this area. As a result, we could incur substantial expenses, our brand and reputation could suffer and our business, results of operations, and financial condition could be materially adversely affected.

Maintaining the security of our computer information systems and communication systems is a critical issue for us and our customers but the multitude and complexity of our computer systems may make them vulnerable to service interruption or destruction, disruption of data integrity, inadvertent errors that expose our data or systems, malicious intrusion, or random attacks. Likewise, data privacy or security incidents or breaches by employees or others may pose a risk that sensitive data, including our intellectual property, trade secrets or personal information of our employees, customers or other business partners may be exposed to unauthorized persons or to the public. Malicious actors may develop and deploy malware that is designed to manipulate our systems, including our internal network, or those of our vendors or customers. Additionally, outside parties may attempt to fraudulently induce our employees to disclose sensitive information in order to gain access to our information technology systems, our data or our customers' data. We have established a crisis management plan and business continuity program. While we regularly test the plan and the program, there can be no assurance that the plan and program can withstand an actual or serious disruption in our business, including cyber-attack. While we have established service-level and geographic redundancy for our critical systems, our ability to utilize these redundant systems must be tested regularly, failing over to such systems always carries risk and we cannot be assured that such systems are fully functional. For example, much of our order fulfillment process is automated and the order information is stored on our servers. A significant business interruption could result in losses or damages and harm our business. If our computer systems and servers become unavailable at the end of a fiscal quarter, our ability to recognize revenue may be delayed until we are able to utilize back-up systems and continue to process and ship our orders. This could cause our stock price to decline significantly. Changes in how our employees work and access our systems during the current COVID-19 pandemic also could lead to additional opportunities for bad actors to launch cyberattacks or for employees to cause inadvertent security risks or incidents.

We devote considerable internal and external resources to network security, data encryption, and other security measures to protect our systems, customers, and users, but these security measures cannot provide absolute security. Potential breaches of our security measures and the accidental loss, inadvertent disclosure, or unapproved dissemination of proprietary information or sensitive or confidential data about us, our employees, or our customers or users, including the potential loss or disclosure of such information or data as a result of employee error or other employee actions or inactions, hacking, fraud, social engineering, or other forms of deception could expose us, our customers, or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation, or otherwise materially adversely affect our business, results of operations, and financial condition. The effects of a security breach or privacy violation could be further amplified during the current COVID-19 pandemic. In addition, the cost and operational consequences of implementing further data protection measures could be significant and theft of our intellectual property or proprietary business information could require substantial expenditures to remedy. Further, we cannot be certain that (a) our liability insurance will be sufficient in type or amount to cover us against claims related to security breaches, cyberattacks and other related breaches; (b) such coverage will cover any indemnification claims against us relating to any incident, will continue to be available to us on economically reasonable terms, or at all; or (c) any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect our reputation, business, financial condition and results of operations.

Our future success depends on our ability to increase sales of our paid subscription services.

Our future success is largely dependent on increasing sales of our paid subscription services. Even if we are successful in selling our smart connected devices and accessories, if we are unable to maintain or increase sales of Arlo Smart services, our revenue and overall gross margin would likely decline.

We depend on a limited number of third-party manufacturers for substantially all of our manufacturing needs. If these third-party manufacturers experience any delay, disruption, or quality control problems in their operations, including due to the COVID-19 pandemic, we could lose market share and our brand may suffer.

All of our products are manufactured, assembled, tested and generally packaged by a limited number of third-party original design manufacturers ("ODMs"). In most cases, we rely on these manufacturers to procure components and, in some cases, subcontract engineering work. We currently outsource manufacturing to Foxconn Cloud Network Technology Singapore Pte. Ltd., Pegatron Corporation, and Sky Light Industrial Ltd. We do not have any long-term contracts with any of these third-party manufacturers, although we have executed product supply agreements with these manufacturers, which typically provide indemnification for intellectual property infringement, epidemic failure clauses, agreed-upon price concessions, and certain product quality requirements. Some of these third-party manufacturers produce products for our competitors. In addition, one of our principal manufacturers, Foxconn closed its acquisition of Belkin International in September 2018, which includes the WeMo brand of home automation products, which may compete directly with us. Due to changing economic conditions, including due to the COVID-19 pandemic, the viability of some of these third-party manufacturers may be at risk. The loss of the services of any of our primary third-party manufacturers could cause a significant disruption in operations and delays in product shipments. Qualifying a new manufacturer and commencing volume production is expensive and time consuming. Ensuring that a contract manufacturer is qualified to manufacture our products to our standards is time consuming. In addition, there is no assurance that a contract manufacturer can scale its production of our products at the volumes and in the quality that we require. If a contract manufacturer is unable to do these things, we may have to move production for the products to a new or existing third-party manufacturer, which would take significant effort and our business, results of operations, and financial condition could be materially adversely affected. In addition, as we contemplate moving manufacturing into different jurisdictions, we may be subject to additional significant challenges in ensuring that quality, processes, and costs, among other issues, are consistent with our expectations. For example, while we expect our manufacturers to be responsible for penalties assessed on us because of excessive failures of the products, there is no assurance that we will be able to collect such reimbursements from these manufacturers, which causes us to take on additional risk for potential failures of our products.

Our reliance on third-party manufacturers also exposes us to the following risks over which we have limited control:

- unexpected increases in manufacturing and repair costs;
- inability to control the quality and reliability of finished products;
- inability to control delivery schedules;
- potential liability for expenses incurred by third-party manufacturers in reliance on our forecasts that later prove to be inaccurate;
- potential lack of adequate capacity to manufacture all or a part of the products we require; and
- potential labor unrest affecting the ability of the third-party manufacturers to produce our products.

All of our products must satisfy safety and regulatory standards and some of our products must also receive government certifications. Our third-party manufacturers are primarily responsible for conducting the tests that support our applications for most regulatory approvals for our products. If our third-party manufacturers fail to timely and accurately conduct these tests, we would be unable to obtain the necessary domestic or foreign regulatory approvals or certificates to sell our products in certain jurisdictions. As a result, we would be unable to sell our products and our sales and profitability could be reduced, our relationships with our sales channel could be harmed, and our reputation and brand would suffer.

Specifically, substantially all of our manufacturing and assembly occurs in the Asia Pacific region, primarily in Vietnam, and any disruptions due to natural disasters, health epidemics, and political, social, and economic instability in the region would affect the ability of our third-party manufacturers to manufacture our products. In particular, in the event the labor market in Vietnam becomes saturated, our third-party manufacturers in Vietnam may increase our costs of production. If these costs increase, it may affect our margins and ability to lower prices for our products to stay competitive. Labor unrest may also affect our third-party manufacturers, as workers may strike and cause production delays. If our third-party manufacturers fail to maintain good relations with their employees or contractors, and production and manufacturing of our products are affected, then we may be subject to shortages of products and the quality of products delivered may be affected. Further, if our manufacturers or warehousing facilities are disrupted or destroyed, we could have no other readily available alternatives for manufacturing and assembling our products, and our business, results of operations, and financial condition could be materially adversely affected.

In the future, we may work with more third-party manufacturers on a contract manufacturing basis, which could result in our exposure to additional risks not inherent in a typical ODM arrangement. Such risks may include our inability to properly source and qualify components for the products, lack of software expertise resulting in increased software defects, and lack of resources to properly monitor the manufacturing process. In our typical ODM arrangement, our ODMs are generally responsible for sourcing the components of the products and warranting that the products will work according to a product's specification, including any software specifications. In a contract manufacturing arrangement, we would take on much more, if not all, of the responsibility around these areas. If we are unable to properly manage these risks, our products may be more susceptible to defects, and our business, results of operations, and financial condition could be materially adversely affected.

If disruptions in our transportation network occur or our shipping costs substantially increase, including due to the COVID-19 pandemic, we may be unable to sell or timely deliver our products, and our operating expenses could increase.

We are highly dependent upon the transportation systems we use to ship our products, including surface, ocean and air freight. Our attempts to closely match our inventory levels to our product demand intensify the need for our transportation systems to function effectively and without delay. On a quarterly basis, our shipping volume also tends to steadily increase as the quarter progresses, which means that any disruption in our transportation network in the latter half of a quarter will likely have a more material effect on our business than a disruption at the beginning of a quarter.

The transportation network is subject to disruption or congestion from a variety of causes, including labor disputes or port strikes, acts of war or terrorism, natural disasters, and congestion resulting from higher shipping volumes. Labor disputes among freight carriers and at ports of entry are common, particularly in Europe, and we expect labor unrest and its effects on shipping our products to be a continuing challenge for us. A port worker strike, work slow-down, or other transportation disruption in Long Beach, California, where we import our products to fulfill our Americas orders, could significantly disrupt our business. Our international freight is regularly subjected to inspection by governmental entities. As a result of the COVID-19 pandemic, international freight capacity has dropped, causing air and ocean freight rates to materially increase. Transit times have also increased. If our delivery times increase unexpectedly for these or any other reasons, our ability to deliver products on time would be materially adversely affected and result in delayed or lost revenue as well as customer imposed penalties. In addition, if increases in fuel prices occur, our transportation costs would likely increase. Moreover, the cost of shipping our products by air freight is greater than other methods. From time to time in the past, we have shipped products using extensive air freight to meet unexpected spikes in demand and shifts in demand between product categories, to bring new product introductions to market quickly and to timely ship products previously ordered. If we rely more heavily upon air freight to deliver our products, our overall shipping costs will increase. A prolonged transportation disruption or a significant increase in the cost of freight could materially adversely affect our business, results of operations, and financial condition.

Interruptions with the cloud-based systems that we use in our operations provided by an affiliate of Amazon.com, Inc. ("Amazon"), which is also one of our primary competitors, may materially adversely affect our business, results of operations, and financial condition.

We host our platform using Amazon Web Services (“AWS”) data centers, a provider of cloud infrastructure services, and may in the future use other third-party cloud-based systems in our operations. All of our solutions currently reside on systems leased and operated by us in these locations. Accordingly, our operations depend on protecting the virtual cloud infrastructure hosted in AWS by maintaining its configuration, architecture, features, and interconnection specifications, as well as the information stored in these virtual data centers and which third-party internet service providers transmit. Although we have disaster recovery plans that utilize multiple AWS locations, any incident affecting their infrastructure that may be caused by human error, fire, flood, severe storm, earthquake, or other natural disasters, cyber-attacks, terrorist or other attacks, and other similar events beyond our control could negatively affect our platform. A prolonged AWS service disruption affecting our platform for any of the foregoing reasons would negatively impact our ability to serve our end-users and could damage our reputation with current and potential end-users, expose us to liability, cause us to lose customers, or otherwise harm our business. We may also incur significant costs for using alternative equipment or taking other actions in preparation for, or in reaction to, events that damage the AWS services we use. Further, if we were to make updates to our platforms that were not compatible with the configuration, architecture, features, and interconnection specifications of the third-party platform, our service could be disrupted.

Amazon produces the Amazon Cloud Cam, which competes with our security camera products, and recently acquired two of our competitors, Blink and Ring. Amazon may choose to hamper our competitive efforts, using provision of AWS services as leverage. In the event that there is a lapse of service, elimination of AWS services or features that we use, interruption of internet service provider connectivity, or damage to such facilities, we could experience interruptions in access to our platform as well as significant delays and additional expense in arranging or creating new facilities and services and/or re-architecting our solutions for deployment on a different cloud infrastructure service provider, which could materially adversely affect our business, results of operations, and financial condition.

Our current and future products may experience quality problems, including defects or errors, from time to time that can result in adverse publicity, product recalls, litigation, regulatory proceedings, and warranty claims resulting in significant direct or indirect costs, decreased revenue, and operating margin, and harm to our brand.

We sell complex products that could contain design and manufacturing defects in their materials, hardware, and firmware. These defects could include defective materials or components that can unexpectedly interfere with the products’ intended operations or cause injuries to users or property damage. Although we extensively and rigorously test new and enhanced products and services before their release, we cannot assure we will be able to detect, prevent, or fix all defects. Failure to detect, prevent, or fix defects, or an increase in defects, could result in a variety of consequences, including a greater number of product returns than expected from users and retailers, increases in warranty costs, regulatory proceedings, product recalls, and litigation, each of which could materially adversely affect our business, results of operations, and financial condition. We generally provide a one-year hardware warranty on all of our products. The occurrence of real or perceived quality problems or material defects in our current and future products could expose us to warranty claims in excess of our current reserves. If we experience greater returns from retailers or users, or greater warranty claims, in excess of our reserves, our business, financial condition, and results of operations could be harmed. In addition, any negative publicity or lawsuits filed against us related to the perceived quality and safety of our products could also adversely affect our brand, decrease demand for our products and services, and materially adversely affect our business, results of operations, and financial condition.

In addition, epidemic failure clauses are found in certain of our customer contracts. If invoked, these clauses may entitle the customer to return for replacement or obtain credits for products and inventory, as well as assess liquidated damage penalties and terminate an existing contract and cancel future or then-current purchase orders. In such instances, we may also be obligated to cover significant costs incurred by the customer associated with the consequences of such epidemic failure, including freight and transportation required for product replacement and out-of-pocket costs for truck rolls to end-user sites to collect the defective products. Costs or payments we make in connection with an epidemic failure could materially adversely affect our business, results of operations, and financial condition.

If our products contain defects or errors, or are found to be noncompliant with industry standards, we could experience decreased sales and increased product returns, loss of customers and market share, and increased service, warranty, and insurance costs. In addition, defects in, or misuse of, certain of our products could cause safety concerns, including the risk of property damage or personal injury. If any of these events occurred, our reputation and brand could be damaged, and we could face product liability or other claims regarding our products, resulting in unexpected expenses and adversely impacting our operating results. For instance, if a third party were able to successfully overcome the security measures in our products, such a person or entity could misappropriate end-user data, third-party data stored by our users, and other information, including intellectual property. If that happens, affected end-users or others may file actions against us alleging product liability, tort, or breach of warranty claims.

We rely on a limited number of traditional and online retailers and wholesale distributors for a substantial portion of our sales, and our revenue could decline if they refuse to pay our requested prices or reduce their level of purchases or if there is significant consolidation in our sales channels, which results in fewer sales channels for our products.

We sell a substantial portion of our products through traditional and online retailers, including Amazon, Best Buy Co., Inc. ("Best Buy"), and Costco Wholesale Corporation (“Costco”) and Verisure and their respective affiliates. For the year ended December 31, 2020, we derived 20.6%, 17.3%, 14.6% and 12.2%of our revenue from Costco, Verisure, Best Buy and Amazon and their affiliates, respectively. In addition, we sell to wholesale distributors, including Ingram Micro, Inc., D&H Distributing Company, and Synnex Corporation. We expect that a significant portion of our revenue will continue to come from sales to a small number of such retailers, distributors, and other channel partners. In addition, because our accounts receivable are often concentrated within a small group of retailers, distributors, and other channel partners, the failure of any of them to pay on a timely basis, or at all, would reduce our cash flow. If Best Buy or other retailers closes any of its retail stores due to COVID-19 pandemic, our revenue could be adversely impacted. We are also exposed to increased credit risk if any one of these limited numbers of retailer and distributor channel partners fails or becomes insolvent. We generally have no minimum purchase commitments or long-term contracts with any of these retailers, distributors and other channel partners. These purchasers could decide at any time to discontinue, decrease, or delay their purchases of our products. If our retailers, distributors, and other channel partners increase the size of their product orders without sufficient lead-time for us to process the order, our ability to fulfill product orders would be compromised. These channel partners have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, which often results in the allocation of risk to us as the supplier. Accordingly, the prices that they pay for our products are subject to negotiation and could change at any time. We have historically benefited from NETGEAR’s strong relationships with these retailers, distributors, and other channel partners, and we may not be able to maintain these relationships following our separation from NETGEAR. Our ability to maintain strong relationships with these channel partners is essential to our future performance. If any of our major channel partners reduce their level of purchases or refuse to pay the prices that we set for our products, our revenue and results of operations could be harmed. The traditional retailers that purchase from us have faced increased and significant competition from online retailers. If our key traditional retailers continue to reduce their level of purchases from us, our business, results of operations, and financial condition could be harmed.

Additionally, concentration and consolidation among our channel partner base may allow certain retailers and distributors to command increased leverage in negotiating prices and other terms of sale, which could adversely affect our profitability. In addition, if, as a result of increased leverage, channel partner pressures require us to reduce our pricing such that our gross margin is diminished, we could decide not to sell our products to a particular channel partner, which could result in a decrease in our revenue. Consolidation among our channel partner base may also lead to reduced demand for our products, elimination of sales opportunities, replacement of our products with those of our competitors, and cancellations of orders, each of which could materially adversely affect our business, results of operations, and financial condition. If consolidation among the retailers, distributors, or other channel partners who purchase our products becomes more prevalent, our business, results of operations, and financial condition could be materially adversely affected.

In particular, the retail and connected home markets in some countries, including the United States, are dominated by a few large retailers with many stores. These retailers have in the past increased their market share and may continue to do so in the future by expanding through acquisitions and construction of additional stores. These situations concentrate our credit risk with a relatively small number of retailers, and, if any of these retailers were to experience a shortage of liquidity, it could increase the risk that their outstanding payables to us may not be paid. In addition, increasing market share concentration among one or a few retailers in a particular country or region increases the risk that if any one of them substantially reduces its purchases of our devices, we may be unable to find a sufficient number of other retail outlets for our products to sustain the same level of sales. Any reduction in sales by our retailers could materially adversely affect our business, results of operations, and financial condition.

We depend on large, recurring purchases from certain significant retailers, distributors, and other channel partners, and a loss, cancellation, or delay in purchases by these channel partners could negatively affect our revenue.

The loss of recurring orders from any of our more significant retailers, distributors, and other channel partners could cause our revenue and profitability to suffer. Our ability to attract new retailers, distributors, and other channel partners will depend on a variety of factors, including the cost-effectiveness, reliability, scalability, breadth, and depth of our products. In addition, a change in the mix of our retailers, distributors, and other channel partners, or a change in the mix of direct and indirect sales, could adversely affect our revenue and gross margin.

Although our financial performance may depend on large, recurring orders from certain retailers, distributors, and other channel partners, we do not generally have binding commitments from them. For example:

- our channel partner agreements generally do not require minimum purchases;
- our retailers, distributors, and other channel partners can stop purchasing and stop marketing our products at any time; and
- our channel partner agreements generally are not exclusive.

Further, our revenue may be impacted by significant one-time purchases that are not contemplated to be repeatable. While such purchases are reflected in our financial statements, we do not rely on and do not forecast for continued significant one-time purchases. As a result, lack of repeatable one-time purchases will adversely affect our revenue. Additionally, we may from time to time grant our retailers, distributors, and other channel partners the exceptional right to return certain products, based on the best interests of our mutual businesses, and such returns, if material, could adversely affect our revenue and gross margin.

Because our expenses are based on our revenue forecasts, a substantial reduction or delay in sales of our products to, or unexpected returns from, channel partners, or the loss of any significant channel partners, could materially adversely affect our business, results of operations, and financial condition. Although our largest channel partners may vary from period to period, we anticipate that our results of operations for any given period will continue to depend on large orders from a small number of channel partners.

The average selling prices of our products typically decrease rapidly over the sales cycle of the product, which may negatively affect our revenue and gross margin.

Our products typically experience price erosion, a fairly rapid reduction in the average unit selling prices over their sales cycles. In order to sell products that have a falling average unit selling price and maintain margins at the same time, we need to continually reduce product and manufacturing costs. To manage manufacturing costs, we must partner with our third-party manufacturers to engineer the most cost-effective design for our products. In addition, we must carefully manage the price paid for components used in our products, and we must also successfully manage our freight and inventory costs to reduce overall product costs. We also need to continually introduce new products with higher sales prices and gross margin in order to maintain our overall gross margin. If we are unable to manage the cost of older products or successfully introduce new products with higher gross margin, our revenue and overall gross margin would likely decline.

The reputation of our services may be damaged, and we may face significant direct or indirect costs, decreased revenue, and operating margins if our services contain significant defects or fail to perform as intended.

Our services, including our intelligent cloud and App platform and our Arlo Smart services, are complex, and may not always perform as intended due to outages of our systems or defects affecting our services. Systems outages could be disruptive to our business and damage the reputation of our services and result in potential loss of revenue.

Significant defects affecting our services may be found following the introduction of new software or enhancements to existing software or in software implementations in varied information technology environments. Internal quality assurance testing and end-user testing may reveal service performance issues or desirable feature enhancements that could lead us to reallocate service development resources or postpone the release of new versions of our software. The reallocation of resources or any postponement could cause delays in the development and release of future enhancements to our currently available software, damage the reputation of our services in the marketplace, and result in potential loss of revenue. Although we attempt to resolve all errors that we believe would be considered serious by our partners and customers, the software powering our services is not error-free. Undetected errors or performance problems may be discovered in the future, and known errors that we consider minor may be considered serious by our channel partners and end-users.

System disruptions and defects in our services could result in lost revenue, delays in customer deployment, or legal claims and could be detrimental to our reputation.

Because we store, process, and use data, some of which contain personal information, we are subject to complex and evolving federal, state, and foreign laws and regulations regarding privacy, data protection, and other related matters, which are subject to change.

We are subject to a variety of laws and regulations in the United States and other countries that involve matters central to our business, including with respect to user privacy, rights of publicity, data protection, content, protection of minors, and consumer protection. These laws can be particularly restrictive in countries outside the United States. Both in the United States and abroad, these laws and regulations constantly evolve and remain subject to significant change. In addition, the application and interpretation of these laws and regulations are often unpredictable and uncertain, particularly in the new and rapidly evolving industry in which we operate. Because we store, process, and use data, some of which contain personal information, we are subject to complex and evolving federal, state, and foreign laws and regulations regarding privacy, data protection, and other matters. Many of these laws and regulations could result in investigations, claims, changes to our business practices, increased cost of operations, and declines in user growth, retention, or engagement, any of which could materially adversely affect our business, results of operations, and financial condition.

In the EU/EEA, the General Data Protection Regulation (2016/679) (“GDPR”) went into effect in 2018 and replaced Directive 95/46/EC (the EU Privacy Directive), becoming directly applicable in all European Union member states. The GDPR establishes new requirements applicable to the processing of personal data (*i.e.*, data which identifies an individual or from which an individual is identifiable), affords new data protection rights to individuals (*e.g*., the right to erasure of personal data) and imposes penalties for serious data breaches. Individuals also have a right to compensation under GDPR for financial or non-financial losses. Additionally, Brexit took effect in January 2020, which will lead to further legislative and regulatory changes. While the Data Protection Act of 2018, that "implements" and complements the GDPR achieved Royal Assent on May 23, 2018 and is now effective in the United Kingdom, it is still unclear whether transfer of data from the EEA to the United Kingdom will remain lawful in the long term under GDPR. With the expiry of the transition period on December 31, 2020, companies will have to comply with the GDPR and the GDPR as incorporated into United Kingdom national law, which has the ability to separately fine up to the greater of £17.5 million or 4% of global turnover. The relationship between the United Kingdom and the European Union in relation to certain aspects of data protection law remains unclear, for example around how data can lawfully be transferred between each jurisdiction, which exposes us to further compliance risk. We may incur liabilities, expenses, costs, and other operational losses under GDPR and applicable EU Member States and the United Kingdom privacy laws in connection with any measures we take to comply with them.

California also recently enacted legislation that has been dubbed the first "GDPR-like" law in the U.S. Known as the California Consumer Privacy Act ("CCPA"), it creates new individual privacy rights for consumers (as that word is broadly defined in the law) and places increased privacy and security obligations on entities handling personal data of consumers or households. The CCPA, which went into effect on January 1, 2020, requires covered companies to provide new disclosures to California consumers, and provides such consumers new ways to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability.

Further, California voters approved a new privacy law, the California Privacy Rights Act ("CPRA") in the November 3, 2020 election. Effective starting on January 1, 2023, the CPRA will significantly modify the CCPA, including by expanding consumers' rights with respect to certain sensitive personal information. The CPRA also creates a new state agency that will be vested with authority to implement and enforce the CCPA and the CPRA. New legislation proposed or enacted in various other states will continue to shape the data privacy environment nationally. Certain state laws may be more stringent or broader in scope, or offer greater individual rights, with respect to confidential, sensitive and personal information than federal, international or other state laws, and such laws may differ from each other, which may complicate compliance efforts.

Some observers have noted that the CCPA and CPRA could mark the beginning of a trend toward more stringent privacy legislation in the U.S., which could increase our potential liability and adversely affect our business. GDPR and CCPA will impose additional responsibility and liability in relation to our processing of personal data. GDPR, CCPA, and CPRA may require us to change our policies and procedures and, if we are not compliant, could materially adversely affect our business, results of operations, and financial condition.

Global economic conditions could materially adversely affect our revenue and results of operations.

Our business has been and may continue to be affected by a number of factors that are beyond our control, such as general geopolitical, economic, and business conditions, conditions in the financial markets, and changes in the overall demand for connected lifestyle products. Our products and services may be considered discretionary items for our consumer and small business end-users. A severe and/or prolonged economic downturn, including as a result of the COVID-19 pandemic, could adversely affect our customers' financial condition and the levels of business activity of our customers. Weakness in, and uncertainty about, global economic conditions may cause businesses to postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for our products.

In the recent past, various regions worldwide have experienced slow economic growth. In addition, current economic challenges in China, including any global economic ramifications of these challenges, may continue to put negative pressure on global economic conditions. If conditions in the global economy, including Europe, China, Australia and the United States, or other key vertical or geographic markets deteriorate, such conditions could materially adversely affect our business, results of operations, and financial condition. If we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, which could materially adversely affect our business, results of operations, and financial condition. In addition, the economic problems affecting the financial markets and the uncertainty in global economic conditions resulted in a number of adverse effects, including a low level of liquidity in many financial markets, extreme volatility in credit, equity, currency, and fixed income markets, instability in the stock market, and high unemployment.

For example, the challenges faced by the European Union to stabilize some of its member economies, such as Greece, Portugal, Spain, Hungary, and Italy, have had international implications, affecting the stability of global financial markets and hindering economies worldwide. Many member nations in the European Union have been addressing the issues with controversial austerity measures. In addition, the potential consequences of the “Brexit” process in the United Kingdom have led to significant uncertainty in the region. Should the European Union monetary policy measures be insufficient to restore confidence and stability to the financial markets, or should the United Kingdom’s “Brexit” decision lead to additional economic or political instability, the global economy, including the U.S. and European Union economies where we have a significant presence, could be hindered, which could have a material adverse effect on us. There could also be a number of other follow-on effects from these economic developments on our business, including the inability of customers to obtain credit to finance purchases of our products, customer insolvencies, decreased customer confidence to make purchasing decisions, decreased customer demand, and decreased customer ability to pay their trade obligations.

In addition, availability of our products from third-party manufacturers and our ability to distribute our products into non-U.S. jurisdictions may be impacted by factors such as an increase in duties, tariffs, or other restrictions on trade; raw material shortages, work stoppages, strikes and political unrest; economic crises and international disputes or conflicts; changes in leadership and the political climate in countries from which we import products; and failure of the United States to maintain normal trade relations with China and other countries.

A portion of our global and U.S. sales are comprised of goods assembled and manufactured in our facilities in Taiwan and the People’s Republic of China, and components for a number of our goods are sourced from suppliers in the People’s Republic of China. When tariffs, duties, or other restrictions are placed on goods imported into the United States from China or any related counter-measures are taken by China, our revenue and results of operations may be materially harmed.

On September 17, 2018, President Trump announced the imposition of an additional 10% ad valorem duty on approximately $200 billion worth of Chinese imports, known as List 3, pursuant to Section 301 of the Trade Act of 1974. The Office of the U.S. Trade Representative concurrently published the final list of products that are subject to the additional duty, effective September 24, 2018. On May 10, 2019, the President increased the additional duty to 25% ad valorem, and has since proposed a further increase of this rate to 30%, though the increase is not currently scheduled to take effect. In addition, on August 20, 2019, the President announced an additional 15% import duty on other Chinese imports, known as List 4, with the additional duties on certain items (List 4A) effective September 1, 2019, and the remainder (List 4B) effective December 15, 2019. While the additional duty on List 4A has gone into effect, the implementation of the additional duty on List 4B has been suspended in definitely. Further, as of February 14, 2020, the additional duty rate on items listed on List 4A is reduced from 15% to 7.5%. We are actively addressing the risks related to these additional and potential ad valorem duties, which have affected, or have the potential to affect, at least some of our imports from China. Although we have already taken some steps to mitigate these risks, including by moving a significant portion of our manufacturing and assembly to Vietnam and other areas in the Asia Pacific region outside of China, if these duties are imposed, the cost of our products may increase. These duties may also make our products more expensive for consumers, which may reduce consumer demand. We may need to offset the financial impact by, among other things, moving even more of our product manufacturing to other locations, modifying other business practices or raising prices. If we are not successful in offsetting the impact of any such duties, our revenue, gross margins, and operating results may be materially adversely affected.

Our stock price may be volatile and your investment in our common stock could suffer a decline in value.

There has been significant volatility in the market price and trading volume of securities of technology and other companies, including recently in connection with the ongoing COVID-19 pandemic, which may be unrelated to the financial performance of these companies. These broad market fluctuations may negatively affect the market price of our common stock.

Some specific factors that may have a significant effect on the market price of our common stock include:

- actual or anticipated fluctuations in our results of operations or our competitors' operating results;
- actual or anticipated changes in the growth rate of the connected lifestyle market, our growth rate or our competitors' growth rates;
- delays in the introduction of new products by us or market acceptance of these products;
- conditions in the financial markets in general or changes in general economic conditions, including due to the COVID-19 pandemic;
- changes in governmental regulation, including taxation and tariff policies;
- interest rate or currency exchange rate fluctuations;
- our ability to forecast or report accurate financial results; and
- changes in stock market analyst recommendations regarding our common stock, other comparable companies, or our industry generally.

We depend substantially on our sales channels, and our failure to maintain and expand our sales channels would result in lower sales and reduced revenue.

To maintain and grow our market share, revenue, and brand, we must maintain and expand our sales channels. Our sales channels consist primarily of traditional retailers, online retailers, and wholesale distributors, but also include service providers such as wireless carriers and telecommunications providers. We generally have no minimum purchase commitments or long-term contracts with any of these third parties.

Traditional retailers have limited shelf space and promotional budgets, and competition is intense for these resources. A competitor with more extensive product lines and stronger brand identity may have greater bargaining power with these retailers. Any reduction in available shelf space or increased competition for such shelf space would require us to increase our marketing expenditures simply to maintain current levels of retail shelf space, which would harm our operating margin. Our traditional retail customers have faced increased and significant competition from online retailers. If we cannot effectively manage our business amongst our online customers and traditional retail customers, our business would be harmed. The recent trend in the consolidation of online retailers has resulted in intensified competition for preferred product placement, such as product placement on an online retailer's internet home page. In addition, our efforts to realign or consolidate our sales channels may cause temporary disruptions in our product sales and revenue, and these efforts may not result in the expected longer-term benefits that prompted them.

In addition, to the extent our retail and distributor channel partners supply products that compete with our own, it is possible that these channel partners may choose not to offer our products to end-users or to offer our products to end-users on less favorable terms, including with respect to product placement. If this were to occur, we may not be able to increase or maintain our sales, and our business, results of operations, and financial condition could be materially adversely affected. For example, Amazon, one of our primary retailers, produces the Amazon Cloud Cam, which competes with our security camera products, and also recently acquired two of our competitors, Blink and Ring. For the year ended December 31, 2020, we derived 12.2% of our revenue from Amazon and its affiliates.

We must also continuously monitor and evaluate emerging sales channels. If we fail to establish a presence in an important developing sales channel, our business, results of operations, and financial condition could be materially adversely affected.

If we do not effectively manage our sales channel inventory and product mix, we may incur costs associated with excess inventory, or lose sales from having too few products.

If we are unable to properly monitor, control, and manage our sales channel inventory and maintain an appropriate level and mix of products with our distributors and within our sales channels, we may incur increased and unexpected costs associated with this inventory. We generally allow distributors and traditional retailers to return a limited amount of our products in exchange for other products. Under our price protection policy, if we reduce the list price of a product, we are often required to issue a credit in an amount equal to the reduction for each of the products held in inventory by our wholesale distributors and retailers. If our wholesale distributors and retailers are unable to sell their inventory in a timely manner, we might lower the price of the products, or these parties may exchange the products for newer products. Also, during the transition from an existing product to a new replacement product, we must accurately predict the demand for the existing and the new product.

We determine production levels based on our forecasts of demand for our products. Actual demand for our products depends on many factors, which makes it difficult to forecast. We have experienced differences between our actual and our forecasted demand in the past and expect differences to arise in the future. If we improperly forecast demand for our products, we could end up with too many products and be unable to sell the excess inventory in a timely manner, if at all, or, alternatively, we could end up with too few products and not be able to satisfy demand. This problem is exacerbated because we attempt to closely match inventory levels with product demand, leaving limited margin for error. If these events occur, we could incur increased expenses associated with writing off excessive or obsolete inventory, lose sales, incur penalties for late delivery, or have to ship products by air freight to meet immediate demand, thereby incurring incremental freight costs above the sea freight costs, a preferred method, and suffering a corresponding decline in gross margin.

If we are unable to secure and protect our intellectual property rights, our ability to compete could be harmed.

We rely on a combination of copyright, trademark, patent, and trade secret laws, nondisclosure agreements with employees, consultants, and suppliers, and other contractual provisions to establish, maintain, and protect our intellectual property and technology. Despite efforts to protect our intellectual property, unauthorized third parties may attempt to design around, copy aspects of our product design or obtain and use technology or other intellectual property associated with our products. Furthermore, our competitors may independently develop similar technology or design around our intellectual property. Our inability to secure and protect our intellectual property rights could materially adversely affect our brand and business, results of operations, and financial condition.

We rely upon third parties for technology that is critical to our products, and if we are unable to continue to use this technology and future technology, our ability to develop, sell, maintain, and support technologically innovative products would be limited.

We rely on third parties to obtain non-exclusive patented hardware and software license rights in technologies that are incorporated into and necessary for the operation and functionality of most of our products. In these cases, because the intellectual property we license is available from third parties, barriers to entry into certain markets may be lower for potential or existing competitors than if we owned exclusive rights to the technology that we license and use. Moreover, if a competitor or potential competitor enters into an exclusive arrangement with any of our key third-party technology providers, or if any of these providers unilaterally decides not to do business with us for any reason, our ability to develop and sell products containing that technology would be severely limited. In addition, certain of Arlo’s firmware and the AI-based algorithms that we use in our Arlo Smart services incorporate open source software, the licenses for which may include customary requirements for, and restrictions on, use of the open source software.

If we are offering products or services that contain third-party technology that we subsequently lose the right to license, then we will not be able to continue to offer or support those products or services. In addition, these licenses may require royalty payments or other consideration to the third-party licensor. Our success will depend, in part, on our continued ability to access these technologies, and we do not know whether these third-party technologies will continue to be licensed to us on commercially acceptable terms, if at all. In addition, if these third-party licensors fail or experience instability, then we may be unable to continue to sell products and services that incorporate the licensed technologies, in addition to being unable to continue to maintain and support these products and services. We do require escrow arrangements with respect to certain third-party software which entitle us to certain limited rights to the source code, in the event of certain failures by the third party, in order to maintain and support such software. However, there is no guarantee that we would be able to fully understand and use the source code, as we may not have the expertise to do so. We are increasingly exposed to these risks as we continue to develop and market more products containing third-party technology and software. If we are unable to license the necessary technology, we may be forced to acquire or develop alternative technology, which could be of lower quality or performance standards. The acquisition or development of alternative technology may limit and delay our ability to offer new or competitive products and services and increase our costs of production. As a result, our business, results of operations, and financial condition could be materially adversely affected.

We also utilize third-party software development companies and contractors to develop, customize, maintain, and support software that is incorporated into our products and services. If these companies and contractors fail to timely deliver or continuously maintain and support the software, as we require of them, we may experience delays in releasing new products and services or difficulties with supporting existing products, services, and our users.

Our sales and operations in international markets expose us to operational, financial and regulatory risks.

International sales comprise a significant amount of our overall revenue. International sales were 28.4%, 26.6%, and 22.6% of overall revenue in fiscal 2020, 2019, and 2018, respectively. We continue to be committed to growing our international sales, and while we have committed resources to expanding our international operations and sales channels, these efforts may not be successful and could be impacted by COVID-19 pandemic. International operations are subject to a number of risks, including but not limited to:

- exchange rate fluctuations;
- political and economic instability, international terrorism, and anti-American sentiment, particularly in emerging markets;
- potential for violations of anti-corruption laws and regulations, such as those related to bribery and fraud;
- preference for locally branded products, and laws and business practices favoring local competition;
- potential consequences of, and uncertainty related to, the “Brexit” process in the United Kingdom, which could lead to additional expense and complexity in doing business there;
- increased difficulty in managing inventory;
- delayed revenue recognition;
- less effective protection of intellectual property;
- stringent consumer protection and product compliance regulations, including but not limited to General Data Protection Regulation in the European Union, European competition law, the Restriction of

Hazardous Substances directive, the Waste Electrical and Electronic Equipment directive and the European Ecodesign directive, that are costly to comply with and may vary from country to country;

- difficulties and costs of staffing and managing foreign operations;
- business difficulties, including potential bankruptcy or liquidation, of any of our worldwide third-party logistics providers; and
- changes in local tax and customs duty laws or changes in the enforcement, application, or interpretation of such laws.

We are also required to comply with local environmental legislation, and those who sell our products rely on this compliance in order to sell our products. If those who sell our products do not agree with our interpretations and requirements of new legislation, they may cease to order our products and our business, results of operations, and financial condition could be materially adversely affected.

Governmental regulations of imports or exports affecting internet security could affect our revenue.

Any additional governmental regulation of imports or exports or failure to obtain required export approval of our encryption technologies could adversely affect our international and domestic sales. The United States and various foreign governments have imposed controls, export license requirements, and restrictions on the import or export of some technologies, particularly encryption technology. In addition, from time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring the escrow and governmental recovery of private encryption keys. In response to terrorist activity, governments could enact additional regulation or restriction on the use, import, or export of encryption technology. This additional regulation of encryption technology could delay or prevent the acceptance and use of encryption products and public networks for secure communications, resulting in decreased demand for our products and services. In addition, some foreign competitors are subject to less stringent controls on exporting their encryption technologies. As a result, they may be able to compete more effectively than we can in the United States and the international internet security market.

We are involved in litigation matters in the ordinary course and may in the future become involved in additional litigation, including litigation regarding intellectual property rights, which could be costly and subject us to significant liability.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding infringement of patents, trade secrets, and other intellectual property rights. From time to time, third parties have asserted, and may continue to assert, exclusive patent, copyright, trademark, and other intellectual property rights against us, demanding license or royalty payments or seeking payment for damages, injunctive relief, and other available legal remedies through litigation. These also include third-party non-practicing entities who claim to own patents or other intellectual property that they believe cover our products. If we are unable to resolve these matters or obtain licenses on acceptable or commercially reasonable terms, we could be sued or we may be forced to initiate litigation to protect our rights. The cost of any necessary licenses and litigation related to alleged infringement could materially adversely affect our business, results of operations, and financial condition.

In the event successful claims of infringement are brought by third parties, and we are unable to obtain licenses or independently develop alternative technology on a timely basis, we may be subject to indemnification obligations, be unable to offer competitive products, or be subject to increased expenses. If we do not resolve these claims on a favorable basis, our business, results of operations, and financial condition could be materially adversely affected.

As part of growing our business, we may make acquisitions. If we fail to successfully select, execute, or integrate our acquisitions, then our business, results of operations, and financial condition could be materially adversely affected and our stock price could decline.

From time to time, we may undertake acquisitions to add new product and service lines and technologies, acquire talent, gain new sales channels, or enter into new sales territories. Acquisitions involve numerous risks and challenges, including relating to the successful integration of the acquired business, entering into new territories or markets with which we have limited or no prior experience, establishing or maintaining business relationships with new retailers, distributors, or other channel partners, vendors, and suppliers, and potential post-closing disputes.

We cannot ensure that we will be successful in selecting, executing, and integrating acquisitions. Failure to manage and successfully integrate acquisitions could materially harm our business, financial condition, and results of operations. In addition, if stock market analysts or our stockholders do not support or believe in the value of the acquisitions that we choose to undertake, our stock price may decline.

The success of our business depends on customers' continued and unimpeded access to our platform on the internet.

Our users must have internet access in order to use our platform. Some providers may take measures that affect their customers' ability to use our platform, such as degrading the quality of the data packets we transmit over their lines, giving those packets lower priority, giving other packets higher priority than ours, blocking our packets entirely, or attempting to charge their customers more for using our platform.

In December 2010, the Federal Communications Commission (the "FCC"), adopted net neutrality rules barring internet providers from blocking or slowing down access to online content, protecting services like ours from such interference. Recently, the FCC voted in favor of repealing the net neutrality rules, and it is currently uncertain how the U.S. Congress will respond to this decision. To the extent network operators attempt to interfere with our services, extract fees from us to deliver our solution, or otherwise engage in discriminatory practices, our business, results of operations, and financial condition could be materially adversely affected. Within such a regulatory environment, we could experience discriminatory or anti-competitive practices that could impede our domestic and international growth, cause us to incur additional expense, or otherwise materially adversely affect our business, results of operations, and financial condition.

Changes in tax laws or exposure to additional income tax liabilities could affect our future profitability.

Factors that could materially affect our future effective tax rates include, but are not limited to:

- changes in tax laws or the regulatory environment;
- changes in the valuation allowance against deferred tax assets;
- increases in interests and penalties related to income taxes;
- changes in accounting and tax standards or practices;
- changes in the composition of operating income by tax jurisdiction; and
- changes in our operating results before taxes.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Because we do not have a long history of operating as a separate company and we have significant expansion plans, our effective tax rate may fluctuate in the future. Future effective tax rates could be affected by operating losses in jurisdictions where no tax benefit can be recognized under GAAP, changes in the composition of earnings in countries with differing tax rates, changes in deferred tax assets and liabilities, or changes in tax laws.

The Internal Revenue Services ("IRS") and several foreign tax authorities have increasingly focused attention on intercompany transfer pricing with respect to sales of products and services and the use of intangibles. Tax authorities could disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. If we do not prevail in any such disagreements, our profitability may be affected.

In addition, the Organization for Economic Co-operation and Development ("OECD") have been working on new laws on the taxation of the digital economy to provide taxing rights to jurisdictions where the customers or users are located. Some countries have enacted, and others have proposed the new laws to tax digital transactions. These developments may result in material impacts to our financial statements.

We must comply with indirect tax laws in multiple jurisdictions, as well as complex customs duty regimes worldwide. Audits of our compliance with these rules may result in additional liabilities for taxes, duties, interest and penalties related to our international operations which would reduce our profitability.

Our operations are routinely subject to audit by tax authorities in various countries. Many countries have indirect tax systems where the sale and purchase of goods and services are subject to tax based on the transaction value. These taxes are commonly referred to as value-added tax ("VAT") or goods and services tax ("GST"). In addition, the distribution of our products subjects us to numerous complex customs regulations, which frequently change over time. Failure to comply with these systems and regulations can result in the assessment of additional taxes, duties, interest, and penalties. While we believe we are in compliance with local laws, we cannot assure that tax and customs authorities will agree with our reporting positions and upon audit such tax and customs authorities may assess additional taxes, duties, interest, and penalties against us.

Additionally, some of our products are subject to U.S. export controls, including the Export Administration Regulations and economic sanctions administered by the Office of Foreign Assets Control. We also incorporate encryption technology into certain of our solutions. These encryption solutions and underlying technology may be exported outside of the United States only with the required export authorizations or exceptions, including by license, a license exception, appropriate classification notification requirement, and encryption authorization.

Furthermore, our activities are subject to U.S. economic sanctions laws and regulations that prohibit the shipment of certain products and services without the required export authorizations, including to countries, governments, and persons targeted by U.S. embargoes or sanctions. Additionally, the Trump administration has been critical of existing trade agreements and may impose more stringent export and import controls. Obtaining the necessary export license or other authorization for a particular sale may be time consuming, and may result in delay or loss of sales opportunities even if the export license ultimately is granted. While we take precautions to prevent our solutions from being exported in violation of these laws, including using authorizations or exceptions for our encryption products and implementing IP address blocking and screenings against U.S. government and international lists of restricted and prohibited persons and countries, we have not been able to guarantee, and cannot guarantee, that the precautions we take will prevent all violations of export control and sanctions laws, including if purchasers of our products bring our products and services into sanctioned countries without our knowledge. Violations of U.S. sanctions or export control laws can result in significant fines or penalties and incarceration could be imposed on employees and managers for criminal violations of these laws.

Also, various countries, in addition to the United States, regulate the import and export of certain encryption and other technology, including import and export licensing requirements, and have enacted laws that could limit our ability to distribute our products and services or our end-users' ability to utilize our solutions in their countries. Changes in our products and services or changes in import and export regulations may create delays in the introduction of our products in international markets. Furthermore, recent actions by the Trump administration announcing increased duties on products imported from China may severely impact the price of our goods imported into the United States in the future, and other countries may follow suit and increase duties on goods produced in China.

Adverse action by any government agencies related to indirect tax laws could materially adversely affect our business, results of operations and financial condition.

We are subject to, and must remain in compliance with, numerous laws and governmental regulations concerning the manufacturing, use, distribution, and sale of our products, as well as any such future laws and regulations. Some of our customers also require that we comply with their own unique requirements relating to these matters. Any failure to comply with such laws, regulations, and requirements, and any associated unanticipated costs, could materially adversely affect our business, results of operations, and financial condition.

We manufacture and sell products which contain electronic components, and such components may contain materials that are subject to government regulation in both the locations where we manufacture and assemble our products, as well as the locations where we sell our products. For example, certain regulations limit the use of lead in electronic components. To our knowledge, we maintain compliance with all applicable current government regulations concerning the materials utilized in our products for all the locations in which we operate. Since we operate on a global basis, this is a complex process which requires continual monitoring of regulations and an ongoing compliance process to ensure that we and our suppliers are in compliance with all existing regulations. There are areas where new regulations have been enacted which could increase our cost of the components that we utilize or require us to expend additional resources to ensure compliance. For example, the SEC's "conflict minerals" rules apply to our business, and we are expending resources to ensure compliance. The implementation of these requirements by government regulators and our partners and/or customers could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of certain components used in our products. In addition, the supply-chain due diligence investigation required by the conflict minerals rules will require expenditures of resources and management attention regardless of the results of the investigation. If there is an unanticipated new regulation which significantly impacts our use of various components or requires more expensive components, that regulation could materially adversely affect our business, results of operations, and financial condition.

One area that has a large number of regulations is environmental compliance. Management of environmental pollution and climate change has produced significant legislative and regulatory efforts on a global basis, and we believe this will continue both in scope and in the number of countries participating. These changes could directly increase the cost of energy, which may have an impact on the way we manufacture products or utilize energy to produce our products. In addition, any new regulations or laws in the environmental area might increase the cost of raw materials we use in our products. Environmental regulations require us to reduce product energy usage, monitor and exclude an expanding list of restricted substances, and participate in required recovery and recycling of our products. While future changes in regulations are certain, we are currently unable to predict how any such changes will impact us and if such impacts will be material to our business. If there is a new law or regulation that significantly increases our costs of manufacturing or causes us to significantly alter the way that we manufacture our products, this could have a material adverse effect on our business, financial condition, and results of operations.

Our selling and distribution practices are also regulated in large part by U.S. federal and state as well as foreign, antitrust and competition laws and regulations. In general, the objective of these laws is to promote and maintain free competition by prohibiting certain forms of conduct that tend to restrict production, raise prices or otherwise control the market for goods or services to the detriment of consumers of those goods and services. Potentially prohibited activities under these laws may include unilateral conduct or conduct undertaken as the result of an agreement with one or more of our suppliers, competitors, or customers. The potential for liability under these laws can be difficult to predict as it often depends on a finding that the challenged conduct resulted in harm to competition, such as higher prices, restricted supply, or a reduction in the quality or variety of products available to consumers. We utilize a number of different distribution channels to deliver our products to customers and end-users and regularly enter into agreements with resellers of our products at various levels in the distribution chain that could be subject to scrutiny under these laws in the event of private litigation or an investigation by a governmental competition authority. In addition, many of our products are sold to consumers via the internet. Many of the competition-related laws that govern these internet sales were adopted prior to the advent of the internet and, as a result, do not contemplate or address the unique issues raised by online sales. New interpretations of existing laws and regulations, whether by courts or by the state, federal, or foreign governmental authorities charged with the enforcement of those laws and regulations, may also impact our business in ways we are currently unable to predict. Any failure on our part or on the part of our employees, agents, distributors, or other business partners to comply with the laws and regulations governing competition can result in negative publicity and diversion of management time and effort and may subject us to significant litigation liabilities and other penalties.

We are exposed to the credit risk of some of our customers and to credit exposures in certain markets, which could result in material losses.

A substantial portion of our sales are on an open credit basis, with typical payment terms of 30 to 60 days in the United States and, because of local customs or conditions, longer in some markets outside the United States. We monitor individual customer financial viability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay and maintain reserves we believe are adequate to cover exposure for doubtful accounts.

Any bankruptcies or illiquidity among our customer base could harm our business and have a material adverse effect on our financial condition and results of operations. To the degree that turmoil in the credit markets makes it more difficult for some customers to obtain financing, our customers' ability to pay could be adversely impacted, which in turn could materially adversely affect our business, results of operations, and financial condition.

If our products are not compatible with some or all leading third-party IoT products and protocols, we could be materially adversely affected.

A core part of our solution is the interoperability of our platform with third-party IoT products and protocols. The Arlo platform seamlessly integrates with third-party IoT products and protocols, such as Amazon Alexa, Apple HomeKit, Apple TV, Google Assistant, IFTTT, Stringify, and Samsung SmartThings. If these third parties were to alter their products, we could be adversely impacted if we fail to timely create compatible versions of our products, and such incompatibility could negatively impact the adoption of our products and solutions. A lack of interoperability may also result in significant redesign costs, and harm relations with our customers. Further, the mere announcement of an incompatibility problem relating to our products could materially adversely affect our business, results of operations, and financial condition.

In addition, to the extent our competitors supply products that compete with our own, it is possible these competitors could design their technologies to be closed or proprietary systems that are incompatible with our products or work less effectively with our products than their own. As a result, end-users may have an incentive to purchase products that are compatible with the products and technologies of our competitors over our products.

The marketability of our products may suffer if wireless telecommunications operators do not deliver acceptable wireless services.

The success of our business depends, in part, on the capacity, affordability, reliability, and prevalence of wireless data networks provided by wireless telecommunications operators and on which our IoT hardware products and solutions operate. Growth in demand for wireless data access may be limited if, for example, wireless telecommunications operators cease or materially curtail operations, fail to offer services that customers consider valuable at acceptable prices, fail to maintain sufficient capacity to meet demand for wireless data access, delay the expansion of their wireless networks and services, fail to offer and maintain reliable wireless network services, or fail to market their services effectively.

We are exposed to adverse currency exchange rate fluctuations in jurisdictions where we transact in local currency, which could materially adversely affect our business, results of operations, and financial condition.

Because a significant portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial condition, results of operations, and cash flows. Although a portion of our international sales are currently invoiced in U.S. dollars, we have implemented and continue to implement for certain countries and customers both invoicing and payment in foreign currencies. Our primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar-denominated sales primarily in Europe and Australia, as well as our global operations, and non-U.S. dollar-denominated operating expenses and certain assets and liabilities. In addition, weaknesses in foreign currencies for U.S. dollar-denominated sales could adversely affect demand for our products. Conversely, a strengthening in foreign currencies against the U.S. dollar could increase foreign currency-denominated costs. As a result, we may attempt to renegotiate pricing of existing contracts or request payment to be made in U.S. dollars. We cannot be sure that our customers would agree to renegotiate along these lines. This could result in customers eventually terminating contracts with us or in our decision to terminate certain contracts, which would adversely affect our sales.

We established a hedging program after the IPO to hedge our exposure to fluctuations in foreign currency exchange rates as a response to the risk of changes in the value of foreign currency-denominated assets and liabilities. We may enter into foreign currency forward contracts or other instruments. We expect that such foreign currency forward contracts will reduce, but will not eliminate, the impact of currency exchange rate movements. For example, we may not execute forward contracts in all currencies in which we conduct business. In addition, we may hedge to reduce the impact of volatile exchange rates on revenue, gross profit and operating profit for limited periods of time. However, the use of these hedging activities may only offset a portion of the adverse financial effect resulting from unfavorable movements in foreign exchange rates.

Risks Related to Our Separation from NETGEAR

If the Distribution, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, NETGEAR, Arlo and Arlo stockholders could be subject to significant tax liabilities, and, in certain circumstances, we could be required to indemnify NETGEAR for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement.

NETGEAR received an opinion from outside tax counsel regarding qualification of the Distribution, together with certain related transactions, as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Code. The opinion was based upon and relied on, among other things, certain facts and assumptions, as well as certain representations, statements and undertakings of NETGEAR and us, including those relating to the past and future conduct of NETGEAR and us. If any of these representations, statements or undertakings are, or become, incomplete or inaccurate, or if we or NETGEAR breach any of the respective covenants in any of the separation-related agreements, the opinion of the outside tax counsel could be invalid and the conclusions reached therein could be jeopardized.

Notwithstanding the opinion of the outside tax counsel, the IRS could determine on an audit that the Distribution, together with certain related transactions, should be taxable if it determines that any of the facts, assumptions, representations, statements or undertakings were incorrect or had been violated, or if it disagrees with the conclusions in the opinion. The opinion of counsel is not binding on the IRS or the courts, and we cannot assure that the IRS or a court would not assert a contrary position. NETGEAR has not requested, and does not intend to request, a ruling from the IRS with respect to the treatment of the Distribution or certain related transactions for U.S. federal income tax purposes.

The consolidated U.S federal income tax return for the calendar year 2018 that we filed with NETGEAR to report the Distribution together with certain related transactions is currently under audit by the IRS. If the Distribution, together with certain related transactions, were to fail to qualify as a tax-free transaction for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Code, in general, NETGEAR would recognize taxable gain as if it had sold our common stock in a taxable sale for its fair market value, and NETGEAR stockholders who receive shares of our common stock in the Distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares.

We entered into the tax matters agreement with NETGEAR to indemnify NETGEAR for any taxes (and any related costs and other damages) resulting from the Separation and Distribution, and certain other related transactions, to the extent such amounts were to result from (i) an acquisition after the Distribution of all or a portion of our equity securities, whether by merger or otherwise (and regardless of whether we participated in or otherwise facilitated the acquisition), (ii) other actions or failures to act by us or (iii) any of the representations or undertakings contained in any of the Separation-related agreements or in the documents relating to the opinion of counsel being incorrect or violated. Any such indemnity obligations arising under the tax matters agreement could be material.

NETGEAR has agreed to indemnify us for certain liabilities. However, we cannot assure that the indemnity will be sufficient to insure us against the full amount of such liabilities, or that NETGEAR's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the master separation agreement entered into between us and NETGEAR and certain other agreements with NETGEAR, NETGEAR has agreed to indemnify us for certain liabilities. The master separation agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of our business with us and financial responsibility for the obligations and liabilities of NETGEAR's business with NETGEAR. Under the intellectual property rights cross-license agreement entered into between us and NETGEAR, each party, in its capacity as a licensee, indemnifies the other party, in its capacity as a licensor, as well as its directors, officers, agents, successors and subsidiaries against any losses suffered by such indemnified party as a result of the indemnifying party's practice of the intellectual property licensed to such indemnifying party under the intellectual property rights cross-license agreement. Also, under the tax matters agreement entered into between us and NETGEAR, each party is liable for, and indemnifies the other party and its subsidiaries from and against any liability for, taxes that are allocated to such party under the tax matters agreement. In addition, we have agreed in the tax matters agreement that each party will generally be responsible for any taxes and related amounts imposed on us or NETGEAR as a result of the failure of the Distribution, together with certain related transactions, to qualify as a transaction that is generally tax-free, for U.S. federal income tax purposes, under Sections 355 and 368(a)(1)(D) and certain other relevant provisions of the Code, to the extent that the failure to so qualify is attributable to actions, events or transactions relating to such party's respective stock, assets or business, or a breach of the relevant representations or covenants made by that party in the tax matters agreement. The transition services agreement generally provides that the applicable service recipient indemnifies the applicable service provider for liabilities that such service provider incurs arising from the provision of services other than liabilities arising from such service provider's gross negligence, bad faith or willful misconduct or material breach of the transition services agreement, and that the applicable service provider indemnifies the applicable service recipient for liabilities that such service recipient incurs arising from such service provider's gross negligence, bad faith or willful misconduct or material breach of the transition services agreement. Pursuant to the registration rights agreement, we have agreed to indemnify NETGEAR and its subsidiaries that hold registrable securities (and their directors, officers, agents and, if applicable, each other person who controls such holder under Section 15 of the Securities Act) registering shares pursuant to the registration rights agreement against certain losses, expenses and liabilities under the Securities Act, common law or otherwise. NETGEAR and its subsidiaries that hold registrable securities similarly indemnify us but such indemnification will be limited to an amount equal to the net proceeds received by such holder under the sale of registrable securities giving rise to the indemnification obligation.

However, third parties could also seek to hold us responsible for any of the liabilities that NETGEAR has agreed to retain, and we cannot assure that an indemnity from NETGEAR will be sufficient to protect us against the full amount of such liabilities, or that NETGEAR will be able to fully satisfy its indemnification obligations in the future. Even if we ultimately succeed in recovering from NETGEAR any amounts for which we are held liable, we may be temporarily required to bear these losses. Each of these risks could materially adversely affect our business, results of operations, and financial condition.

Risks Related to Ownership of Our Common Stock

We may change our dividend policy at any time.

Although we currently intend to retain future earnings to finance the operation and expansion of our business and therefore do not anticipate paying cash dividends on our capital stock in the foreseeable future, our dividend policy may change at any time without notice to our stockholders. The declaration and amount of any future dividends to holders of our common stock will be at the discretion of our board of directors in accordance with applicable law and after taking into account various factors, including our financial condition, results of operations, current and anticipated cash needs, cash flows, impact on our effective tax rate, indebtedness, contractual obligations, legal requirements, and other factors that our board of directors deems relevant. As a result, we cannot assure you that we will pay dividends at any rate or at all.

Future sales, or the perception of future sales, of our common stock may depress the price of our common stock.

The market price of our common stock could decline significantly as a result of sales or other distributions of a large number of shares of our common stock in the market. The perception that these sales might occur could depress the market price of our common stock. These sales, or the possibility that these sales may occur, might also make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

The 11,747,250 shares of our common stock sold in the IPO are freely tradable in the public market. On December 31, 2018, NETGEAR completed the Distribution to its stockholders of the 62,500,000 shares of Arlo common stock that it owned. As of December 31, 2020, we have 79,336,242 shares of common stock outstanding.

In the future, we may issue our securities in connection with investments or acquisitions. The amount of shares of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then-outstanding shares of our common stock.

Any impairment of goodwill, other intangible assets, and long-lived assets could negatively impact our results of operations.

Under generally accepted accounting principles, we review our intangible assets and long-lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered when determining if the carrying value of our goodwill, other intangible assets and long-lived assets may not be recoverable include a significant decline in our expected future cash flows or a sustained, significant decline in our stock price and market capitalization.

If, in any period our stock price decreases to the point where the fair value of our assets (as partially indicated by our market capitalization) is less than our book value, this could indicate a potential impairment and we may be required to record an impairment charge in that period. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on projections of future operating performance. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. As a result, we may incur substantial impairment charges to earnings in our financial statements should an impairment of our goodwill, other intangible assets and long-lived assets be determined resulting in an adverse impact on our results of operations. If there is a decline in the Company's stock price based on market conditions and deterioration of the Company's business, the Company may have to record a charge to its earnings for the associated goodwill impairment of up to $11.0 million.

We are subject to securities class action and derivative litigation.

We are subject to various securities class action and derivative complaints, as more fully discussed in the heading under “Litigation and Other Legal Matters” in Note 11, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements in Part II of Item 8 of this Annual Report on Form 10-K.

Regardless of the merits or ultimate results of the above-described litigation matters, they could result in substantial costs, which would hurt the Company's financial condition and results of operations and divert management’s attention and resources from our business. At this point, however, it is too early to reasonably estimate any financial impact to the Company resulting from these litigation matters.

Your percentage ownership in Arlo may be diluted in the future.

In the future, your percentage ownership in Arlo may be diluted because of equity awards that Arlo may grant to Arlo’s directors, officers, and employees or otherwise as a result of equity issuances for acquisitions or capital market transactions. In addition, following the Distribution, Arlo and NETGEAR employees hold awards in respect of shares of our common stock as a result of the conversion of certain NETGEAR stock awards (in whole or in part) to Arlo stock awards in connection with the Distribution. Such awards have a dilutive effect on Arlo’s earnings per share, which could adversely affect the market price of Arlo common stock. From time to time, Arlo will issue additional stock-based awards to its employees under Arlo’s employee benefits plans.

In addition, Arlo’s amended and restated certificate of incorporation authorizes Arlo to issue, without the approval of Arlo’s stockholders, one or more classes or series of preferred stock having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over Arlo’s common stock respecting dividends and distributions, as Arlo’s board of directors generally may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, Arlo could grant the holders of preferred stock the right to elect some number of Arlo’s directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences that Arlo could assign to holders of preferred stock could affect the residual value of the common stock.

We are an emerging growth company, and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common shares less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including exemption from compliance with the auditor attestation requirements of Section 404, reduced disclosure obligations regarding executive compensation and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We will remain an emerging growth company until the earliest of (1) December 31, 2023, (2) the last day of the fiscal year in which we have total annual revenue of at least $1.07 billion, (3) the last day of the fiscal year in which we become a large accelerated filer, which means that we have been public for at least 12 months, have filed at least one annual report and the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last day of our then most recently completed second fiscal quarter, or (4) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Even after we no longer qualify as an emerging growth company, we may still qualify as a “smaller reporting company,” which would allow us to take advantage of many of the same exemptions from disclosure requirements including exemption from compliance with the auditor attestation requirements of Section 404 and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements.

We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our share price may be more volatile.

Certain provisions in our amended and restated certificate of incorporation and amended and restated bylaws and of Delaware law may prevent or delay an acquisition of Arlo, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain, and Delaware law contains, provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the bidder and to encourage prospective acquirers to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include, among others:

- the inability of our stockholders to call a special meeting;
- the inability of our stockholders to act without a meeting of stockholders;
- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings;
- the right of our board of directors to issue preferred stock without stockholder approval;
- the division of our board of directors into three classes of directors, with each class serving a staggered three-year term, and this classified board provision could have the effect of making the replacement of incumbent directors more time consuming and difficult;
- a provision that stockholders may only remove directors with cause while the board of directors is classified; and
- the ability of our directors, and not stockholders, to fill vacancies on our board of directors.

In addition, because we have not elected to be exempt from Section 203 of the Delaware General Corporation Law (the "DGCL"), this provision could also delay or prevent a change of control that you may favor. Section 203 provides that, subject to limited exceptions, persons that acquire, or are affiliated with a person that acquires, more than 15% of the outstanding voting stock of a Delaware corporation (an "interested stockholder") shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the date on which the person became an interested stockholder, unless (i) prior to such time, the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) the voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to tender or vote stock held by the plan); or (iii) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder.

We believe these provisions will protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal. These provisions are not intended to make Arlo immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of Arlo and its stockholders. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

Our amended and restated certificate of incorporation contains exclusive forum provisions that may discourage lawsuits against us and our directors and officers.

Our amended and restated certificate of incorporation provides that unless the board of directors otherwise determines, the state courts in the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the federal court for the District of Delaware, will be the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: any derivative action or proceeding brought on behalf of Arlo, any action asserting a claim of breach of a fiduciary duty owed by any director or officer of Arlo to Arlo or Arlo's stockholders, any action asserting a claim against Arlo or any director or officer of Arlo arising pursuant to any provision of the DGCL or Arlo's amended and restated certificate of incorporation or bylaws, or any action asserting a claim against Arlo or any director or officer of Arlo governed by the internal affairs doctrine under Delaware law. This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated certificate of incorporation further provides that the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions. These exclusive forum provisions may limit the ability of Arlo's stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with Arlo or Arlo's directors or officers, which may discourage such lawsuits against Arlo and Arlo's directors and officers. Alternatively, if a court were to find one or more of these exclusive forum provisions inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings described above, Arlo may incur further significant additional costs associated with resolving such matters in other jurisdictions or forums, all of which could materially and adversely affect Arlo's business, financial condition, or results of operations.

Our board of directors has the ability to issue blank check preferred stock, which may discourage or impede acquisition attempts or other transactions.

Our board of directors has the power, subject to applicable law, to issue series of preferred stock that could, depending on the terms of the series, impede the completion of a merger, tender offer or other takeover attempt. For instance, subject to applicable law, a series of preferred stock may impede a business combination by including class voting rights, which would enable the holder or holders of such series to block a proposed transaction. Our board of directors will make any determination to issue shares of preferred stock on its judgment as to our and our stockholders' best interests. Our board of directors, in so acting, could issue shares of preferred stock having terms which could discourage an acquisition attempt or other transaction that some, or a majority, of the stockholders may believe to be in their best interests or in which stockholders would have received a premium for their stock over the then prevailing market price of the stock.

General Risks

The market price of our common stock could be volatile and is influenced by many factors, some of which are beyond our control.

The market price of our common stock could be volatile and is influenced by many factors, some of which are beyond our control, including those described above in "*Risks Related to Our Business*" and the following:

- the failure of securities analysts to cover our common stock or changes in financial estimates by analysts;
- the inability to meet the financial estimates of securities analysts who follow our common stock or changes in earnings estimates by analysts;
- strategic actions by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;
- our quarterly or annual earnings, or those of other companies in our industry;
- actual or anticipated fluctuations in our operating results and those of our competitors;
- general economic and stock market conditions;
- the public reaction to our press releases, our other public announcements and our filings with the SEC;
- risks related to our business and our industry, including those discussed above;
- changes in conditions or trends in our industry, markets or customers;
- the trading volume of our common stock;
- future sales of our common stock or other securities; and
- investor perceptions of the investment opportunity associated with our common stock relative to other investment alternatives.

In particular, the realization of any of the risks described in these "*Risk Factors*" could have a material adverse impact on the market price of our common stock in the future and cause the value of your investment to decline. In addition, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In addition, price volatility may be greater if the public float and trading volume of our common stock is low.

We incur significant costs as a result of operating as a public company, and our management devotes substantial time to complying with public company regulations.

Prior to the Separation, we historically operated our business as a segment of a public company. As a standalone public company, we have additional legal, accounting, insurance, compliance, and other expenses that we had not incurred historically. We are obligated to file with the SEC annual and quarterly reports and other reports that are specified in Section 13 and other sections of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We are also required to ensure that we have the ability to prepare financial statements that are fully compliant with all SEC reporting requirements on a timely basis. In addition, we are and will continue to become subject to other reporting and corporate governance requirements, including certain requirements of the NYSE, and certain provisions of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and the regulations promulgated thereunder, which will impose significant compliance obligations upon us.

Sarbanes-Oxley, as well as rules subsequently implemented by the SEC and the NYSE, have imposed increased regulation and disclosure and required enhanced corporate governance practices of public companies. We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard are likely to result in increased selling and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. These changes will require a significant commitment of additional resources. We may not be successful in implementing these requirements and implementing them could materially adversely affect our business, results of operations and financial condition. In addition, if we fail to implement the requirements with respect to our internal accounting and audit functions, our ability to report our operating results on a timely and accurate basis could be impaired. If we do not implement such requirements in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities, such as the SEC and the NYSE. Any such action could harm our reputation and the confidence of investors and customers in us and could materially adversely affect our business and cause our share price to fall.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley could materially adversely affect our business, results of operations, financial condition, and stock price.

As a public company, we are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of Sarbanes-Oxley ("Section 404"), which will require annual management assessments of the effectiveness of our internal control over financial reporting beginning with our annual report on Form 10-K for the year ended December 31, 2019. Upon loss of status as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act ("JOBS Act"), an annual report by our independent registered public accounting firm that addresses the effectiveness of internal control over financial reporting will be required. During the course of our testing, we may identify deficiencies which we may not be able to remediate in time to meet our deadline for compliance with Section 404. Testing and maintaining internal control can divert our management's attention from other matters that are important to the operation of our business. We also expect the regulations under Sarbanes-Oxley to increase our legal and financial compliance costs, make it more difficult to attract and retain qualified officers and members of our board of directors, particularly to serve on our audit committee, and make some activities more difficult, time consuming, and costly. We may not be able to conclude on an ongoing basis that we have effective internal control over our financial reporting in accordance with Section 404 or our independent registered public accounting firm may not be able or willing to issue an unqualified report on the effectiveness of our internal control over financial reporting. If we conclude that our internal control over financial reporting is not effective, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or their effect on our operations because there is presently no precedent available by which to measure compliance adequacy. If either we are unable to conclude that we have effective internal control over our financial reporting or our independent auditors are unable to provide us with an unqualified report as required by Section 404, then investors could lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our stock, or if our operating results do not meet their expectations, our stock price could decline.

The trading market for our common stock will be influenced by the research, reports and recommendations that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrades our stock or if our operating results do not meet their expectations, our stock price could decline.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We are a global company with dual corporate headquarters located in San Jose, California and Carlsbad, California. Effective June 2018, we entered into a lease agreement for our San Jose corporate headquarters for approximately 77,800 square feet of office space, which expires in June 2029. Effective December 1, 2018, we entered into a lease for Carlsbad headquarters for approximately 63,500 square feet of office space, which expires in November 2024. Until December 31, 2018, we shared office space with NETGEAR in NETGEAR's San Jose and Carlsbad headquarters and paid NETGEAR a fee in connection with such use.

Our international headquarters occupy approximately 5,000 square feet in an office complex in Cork, Ireland, under a lease that expires in December 2026. During fiscal 2020, our international sales personnel are based out of local sales offices or home offices in Australia and Canada. Our operations personnel use leased facilities in Hong Kong. We maintain our marketing and research and development facilities in San Jose (the United States), Irvine (the United States), Carlsbad (the United States), Richmond (Canada) and Taipei (Taiwan). In addition, we use third parties to provide warehousing services to us, consisting of facilities in Southern California, Texas, Tennessee, Mexico and Hong Kong.

We believe that the facilities described above are suitable and adequate for our present purposes and that the productive capacity in our facilities is substantially being utilized or we have plans to utilize it. Beginning in March 2020, our employees across all geographic regions have shifted to working from home due to the COVID-19 pandemic. Our focus remains on promoting employee health and safety as we carefully evaluate reopening plans and timelines. As of December 31, 2020, we have not terminated any significant lease arrangements. We believe our facilities are adequate for the conduct of our business should we decide to reopen our facilities in the next twelve months.

Item 3. Legal Proceedings

The information set forth under the heading "Litigation and Other Legal Matters" in Note 11, *Commitments and Contingencies,* in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, is incorporated herein by reference. For additional discussion of certain risks associated with legal proceedings, see Item 1A, Risk Factors.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed and traded on the New York Stock Exchange ("NYSE") under the symbol "ARLO".

Holders of Common Stock

On February 19, 2021, we had 8 stockholders of record of our common stock. The number of record holders is based upon the actual number of holders registered on our books at such date and does not include holders of shares in "street names" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depository trust companies.

Dividends

We have not historically declared or paid cash dividends on our common stock. We do not anticipate paying cash dividends in the foreseeable future.

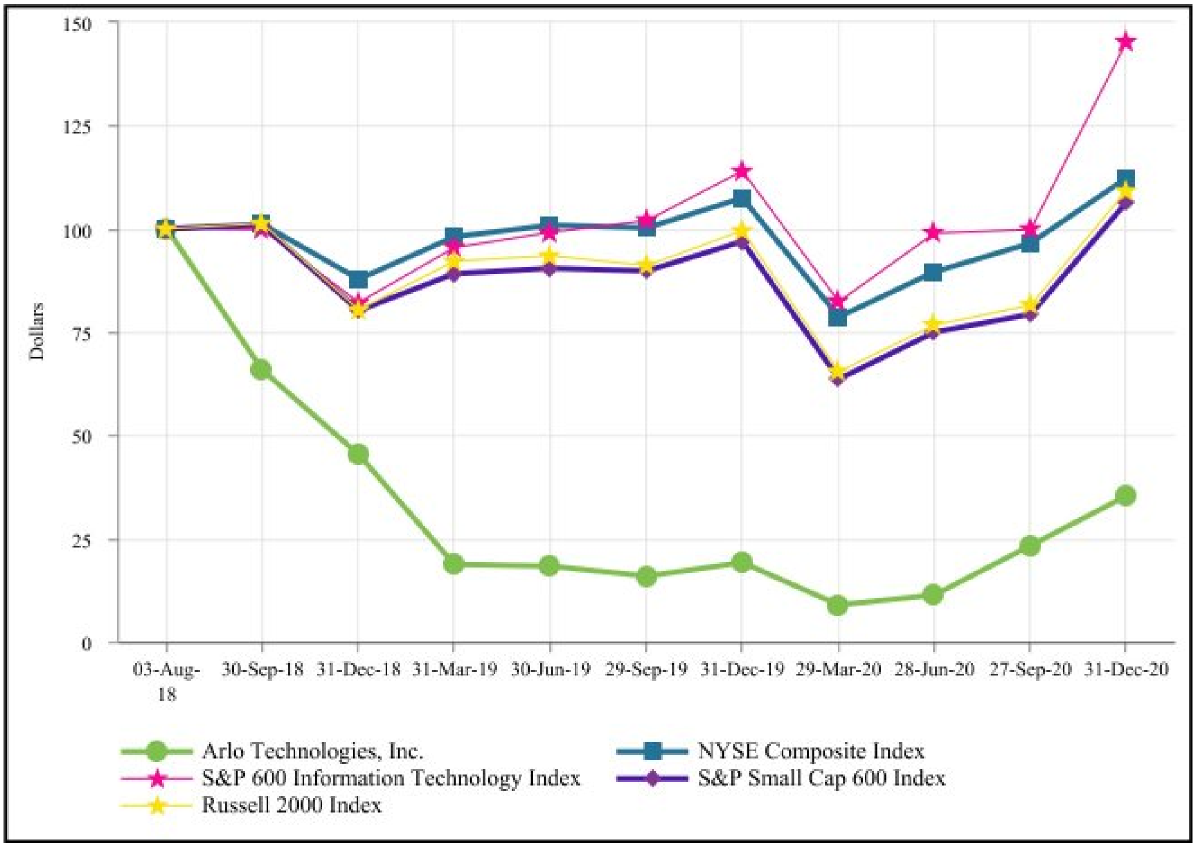
Sales of Unregistered Securities and Issuer Purchases of Equity Securities

For the year ended December 31, 2020, we did not sell any unregistered securities.

Stock Performance Graph

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed "filed" with the SEC or "soliciting material" under the Exchange Act and shall not be incorporated by reference into any such filings.

The following graph shows a comparison from August 3, 2018 through December 31, 2020 of cumulative total return for our common stock, the NYSE Composite Index, the Standard and Poor's 600 Information Technology Index, ("S&P 600 Information Technology Index") and the Standard and Poor's Small Cap 600 Index ("S&P Small Cap 600 Index"). The measurement points in the graph below are August 3, 2018 (the first trading day of our common stock on the NYSE) and the last trading day of each fiscal quarter through the fiscal year ended December 31, 2020. The graph assumes that $100 was invested in Arlo common stock at the closing price of $22.10 on August 3, 2018 and in the NYSE Composite Index, the S&P 600 Information Technology Index, and the S&P Small Cap 600 Index on August 3, 2018, and assumes reinvestment of any dividends. The stock price performance shown in the following graph is not intended to forecast or be indicative of possible future stock price performance.


150
125
100
75
50
25
0
Dollars
03-Aug-18
30-Sep-18
31-Dec-18
31-Mar-19
30-Jun-19
29-Sep-19
31-Dec-19
29-Mar-20
28-Jun-20
27-Sep-20
31-Dec-20
Arlo Technologies, Inc.
NYSE Composite Index
S&P 600 Information Technology Index
S&P Small Cap 600 Index
Russell 2000 Index

Item 6. Selected Financial Data

The following selected consolidated financial data are qualified in their entirety, and should be read in conjunction with the consolidated financial statements and related notes thereto, and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in Item 7 of Part II of this Annual Report on Form 10-K.

The consolidated statements of operations data for each of the years ended December 31, 2020, 2019, and 2018 and the consolidated balance sheets data as of December 31, 2020 and 2019 are derived from our audited consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2017 and 2016 and the consolidated balance sheets data as of December 31, 2018, 2017 and 2016 are derived from our audited consolidated financial statements, except as otherwise noted, that are not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of results to be expected for future periods.

The full years of 2016 and 2017 and first quarter and second quarter of 2018, are based on carve-out financials and reflect the transactions which are directly attributable to Arlo and certain allocated costs, whereas third quarter and fourth quarter of 2018 and fiscal years of 2019 and 2020 are based on our actual results for the periods as a standalone public company.

Consolidated Statements of Operations Data

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(In thousands, except per share data)				
Revenue [1]	$ 357,154	$ 370,007	$ 464,918	$ 370,658	$ 184,604
Cost of revenue [2]	301,765	334,203	372,843	279,424	146,570
Gross profit	55,389	35,804	92,075	91,234	38,034
Operating expenses:					
Research and development [2]	60,137	69,384	58,794	34,683	24,438
Sales and marketing [2]	49,064	56,985	52,593	34,340	18,455
General and administrative [2]	51,096	47,624	28,209	15,096	8,289
Separation expense	248	1,913	27,252	1,384	—
Gain on sale of business [3]	(292)	(54,881)	—	—	—
Total operating expenses	160,253	121,025	166,848	85,503	51,182
Income (loss) from operations	(104,864)	(85,221)	(74,773)	5,731	(13,148)
Interest income	802	2,737	1,239	—	—
Other income (expense), net	3,436	913	(1,177)	1,946	(512)
Income (loss) before income taxes	(100,626)	(81,571)	(74,711)	7,677	(13,660)
Provision for income taxes	625	4,380	772	1,128	83
Net income (loss)	$ (101,251)	$ (85,951)	$ (75,483)	$ 6,549	$ (13,743)
Net income (loss) per share:					
Basic [4]	$ (1.30)	$ (1.14)	$ (1.12)	$ 0.11	$ (0.22)
Diluted [4]	$ (1.30)	$ (1.14)	$ (1.12)	$ 0.11	$ (0.22)

(1) On January 1, 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606) ("ASC 606") and applied this guidance to those contracts which were not completed at the date of adoption using the modified retrospective method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods ("ASC 605"). The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of Net parent investment.

(2) Stock-based compensation expense was allocated as follows:

	2020	2019	2018			2017			2016		
	Total	Total	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
	Year Ended December 31, (In thousands)										
Cost of revenue	$ 2,961	$ 2,013	$ 608	$ 583	$ 1,191	$ 102	$ 599	$ 701	$ 61	$ 266	$ 327
Research and development	9,055	6,868	3,078	396	3,474	1,959	455	2,414	1,349	195	1,544
Sales and marketing	4,106	3,859	1,992	969	2,961	390	866	1,256	110	407	517
General and administrative	19,125	10,154	3,153	2,100	5,253	—	2,547	2,547	—	1,216	1,216
Total	$ 35,247	$ 22,894	$ 8,831	$ 4,048	$ 12,879	$ 2,451	$ 4,467	$ 6,918	$ 1,520	$ 2,084	$ 3,604

(3) Relates to the sale of our commercial operations in Europe in the fourth quarter of 2019. Refer to Note 4, *Disposal of Business*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for a complete discussion of this disposal.

(4) Information regarding calculation of per share data is described in Note 14, *Net Income (Loss) Per Share*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Consolidated Balance Sheets Data:

	As of December 31, (In thousands)				
	2020	2019	2018	2017	2016
Cash, cash equivalents and short-term investments (1)	$ 206,124	$ 256,670	$ 201,027	$ 108	$ 220
Working capital	$ 119,202	$ 175,668	$ 233,484	$ 112,878	$ 54,967
Total assets (2)	$ 413,968	$ 542,712	$ 595,946	$ 269,820	$ 158,581
Deferred revenue (current and non-current)	$ 69,705	$ 66,098	$ 49,991	$ 47,404	$ 23,393
Non-current operating lease liabilities (2)	$ 25,029	$ 29,001	$ —	$ —	$ —
Non-current financing lease obligation (3)	$ —	$ —	$ 19,978	$ —	$ —
Total liabilities	$ 280,201	$ 339,336	$ 326,444	$ 144,401	$ 85,407
Stockholders' equity	$ 133,767	$ 203,376	$ 269,502	$ 125,419	$ 73,174

(1) In fiscal year 2018, reflects $70.9 million in cash contributed by NETGEAR prior to the completion of the IPO in 2018, and the net proceeds of $173.4 million raised from the IPO, net of the portion of the offering cost paid by Arlo, which portion was $1.4 million. Our total offering cost is $4.6 million, of which $3.2 million was paid by NETGEAR. In fiscal year 2019, reflects $75.2 million from Verisure related to sale of the Company's commercial operations in Europe, an advance payment for product purchases, and NRE services under the Supply Agreement.

(2) On January 1, 2019, the Company adopted ASU 2016-12, "Leases" (Topic 842) and applied this guidance utilizing the modified retrospective transition method through a cumulative-effect adjustment at the beginning of the first fiscal quarter of 2019. Refer to Note 11, *Commitments and Contingencies* in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for further information about our leases.

(3) The Company was deemed to be the accounting owner of its build-to-suit lease arrangement for its San Jose corporate headquarters and the construction was in progress at adoption date. As such, the Company reevaluated its build-to-suit lease arrangement under ASU 2016-02 to ascertain whether it meets the criteria as the accounting owner of the build-to-suit lease arrangement through control of the underlying leased asset. The Company concluded that it did not have control over the underlying leased asset. As a result, the Company de-recognized the build to suit asset and liability as of January 1, 2019.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations together with the audited consolidated financial statements and notes to the financial statements included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed under "Risk Factors" in Part I, Item 1A above.

Business and Executive Overview

Arlo combines an intelligent cloud infrastructure and mobile app with a variety of smart connected devices that is transforming the way people experience the connected lifestyle. Arlo's deep expertise in product design, wireless connectivity, cloud infrastructure and cutting-edge AI capabilities focuses on delivering a seamless, smart home experience for Arlo users that is easy to setup and interact with every day. Our cloud-based platform provides users with visibility, insight and a powerful means to help protect and connect in real-time with the people and things that matter most, from any location with a Wi-Fi or a cellular connection. Since the launch of our first product in December 2014, we have shipped over 19.2 million smart connected devices, and as of December 31, 2020, our smart platform had approximately 5.0 million cumulative registered accounts across more than 100 countries around the world.

We conduct business across three geographic regions-the Americas; Europe, Middle-East and Africa ("EMEA"); and Asia Pacific ("APAC") and we primarily generate revenue by selling devices through retail, wholesale distribution, wireless carrier channels, security solution providers, Arlo's direct to consumer store and paid subscription services. International revenue was 28.4%, 26.6% and 22.6% of our revenue for the years ended December 31, 2020, 2019 and 2018, respectively.

For the years ended December 31, 2020, 2019 and 2018, we generated revenue of $357.2 million, $370.0 million and $464.9 million, respectively. Loss from operations was $104.9 million, $85.2 million, $74.8 million for the years ended December 31, 2020, 2019 and 2018, respectively. Income (loss) from operations for the years ended December 31, 2020, 2019 and 2018 included separation expense of $0.2 million, $1.9 million and $27.3 million, respectively. Income (loss) from operations for the years ended December 31, 2020 and 2019 included gain on sale of business of $0.3 million and $54.9 million, respectively.

Our goal is to continue to develop innovative, world-class connected lifestyle solutions to expand and further monetize our current and future user and subscriber bases. We believe that the growth of our business is dependent on many factors, including our ability to innovate and launch successful new products on a timely basis and grow our installed base, to increase subscription-based recurring revenue, to invest in brand awareness and channel partnerships and to continue our global expansion. We expect to maintain our investment in research and development going forward as we continue to introduce new and innovative products and services to enhance the Arlo platform.

Key Business Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key metrics to evaluate our business, measure our performance, develop financial forecasts and make strategic decisions. In 2019, management's incentive compensation was partially determined using certain of these key business metrics. We believe these key business metrics provide useful information by offering the ability to make more meaningful period-to-period comparisons of our on-going operating results and a better understanding of how management plans and measures our underlying business. Our key business metrics may be calculated in a manner different from the same key business metrics used by other companies. We regularly review our processes for calculating these metrics, and from time to time we may discover inaccuracies in our metrics or make adjustments to better reflect our business or to improve their accuracy, including adjustments that may result in the recalculation of our historical metrics. We believe that any such inaccuracies or adjustments are immaterial unless otherwise stated.

	Year Ended As of and for the Year Ended December 31,				
	2020	% Change	2019	% Change	2018
	(In thousands, except percentage data)				
Cumulative registered accounts	5,047	25.7 %	4,015	40.9 %	2,850
Cumulative paid accounts	435	89.1 %	230	59.7 %	144

Cumulative Registered Accounts. We believe that our ability to increase our user base is an indicator of our market penetration and growth of our business as we continue to expand and innovate our Arlo platform. We define our registered accounts at the end of a particular period as the number of unique registered accounts on the Arlo platform as of the end of such particular period. The number of registered accounts does not necessarily reflect the number of end-users on the Arlo platform, as one registered account may be used by multiple people. We changed our definition from registered users to registered accounts starting in the fourth quarter of 2019 due to the Verisure transaction. Verisure will own the registered accounts but we will continue to provide services to these European customers under the Verisure Agreements.

Cumulative Paid Accounts. Paid accounts worldwide measured as any account where a subscription to a paid service is being collected (either by the Company or by the Company's customers or channel partners), plus paid service plans of a duration of more than 3 months bundled with products (such bundles being counted as a paid account after 90 days have elapsed from the date of registration). In the fourth quarter of 2019, we redefined paid subscribers as paid accounts to include customers that were transferred to Verisure as part of the disposal of our commercial operations in Europe because we will continue to provide services to these European customers and receive payments associated with them, under the Verisure Agreements.

Impact of COVID-19

On March 11, 2020, the World Health Organization announced that COVID-19, a respiratory illness, caused by a novel coronavirus, is a pandemic. COVID-19 has spread to many of the countries in which we, our customers, our suppliers and our other business partners conduct business. Governments in affected regions have implemented, and may continue to implement, safety precautions which include quarantines, travel restrictions, business closures, cancellations of public gatherings and other measures as they deem necessary. Many organizations and individuals, including the Company and its employees are taking additional steps to avoid or reduce infection, including limiting travel and staying home from work. These measures are disrupting normal business operations both in and outside of affected areas and have had significant negative impacts on businesses and financial markets worldwide. We anticipate that our financial results could be adversely impacted due to:

- temporary closure or decrease in foot traffic to our major customers' retail stores and shift of focus to essential goods distribution;
- disruption to our supply chain caused by delayed delivery of components from our third-party manufacturers and other suppliers located in regions affected by COVID-19;
- deferment of customer spending due to economic uncertainty;
- decreased productivity due to travel bans, work-from-home policies or shelter in place orders; and
- a slow-down in the global economy or a credit crisis.

The onset of the COVID-19 pandemic started to affect our product shipments in the second quarter of 2020 due to our major customers' retail stores facing temporary closures and decreases in foot traffic, certain of our customers shifting focus to essential goods distribution, and other uncertainties caused by the pandemic. The decline in product shipments continued throughout the fourth quarter of 2020. As of December 31, 2020, Americas retail channel inventory declined compared to December 31, 2019 due to lower inventory holding by our Retail Channel customers during the pandemic. This has contributed to a 6.8% decline in net revenue in the Americas, compared to the prior year. In addition, international freight capacity has dropped, causing air and ocean freight rates to materially increase. Furthermore, transit times have also increased. For the year ended December 31, 2020, we saw a 56% increase in freight-in expense compared to the prior year, as a result of the higher sea and airfreight rates.

While this is expected to be temporary, the current circumstances are dynamic and the future impacts of COVID-19 on our business operations, including their duration and impact on overall customer demand, cannot be reasonably estimated at this time. Our priorities and actions during the COVID-19 pandemic are focused on protecting the health and safety of all those we serve, our employees, our customers, our suppliers and our communities, including implementing early and continuous updates to our health and safety policies and processes. We have successfully migrated all but a limited number of our global workforce to work remotely while local and state governments have imposed shelter-in-place orders in the United States and around the world. We are focused on providing our team with the resources that they need to meet the needs of our customers and deliver new innovations to the markets we serve, despite challenges introduced by the COVID-19 pandemic. We continue to work with our suppliers to address any supply chain disruptions, which might include larger component backlogs, travel restrictions and logistics changes that can impact our operations. For example, increased demand for electronics as a result of the COVID-19 pandemic, effects of the U.S. trade war with China, increased demand for chips in the automotive industry and certain other factors have led to a global shortage of semiconductors. Due to such shortage, starting in the fourth quarter of 2020 we started to experience component shortages, including longer lead times for components, and supply constraints, which we expect to continue into 2021. Such shortages and constraints are affecting our ability to meet scheduled product deliveries and worldwide demand for our products in the first quarter of 2021 and potentially beyond. As a result, we could experience material charges from potential adjustments of the carrying value of our inventories and trade receivables, impairment charges on our long-lived assets, intangible assets and goodwill, and changes in the effectiveness of the Company’s hedging instruments, among others. We also anticipate that COVID-19 could continue to reduce our revenues and increase product and service costs and operating expenses for fiscal year 2021.

We are focused on navigating these recent challenges presented by COVID-19 through preserving our liquidity and managing our cash flow through taking preemptive action to enhance our ability to meet our short-term liquidity needs. These actions include, but are not limited to, proactively managing working capital by closely monitoring customers' credit and collections, renegotiating payment terms with third-party manufacturers and key suppliers, closely monitoring inventory levels and purchases against forecasted demand, reducing or eliminating non-essential spending, and deferment of hiring. We continue to monitor this rapidly developing situation and may, as necessary, reduce expenditures further, borrow under our revolving credit facility, or pursue other sources of capital that may include other forms of external financing in order to maintain our cash position and preserve financial flexibility in response to the uncertainty in the United States and global markets resulting from the COVID-19 pandemic.

Comparability of Historical Results

Through July 1, 2018, the operating results of Arlo had historically been disclosed as a reportable segment within the consolidated financial statements of NETGEAR, enabling the identification of directly attributable transactional information, functional departments, and headcount. Revenue and Cost of revenue, with the exception of channel sales incentives, were derived from transactional information specific to Arlo products and services. Directly attributable operating expenses were derived from activities relating to Arlo functional departments and headcount. Arlo employees also historically participated in NETGEAR’s stock-based incentive plans, in the form of restricted stock units (“RSUs”), stock options, and purchase rights issued pursuant to NETGEAR’s employee stock purchase plan. Stock-based compensation expense has been either directly reported by or allocated to Arlo based on the awards and terms previously granted to NETGEAR’s employees.

The consolidated statements of operations of the Company as presented for the year ended 2018 reflect the directly attributable transactional information specific to Arlo and certain additional allocated costs through July 1, 2018. The allocated costs for corporate functions included, but were not limited to, allocations of general corporate expenses from NETGEAR including expenses related to corporate services, such as executive management, information technology, legal, finance and accounting, human resources, tax, treasury, research and development, sales and marketing, shared facilities and other shared services. These costs were allocated based on revenue, headcount, or other measures the Company has determined as reasonable. Following July 1, 2018, the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

The amount of these allocations from NETGEAR reflected within operating expenses in the consolidated statements of operations was $30.6 million from January 1, 2018 to the date of the completion of the IPO, which included $9.4 million for research and development, $10.0 million for sales and marketing, and $11.2 million for general and administrative expense.

The management of Arlo believes the assumptions underlying the consolidated financial statements, including the assumptions regarding the allocated expenses, reasonably reflect the utilization of services provided, or the benefit received by Arlo during the periods presented. Nevertheless, the consolidated financial statements may not be indicative of Arlo's future performance and do not necessarily reflect Arlo's results of operations, financial position, and cash flows had Arlo been a standalone company during the period presented.

Components of Our Operating Results

Revenue

Our gross revenue consists primarily of sales of devices, prepaid and paid subscription service revenue and NRE service revenue from Verisure. We generally recognize revenue from product sales at the time the product is shipped and transfer of control from us to the customer occurs. Our First generation camera products under our old business model come with a prepaid service that provides users with rolling seven-day cloud video storage, the ability to connect up to five cameras and 90 days of customer support. Our second generation camera, doorbell and floodlight products under our new business model come with a prepaid service that includes a one-year free trial period of Arlo Smart bundled with our Arlo Ultra products launched in early 2019, and a three-month free trial period of Arlo Smart bundled with our products launched after September 2019. Upon device shipment, we attribute a portion of the sales price to the prepaid service, deferring this revenue at the outset and subsequently recognizing it ratably over the estimated useful life of the device or free trial period, as applicable. Our paid subscription services relate to sales of subscription plans to our registered accounts. Our services also include certain development services provided to Verisure under a NRE arrangement as part of the disposal of our commercial operations in Europe in the fourth quarter of 2019. Refer to Note 4, Disposal of Business, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for a complete discussion of the NRE arrangement.

Our revenue consists of gross revenue, less end-user customer rebates and other channel sales incentives deemed to be a reduction of revenue per the authoritative guidance for revenue recognition, allowances for estimated sales returns, price protection, and net changes in deferred revenue. A significant portion of our marketing expenditure is with customers and is deemed to be a reduction of revenue under authoritative guidance for revenue recognition.

Under the Supply Agreement, Verisure became the exclusive distributor of our products in Europe for all channels, and will non-exclusively distribute our products through its direct channels globally. We expect that our revenue and profitability in Europe will improve over the lifetime of the Supply Agreement. Refer to Note 4, *Disposal of Business*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for a complete discussion of the Supply Agreement.

Cost of Revenue

Cost of revenue consists of both product costs and costs of service. Product costs primarily consist of: the cost of finished products from our third-party manufacturers; overhead costs, including purchasing, product planning, inventory control, warehousing and distribution logistics, third-party software licensing fees, inbound freight, IT and facilities overhead, warranty costs associated with returned goods, write-downs for excess and obsolete inventory, royalties to third parties; and amortization expense of certain acquired intangibles. Cost of service consists of costs attributable to the provision and maintenance of our cloud-based platform, including personnel, storage, security and computing, as well as NRE service costs incurred under the Verisure NRE arrangement.

Our cost of revenue as a percentage of revenue can vary based upon a number of factors, including those that may affect our revenue set forth above and factors that may affect our cost of revenue, including, without limitation: product mix, sales channel mix, registered accounts' acceptance of paid subscription service offerings, fluctuation in foreign exchange rates and changes in our cost of goods sold due to fluctuations in prices paid for components, net of vendor rebates, cloud platform costs, warranty and overhead costs, inbound freight and duty product conversion costs, charges for excess or obsolete inventory, and amortization of acquired intangibles. We outsource our manufacturing, warehousing, and distribution logistics. We also outsource certain components of the required infrastructure to support our cloud-based back-end IT infrastructure. We believe this outsourcing strategy allows us to better manage our product and services costs and gross margin.

Research and Development

Research and development expense consists primarily of personnel-related expense, safety, security, regulatory services and testing, other research and development consulting fees, and IT and facilities overhead. We recognize research and development expense as it is incurred. We have invested in and expanded our research and development organization to enhance our ability to introduce innovative products and services. We believe that innovation and technological leadership are critical to our future success, and we are committed to continuing a significant level of research and development to develop new technologies, products, and services, including our hardware devices, cloud-based software, AI-based algorithms, and machine learning capabilities. We expect research and development expense to stay relatively flat in absolute dollars for fiscal 2021 as we manage our expenses while continuing to develop new product and service offerings to support the connected lifestyle market.

Sales and Marketing

Sales and marketing expense consists primarily of personnel expense for sales and marketing staff; technical support expense; advertising; trade shows; corporate communications and other marketing expense; product marketing expense; IT and facilities overhead; and outbound freight costs. We expect our sales and marketing expense to fluctuate for the foreseeable future based on the seasonality of our business, the growth of our direct to consumer store, and the extent to which we invest in marketing to drive awareness of our brand and drive demand for our products.

General and Administrative

General and administrative expense consists primarily of personnel-related expense for certain executives, finance and accounting, investor relations, human resources, legal, information technology, professional fees, IT and facilities overhead, strategic initiative expense, and other general corporate expense. We expect our general and administrative expense to stay relatively flat in absolute dollars. However, we also expect our general and administrative expense to fluctuate as a percentage of our revenue in future periods based on fluctuations in our revenue and the timing of such expense.

Separation Expense

Separation expense consists primarily of costs associated with our separation from NETGEAR, including third-party advisory, consulting, legal and professional services for separation matters including IPO-related litigation, IT-related expenses directly related to our separation from NETGEAR, and other items that are incremental and one-time in nature. To operate as a standalone company, we have incurred separation costs of $0.2 million, $1.9 million and $27.3 million during the years ended December 31, 2020, 2019 and 2018, respectively, to replicate certain services previously provided by NETGEAR. The significant reduction during the years ended December 31, 2020 and 2019 was as a result of the substantial completion of our Separation from NETGEAR on December 31, 2018.

Gain on sale of business

Gain on sale of business represents the gain on sale of the Company's commercial operations in Europe in the fourth quarter of 2019.

Interest Income

Interest income represents interest earned on our cash, cash equivalents and short-term investments. We expect our interest income in absolute dollars to decrease as we use up our short-term investments and cash and cash equivalents to fund our operations, while interest rates have also declined.

Other Income (Expense), Net

Other income (expense), net primarily represents gains and losses on transactions denominated in foreign currencies, foreign currency contract gain (loss), net, and other miscellaneous income and expense. We have also included any reimbursement for the Verisure TSA in Other income.

Income Taxes

We record our provision for income taxes in our consolidated financial statements using the asset and liability method. Under this method, we recognize income tax liabilities or receivable for the current year. We also recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. Our assessment considers the recognition of deferred tax assets on a jurisdictional basis. Accordingly, in assessing our future taxable income on a jurisdictional basis, we consider the effect of its transfer pricing policies on that income. We have placed a valuation allowance against U.S. federal and state deferred tax assets and certain foreign tax attribute carryforwards since we do not anticipate to realize the benefits of deferred tax assets.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. As we expand internationally, we will face increased complexity in determining the appropriate tax jurisdictions for revenue and expense items. Our policy is to adjust these unrecognized tax benefits in the period when facts and circumstances change, such as the closing of a tax audit, the expiration of statute of limitation for a relevant taxing authority to examine a tax position, or when additional information becomes available. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and operating results. The provision for income taxes includes the effects of any accruals that we believe are appropriate, as well as the related interest and penalties.

The Tax Cut and Jobs Act of 2017 ("Tax Act") introduced the global intangible low-taxed income (“GILTI”) provisions effective in 2018, which generally impose a tax on the net income earned by foreign subsidiaries of U.S company in excess of a deemed return on their tangible assets. We recognize the tax on GILTI as a period cost when the tax is incurred.

Results of Operations

We operate as one operating and reportable segment. The following table sets forth, for the periods presented, the consolidated statements of operations data, which we derived from the accompanying consolidated financial statements:

	Year Ended December 31,					
	2020		2019		2018	
	(In thousands, except percentage data)					
Revenue:						
Products	$ 284,868	79.8 %	$ 323,242	87.4 %	$ 427,113	91.9 %
Services	72,286	20.2 %	46,765	12.6 %	37,805	8.1 %
Total revenue	357,154	100.0 %	370,007	100.0 %	464,918	100.0 %
Cost of revenue:						
Products	263,905	73.9 %	307,348	83.1 %	354,023	76.1 %
Services	37,860	10.6 %	26,855	7.3 %	18,820	4.0 %
Total cost of revenue	301,765	84.5 %	334,203	90.3 %	372,843	80.2 %
Gross profit	55,389	15.5 %	35,804	9.7 %	92,075	19.8 %
Operating expenses:						
Research and development	60,137	16.8 %	69,384	18.8 %	58,794	12.6 %
Sales and marketing	49,064	13.7 %	56,985	15.4 %	52,593	11.3 %
General and administrative	51,096	14.3 %	47,624	12.9 %	28,209	6.1 %
Separation expense	248	0.1 %	1,913	0.5 %	27,252	5.9 %
Gain on sale of business	(292)	(0.1)%	(54,881)	(14.8)%	—	— %
Total operating expenses	160,253	44.9 %	121,025	32.7 %	166,848	35.9 %
Loss from operations	(104,864)	(29.4)%	(85,221)	(23.0)%	(74,773)	(16.1)%
Interest income	802	0.2 %	2,737	0.7 %	1,239	0.3 %
Other income (expense), net	3,436	1.1 %	913	0.2 %	(1,177)	(0.3)%
Loss before income taxes	(100,626)	(28.1)%	(81,571)	(22.0)%	(74,711)	(16.1)%
Provision for income taxes	625	0.2 %	4,380	1.2 %	772	0.1 %
Net loss	$ (101,251)	(28.3)%	$ (85,951)	(23.2)%	$ (75,483)	(16.2)%

Revenue

We conduct business across three geographic regions: Americas, EMEA, and APAC. We generally base revenue by geography on the ship-to location of the customer for device sales and device location for service sales.

	Year Ended December 31,				
	2020	% Change	2019	% Change	2018
	(In thousands, except percentage data)				
Americas	$ 269,395	(6.8)%	$ 289,160	(23.3)%	$ 376,805
Percentage of revenue	*75.4 %*		*78.1 %*		*81.0 %*
EMEA	$ 61,832	8.0 %	$ 57,232	(12.6)%	$ 65,462
Percentage of revenue	*17.3 %*		*15.5 %*		*14.1 %*
APAC	$ 25,927	9.8 %	$ 23,615	4.3 %	$ 22,651
Percentage of revenue	*7.3 %*		*6.4 %*		*4.9 %*
Total revenue	$ 357,154	(3.5)%	$ 370,007	(20.4)%	$ 464,918

Revenue decreased 3.5% across all geographic regions for the year ended December 31, 2020 compared to the prior year. The decrease was primarily driven by a decrease in product shipments as a result of disruption to our sales channels due to the COVID-19 pandemic and a slowdown in our customer demand for connected cameras, partially offset by an increase in service revenue and less provisions for sales returns, price protection and marketing expenditures that are deemed to be a reduction of revenue. Service revenue increased by $25.5 million, or 54.6%, for the year ended December 31, 2020 compared to the prior year, due to increased paid accounts and recognition of NRE and other incremental service revenue from Verisure in the fiscal year 2020.

Revenue decreased 20.4% across all geographic regions for the year ended December 31, 2019 compared to the prior year. The decrease was primarily driven by a slowdown in our customer demand for connected cameras, increased competition, higher marketing expenditures deemed to be a reduction of revenues, increased provisions for price protection that are deemed to be a reduction of revenue, offset by higher service revenue. We launched Arlo Ultra, with 4K video resolution capability, in the first fiscal quarter of 2019, Arlo Pro 3, with 2K video resolution capability, in the third fiscal quarter of 2019 and Arlo Video Doorbell with 180 degree viewing angle, in the fourth quarter of 2019. Service revenue increased by $9.0 million, or 23.7%, for the year ended December 31, 2019 compared to the prior year, as our paid subscribers increased compared to the prior year.

Cost of Revenue

The following table presents cost of revenue for the periods indicated:

	Year Ended December 31,				
	2020	% Change	2019	% Change	2018
	(In thousands, except percentage data)				
Cost of revenue:					
Products	$ 263,905	(14.1)%	$ 307,348	(13.2)%	$ 354,023
Services	37,860	41.0 %	26,855	42.7 %	18,820
Total cost of revenue	$ 301,765	*(9.7)%*	$ 334,203	*(10.4)%*	$ 372,843

Cost of products revenue decreased for the year ended December 31, 2020, primarily due to the decrease in product revenue and overhead costs, partially offset by higher excess and obsolete inventory provision compared to the prior year. The increase in excess and obsolete inventory provision reflects lower expected future demand for certain older product lines for the fiscal year 2020 as we transition to newer technologies. The increase in cost of services revenue is in line with the service revenue growth and due to our continued investment in our cloud service offerings to improve our customer experience and to enhance our security profile, as well as Verisure NRE service costs, offset by cost optimizations implemented during the year.

Cost of products revenue decreased for the year ended December 31, 2019, due primarily to a decline in product revenue compared to the prior year. Cost of services revenue increased for the year ended December 31, 2019, in line with the service revenue growth and due to our continued investment in our cloud service offerings to improve our customer experience and to enhance our security profile, offset by cost optimizations implemented during the year.

Gross Margin

The following table presents gross margin for the periods indicated:

	Year Ended December 31,				
	2020	% Change	2019	% Change	2018
	(In thousands, except percentage data)				
Gross profit:					
Products	$ 20,963	31.9 %	$ 15,894	(78.3)%	$ 73,090
Services	34,426	72.9 %	19,910	4.9 %	18,985
Total gross profit	$ 55,389	*54.7 %*	$ 35,804	*(61.1)%*	$ 92,075
Gross profit percentage:					
Products	7.4 %		4.9 %		17.1 %
Services	47.6 %		42.6 %		50.2 %
Total gross profit percentage	15.5 %		9.7 %		19.8 %

Gross margin increased for the year ended December 31, 2020 compared to the prior year, due to a combination of both product and service margin increases. The product margin increase is primarily due to decreased provisions for price protection and marketing expenditures that are deemed to be reductions of revenue and decreased product overhead, partially offset by higher excess and obsolete inventory provision. Service margin increased for year ended December 31, 2020, compared to the prior year, primarily due to an increase in paid service revenue and cost optimizations implemented.

Gross margin decreased for the year ended December 31, 2019 compared to the prior year, due to a combination of both product and service margin declines. The product margin decline is primarily due to increased marketing expenditures deemed to be a reduction of revenues, increased provisions for price protection that are deemed to be reductions of revenue, increased warranty costs, product overhead and freight-related costs, offset by less charges for excess or obsolete inventory. Service margin decreased for the year ended December 31, 2019 compared to the prior year, primarily due to higher service cost growth which included the cost of the free 3-month and 12-month trials of Arlo Smart included in our new product offerings in fiscal 2019.

Operating Expenses

The first and second quarters of 2018, are based on carve-out financials and reflect the transactions which are directly attributable to Arlo and certain allocated costs, whereas third quarter and fourth quarter of 2018 and full years of 2019 and 2020 are based on our actual results for the periods as a standalone public company.

Research and Development

The following table presents research and development expense for the periods indicated:

	Year Ended December 31,				
	2020	% Change	2019	% Change	2018
	(In thousands, except percentage data)				
Research and development expense	$ 60,137	(13.3)%	$ 69,384	18.0 %	$ 58,794

Research and development expense decreased for the year ended December 31, 2020 compared to the prior year, due to decreases of $2.6 million in personnel-related expenses primarily as a result of the reduction in force implemented in the last quarter of 2019, and $4.1 million in IT and facility overhead, partially offset by an increase of $2.0 million in expenses related to outside professional services. Also contributing to the reduction in Research and development expense, various research and development expenses amounting to $4.1 million were attributed to the Verisure NRE arrangement, and are classified as cost of service revenue in fiscal year 2020.

Research and development expense increased for the year ended December 31, 2019 compared to the prior year due to increases of $2.5 million in personnel-related expenses and $8.3 million in IT and facilities overhead. The increased expenditures on personnel-related expense and engineering projects were due to continuous investment in strategic focus areas, principally the expansion of our Arlo product and service offerings and the growth of our cloud platform capabilities. The increase in IT and facilities overhead is due to the fact that starting in late 2018 Arlo moved to separate facilities globally and for the full year of 2019 Arlo maintained its own facilities and IT infrastructures and systems globally as a standalone public company.

Sales and Marketing

The following table presents sales and marketing expense for the periods indicated:

	Year Ended December 31,				
	2020	**% Change**	**2019**	**% Change**	**2018**
	(In thousands, except percentage data)				
Sales and marketing expense	$ 49,064	(13.9)%	$ 56,985	8.4 %	$ 52,593

Sales and marketing expense decreased for the year ended December 31, 2020 compared to the prior year, primarily due to decreases in personnel-related expenses of $5.5 million, outside professional services of $2.1 million, and IT and facility overhead of $2.1 million, partially offset by an increase in credit card processing fees of $1.0 million driven by the growth in sales from Arlo's direct to consumer store and paid accounts service revenue. The decreases are as a result of a general reduction of headcount within sales and marketing as well as the transfer of our European sales and marketing team to Verisure on December 30, 2019, coupled with a reduction in travel related expense as a result of COVID-19 restrictions.

Sales and marketing expense increased for the year ended December 31, 2019 compared to the prior year, primarily due to an increase in outside professional services of $2.0 million, IT and facilities overhead of $2.7 million, and personnel-related expenses of $1.2 million. The increases were partially offset by a decrease of $1.5 million in expenses related to NETGEAR Transition Service Agreement ("TSA"). The increase in IT and facilities overhead is due to the fact that starting in late 2018 Arlo moved to separate facilities globally and for the whole of 2019 Arlo maintained its own facilities and IT infrastructures and systems globally as a standalone public company.

General and Administrative

The following table presents general and administrative expense for the periods indicated:

	Year Ended December 31,				
	2020	**% Change**	**2019**	**% Change**	**2018**
	(In thousands, except percentage data)				
General and administrative expense	$ 51,096	7.3 %	$ 47,624	68.8 %	$ 28,209

General and administrative expense increased for the year ended December 31, 2020 compared to the prior year, primarily due to higher personnel-related expenditures of $7.8 million, partially offset by decreases of $2.2 million in legal and professional services and $1.1 million of transaction costs related to the disposal of our commercial operations in Europe in the fourth quarter of 2019. The increase in personnel-related expenditures were mainly driven by the $7.4 million stock-based compensation expense recognized for the voluntary forfeiture of certain options by our Chief Executive Officer in January 2020, partially offset by the reversal of the previously recognized stock-based compensation expense amounting to $1.2 million of unvested options and restricted stock units upon the separation of our former Chief Financial Officer in June 2020.

General and administrative expense increased for the year ended December 31, 2019 compared to the prior year, primarily due to higher IT and facilities overhead of $9.7 million, higher personnel-related expenditures of $6.0 million, higher legal and professional services of $5.3 million, and transaction costs of $1.9 million related to the disposal of our commercial operations in Europe, partially offset by $4.2 million decrease in NETGEAR TSA related expenses. The increase in general and administrative expense was driven by the increase in related IT and facilities overhead due to the fact that starting in late 2018 Arlo moved to separate facilities globally and for the whole of 2019 Arlo maintained its own facilities and IT infrastructures and systems globally, increased customary public company costs, including outside legal and audit fees, insurance and other costs as our company became a standalone public company since August 2018.

Separation Expense

The following table presents separation expense for the periods indicated:

	Year Ended December 31,				
	2020	% Change	2019	% Change	2018
	(In thousands, except percentage data)				
Separation expense	$ 248	(87.0)%	$ 1,913	**	$ 27,252

**Percentage change not meaningful.

Separation expense consists primarily of charges for third-party advisory, consulting, legal and professional services, IT-related expenses, and other items that are incremental and one-time in nature related to our separation from NETGEAR. To operate as a standalone company, we have incurred separation costs. The significant reduction for fiscal years of 2020 and 2019 was as a result of the substantial completion of our Separation from NETGEAR effective December 31, 2018.

Gain on sale of business

	Year Ended December 31,				
	2020	% Change	2019	% Change	2018
	(In thousands, except percentage data)				
Gain on sale of business	$ (292)	**	$ (54,881)	**	$ —

**Percentage change not meaningful.

In the fourth quarter of 2019, we sold our commercial operations in Europe which resulted in a gain on sale of business of $54.9 million. In the first quarter of 2020, we recognized an additional gain of $0.3 million as a result of the final working capital adjustment. There was no gain on sale of business for the year ended December 31, 2018. Refer to Note 4, *Disposal of Business*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for a complete discussion of this disposal.

Interest Income and Other Income (Expense), Net

The following table presents other income (expense), net for the periods indicated:

	Year Ended December 31,				
	2020	% Change	2019	% Change	2018
	(In thousands, except percentage data)				
Interest income	802	**	2,737	**	1,239
Other income (expense), net	3,436	**	913	**	(1,177)

**Percentage change not meaningful.

During the year ended December 31, 2020, we earned interest income of $0.8 million from our cash equivalents and short-term investments. The reduction, compared to the prior year, is primarily due to the decrease in our short-term investments and cash and cash equivalents as we funded our operations and the decline in interest rates. Other income (expense), net increased for the year ended December 31, 2020 compared to the prior year, primarily due to Verisure TSA related income of $4.0 million recognized in fiscal year 2020.

During the year ended December 31, 2019, we earned interest income of $2.7 million from our cash equivalents and short-term investments. Other income (expense), net increased for the year ended December 31, 2019 compared to the prior year, primarily due to Verisure TSA related income of $0.8 million and higher foreign currency transaction gains, mainly as a result of the U.S. dollar strengthening against transaction currencies.

Provision for Income Taxes

Provision for income taxes and effective tax rate consisted of the following:

	Year Ended December 31,				
	2020	% Change	2019	% Change	2018
	(In thousands, except percentage data)				
Provision for income taxes	$ 625	(85.7)%	$ 4,380	(31.6)%	$ 772
Effective tax rate	*(0.6)%*		*(5.4)%*		*(1.0)%*

The decrease in provision for income taxes for the year ended December 31, 2020 compared to the prior year was primarily due to lower foreign earnings in 2020, resulting from the sale of our commercial operations in Europe during the fourth quarter of 2019. Furthermore, 2019 included the gain on sale of certain assets related to the Company's commercial operations in Europe during the fourth quarter of 2019. Losses incurred predominantly in the U.S continue to be subject to a full valuation allowance.

The increase in provision for income taxes for the year ended December 31, 2019 compared to the prior year was primarily due to higher foreign earnings in 2019 and gain on sale of certain assets related to the Company's commercial operations in Europe during the fourth quarter of 2019. Losses incurred predominantly in the U.S continue to be subject to a full valuation allowance.

Liquidity and Capital Resources

We have a history of losses and may continue to incur operating and net losses for the foreseeable future. As of December 31, 2020, our accumulated deficit was $232.8 million.

Our principal sources of liquidity are cash, cash equivalents and short-term investments. Short-term investments are marketable government securities with an original maturity or a remaining maturity at the time of purchase of greater than three months and no more than 12 months. The marketable securities are held in our company’s name with a high quality financial institution, which acts as our custodian and investment manager. As of December 31, 2020, we had cash, cash equivalents and short-term investments totaling $206.1 million. As of December 31, 2020, 23.3% of our cash and cash equivalents were held outside of the U.S. Starting in 2018, as a result of the Tax Act, the tax impact on the repatriation of foreign earnings is generally immaterial. The cash and cash equivalents balance outside of the U.S is subject to fluctuation based on the settlement of intercompany balances. In November 2019, we entered into a business financing agreement with Western Alliance Bank providing for a credit facility of up to $40.0 million and as of December 31, 2020, we have not borrowed against this credit facility. Refer to Note 10. *Debt* in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for further details on such business financing agreement.

Based on our current plans, the business financing agreement with Western Alliance Bank, and market conditions, we believe that such sources of liquidity will be sufficient to satisfy our anticipated cash requirements for at least the next 12 months. However, in the future we may require or desire additional funds to support our operating expenses and capital requirements or for other purposes, such as acquisitions, and may seek to raise such additional funds through public or private equity or debt financings or collaborative agreements or from other sources. However, the COVID-19 pandemic continues to rapidly evolve and has already resulted in a significant disruption of global financial markets. If the disruption persists and deepens, we could experience an inability to access additional capital, which could in the future negatively affect our capacity to support our operating expenses and capital requirements or to make investments for other purposes, such as acquisitions.

We have no commitments to obtain such additional financing and cannot assure you that additional financing will be available at all or, if available, that such financing would be obtainable on terms favorable to us and would not be dilutive. Our future liquidity and cash requirements will depend on numerous factors, including the introduction of new products, the growth in our service revenue, as well as the ability to increase our gross margin dollars and continue to maintain controls over our operating expenditures.

Cash Flow

The following table presents our cash flows for the periods presented.

	Year Ended December 31,		
	2020	**2019**	**2018**
		(In thousands)	
Net cash provided by (used in) operating activities	$ (46,530)	$ 9,171	$ (17,686)
Net cash provided by (used in) investing activities	(3,975)	76,262	(71,285)
Net cash provided by (used in) financing activities	(23)	(38)	244,287
Net increase (decrease) in cash and cash equivalents and restricted cash	$ (50,528)	$ 85,395	$ 155,316

Operating activities

Net cash used in operating activities increased by $55.7 million for the year ended December 31, 2020 compared to the prior year. This increase comprised a $55.8 million reduction in adjusted net loss for cash flows, offset by an increase in working capital used in operations of $111.5 million, mainly due to a reduction in accounts payable in 2020, compared to an increase in accounts payable in 2019 and an initiative to right-size inventory in 2019 which was not repeated in 2020.

Net cash provided by operating activities increased by $26.9 million for the year ended December 31, 2019 compared to the prior year, due primarily to improved working capital management, offset by a $55.0 million year over year decrease in the adjusted net loss from operations. Our cash inflow from changes in assets and liabilities increased by $81.9 million year over year as a result of increased accounts receivable collections, prepayments from Verisure product purchases and NRE services under the Supply Agreement and lower inventory balance.

Our days sales outstanding (“DSO”) decreased to 64 days as of December 31, 2020 as compared to 97 days as of December 31, 2019, primarily as a result of customer mix, an increase in service revenue and growth in sales from Arlo's direct to consumer store, all of which have shorter payment terms. Typically, our DSO in the fourth quarter is higher due to seasonal payment terms provided to our larger customers, while service revenue is typically a lower percentage of our revenue in the fourth quarter. Inventory decreased to $64.7 million as of December 31, 2020 from $68.6 million as of December 31, 2019, primarily due to lower inventory purchases. Our ending inventory turns were 5.0x in the three months ended December 31, 2020 down from 5.9x turns in the three months ended December 31, 2019, primarily as a result of a reduction in product shipments which was not offset by a corresponding reduction in inventory. Our accounts payable decreased to $62.2 million as of December 31, 2020 from $111.7 million as of December 31, 2019, primarily as a result of lower inventory purchases and earlier payments to suppliers for purchases made.

Investing activities

Net cash used in investing activities increased by $80.2 million for the year ended December 31, 2020 compared to the prior year, primarily due to a reduction in proceeds from maturity of short-term investments of $30.3 million and a reduction in proceeds from sale of our commercial operations in Europe in 2019 of $52.7 million, partially offset by less purchases of property and equipment of $2.8 million due to the completion of leasehold improvements in 2019 at our San Jose headquarters.

Net cash provided by investing activities increased by $147.5 million for the year ended December 31, 2019 compared to the prior year, primarily due to the more maturity of short-term investments in the amount of $55.0 million, less purchases of short-term investments of $24.9 million, less purchases of property equipment of $15.0 million, and proceeds from sale of our commercial operations in Europe in the amount of $52.7 million.

Financing activities

Net cash used in financing activities was $23 thousand for the year ended December 31, 2020 and comprised withholding tax from restricted stock unit releases of $4.78 million, offset by proceeds from Employee Stock Purchase Plan contributions and exercises of stock options of $4.76 million.

Net cash used in financing activities was $38 thousand in the year ended December 31, 2019 and comprised proceeds from Employee Stock Purchase Plan contributions of $1.8 million, offset by $1.9 million in tax withholdings from restricted stock unit releases.

Backlog

Our backlog consists of products for which customer purchase orders have been received and that are scheduled or in the process of being scheduled for shipment. As of December 31, 2020, we had a backlog of $5.7 million, compared to $5.4 million as of December 31, 2019 and $18.9 million as of December 31, 2018. As we typically fulfill orders received within a relatively short period after receipt, our revenue in any fiscal year depends primarily upon orders booked and the availability of supply of our products in that year. In addition, most of our backlog is subject to rescheduling or cancellation with minimal penalties. As a result, our backlog as of any particular date may not be an indicator of revenue for any succeeding period. Similarly, there is a lack of meaningful correlation between year-over-year changes in backlog as compared with year-over-year changes in revenue. Accordingly, we do not believe that backlog information is material to an understanding of our overall business, and backlog as of any particular date should not be considered a reliable indicator of our ability to achieve any particular level of revenue or financial performance.

Contractual Obligations

The following table summarizes our non-cancelable operating lease commitments and purchase obligations as of December 31, 2020:

	Payments due by period				
	Total	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
			(In thousands)		
Operating leases	$ 35,821	$ 5,931	$ 10,747	$ 7,645	$ 11,498
Purchase obligations	19,532	19,532	—	—	—
	$ 55,353	$ 25,463	$ 10,747	$ 7,645	$ 11,498

Operating leases

We entered into several office lease agreements under non-cancelable operating leases with various expiration dates through June 2029. The terms of certain of our facility leases provide for rental payments on a graduated scale. We recognize rent expense on a straight-line basis over the lease period and have accrued for rent expense incurred but not paid. The amounts presented are consistent with contractual terms and are not expected to differ significantly, unless a substantial change in our headcount requires us to exit an office facility early or expand our occupied space. For the years ended December 31, 2020 and 2019, rent expense was $7.0 million and $7.0 million, respectively. For the six months ended July 1, 2018, rent expense reflected allocations from NETGEAR and may not be indicative of our results. Rent expense was $1.4 million after the Separation through December 31, 2018.

Letters of Credit

In connection with the lease agreement for the headquarters located in San Jose, California, we executed a letter of credit with the landlord as the beneficiary. As of December 31, 2020, we had approximately $3.6 million of unused letters of credit outstanding, of which $3.1 million pertains to the lease arrangement.

Purchase obligations

We enter into various inventory-related purchase agreements with suppliers. Generally, under these agreements, 50% of the orders are cancelable by giving notice of 46 to 60 days prior to the expected shipment date and 25% of orders are cancelable by giving notice 31 to 45 days prior to the expected shipment date. Orders are not cancelable within 30 days prior to the expected shipment date. As of December 31, 2020, we had $19.5 million in non-cancelable purchase commitments with suppliers. We expect to sell all products for which we have committed purchases from suppliers.

Uncertain tax position

As of December 31, 2020, the total gross unrecognized tax benefits and related interest and penalties was $1.4 million. The timing of any payments that could result from these unrecognized tax benefits will depend upon a number of factors. The unrecognized tax benefits have been excluded from the contractual obligations table because reasonable estimates cannot be made of whether, or when, any cash payments for such items might occur. We do not expect to reduce our liabilities for uncertain tax positions in any jurisdiction, where the impact would affect the statement of operations, in the next 12 months.

Off-Balance Sheet Arrangements

As of December 31, 2020, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the regulations of the SEC. The preparation of the consolidated financial statements requires management to make assumptions, judgments and estimates that can have a significant impact on the reported amounts of assets, liabilities, revenue and expenses. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. Actual results could differ significantly from these estimates. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. On a regular basis, we evaluate our assumptions, judgments and estimates and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. Note 2, *Summary of Significant Accounting Policies*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K describes the significant accounting policies used in the preparation of the consolidated financial statements. We have listed below our critical accounting policies that we believe to have the greatest potential impact on our consolidated financial statements.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred to the customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The majority of revenue comes from sales of hardware products to customers (retailers, distributors, and service providers). Revenue is recognized at a point in time when control of the goods is transferred to the customer, generally occurring upon shipment or delivery dependent upon the terms of the underlying contract. The amount recognized reflects the consideration we expect to be entitled to in exchange for the transferred goods.

We sell paid subscription services to our end user customers where we provide customers access to our cloud services. Revenue for subscription sales is generally recognized on a ratable basis over the contract term, beginning on the date that the service is made available to the customers at the time of registration. The subscription contracts are generally 30 days or 12 months in length, billed in advance. All such service or support sales are typically recognized using an output measure of progress by looking at the time elapsed as the contracts generally provide the customer equal benefit throughout the contract period. In addition to selling paid subscriptions, we also sell services bundled with hardware products and accounts for these sales in line with the multiple performance obligations guidance.

Revenue from all sales types is recognized at transaction price, the amount we expect to be entitled to in exchange for transferring goods or providing services. Transaction price is calculated as selling price net of variable consideration which may include estimates for future returns, sales incentives, and price protection related to current period product revenue. Our standard obligation to our direct customers generally provides for a full refund in the event that such product is not merchantable or is found to be damaged or defective. In determining estimates for future returns, management analyzes historical sales and returns data, channel inventory levels, current economic trends, and changes in customer demand for our products. Sales incentives and price protection are determined based on a combination of the actual amounts committed and estimated future expenditure based upon historical customary business practice. Typically variable consideration does not need to be constrained as estimates are based on predictive historical data or future commitments that we plan and control. However, we continue to assess variable consideration estimates such that it is probable that a significant reversal of revenue will not occur.

Contracts with Multiple Performance Obligations

Some of our contracts with customers contain multiple promised goods or services. Such contracts include hardware products with bundled services, various subscription services, and support. For these contracts, we account for the promises separately as individual performance obligations if they are distinct. Performance obligations are determined to be considered distinct if they are both capable of being distinct and distinct within the context of the contract. In determining whether performance obligations meet the criteria for being distinct, we consider a number of factors, such as the degree of interrelation and interdependence between obligations, and whether or not the good or service significantly modifies or transforms another good or service in the contract. The embedded software in most of the hardware products is not considered distinct and therefore the combined hardware and incidental software are treated as one performance obligation and recognized at the point in time when control of product transfers to the customer. Services that are included with certain hardware products are considered distinct and therefore the hardware and service are treated as separate performance obligations.

After identifying the separate performance obligations, the transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices are generally determined based on the prices charged to customers or using an adjusted market assessment. Standalone selling price of the hardware is directly observable from add-on camera and base station sales. Standalone selling price of the premium services are directly observable from direct sales to end users, while the service is estimated using an adjusted market approach.

Revenue is then recognized for each distinct performance obligation as control is transferred to the customer. Revenue attributable to hardware is recognized at the time control of the product transfers to the customer. The transaction price allocated to the service is recognized over the specified service period or over the estimated useful life of the hardware, beginning when the customer is expected to activate their account. Useful life of the hardware is determined by industry norms, technical and financial relevance, frequency of new model releases, and user history.

Long-term Supply Arrangement - Verisure

We have entered into a Supply Agreement as part of the disposal of our commercial operations in Europe where Verisure prepays future product purchases with a minimum product purchase commitment also required. The Supply Agreement includes product purchases, paid subscription services, basic services, and an option for Verisure to acquire development services by submitting a statement of work (“SOW”). Products sold come with a standard twelve month warranty. Verisure assumes responsibilities for all warranty claims, returns of products and certain technical support provided to end users. We provide technical support for paid subscription services where Verisure cannot resolve the issue. Verisure is responsible for any marketing and promotion of our products and services sold in Europe.

Products are priced at a cost plus markup based on markups specified in the agreement and that price varies based on the cost of the product. The paid subscription service and basic service pricing is based on the number of users monthly and is priced at a cost plus markup specified in the Supply Agreement, which varies based on the user and service type. The transaction price for products and paid subscription services is entirely variable because the consideration is dependent on the actual costs. We allocate variable consideration specified for products entirely to products, and variable consideration specified for the paid subscription services entirely to the paid subscription services. For development services, no contract exists until an SOW is submitted and approved by both parties. For products, since quantity and product types are not specified in the agreement, contracts are not deemed to exist until we receive and accept the customer purchase order ("PO"). Each product with a valid PO is a single performance obligation.

We recognize variable consideration for products upon delivery and for services when the monthly service is rendered for paid subscription services and basic services. The non-refundable product prepayments does not relate to future goods or services, as such no further assessment of material rights is required. Further, as the transfer of products is at the discretion of the customer (i.e. when Verisure issues a PO), a significant financing component does not exist as it relates to the product prepayments. We also expect that the product prepayments will be fully utilized by Verisure within 12 to 18 months, hence, no additional accounting consideration is necessary for breakage. We also concluded that we are acting as the principal in the Supply Agreement and determined that revenue should be presented gross.

Non-recurring Engineering Arrangement - Verisure

The Supply Agreement also provides for certain development services under an SOW to Verisure ("NRE arrangement") as part of the disposal of our commercial operations in Europe. In the NRE arrangement, Verisure pays non-refundable installments upon the commencement of agreed-upon milestones. There is a single performance obligation as the distinct goods and services promised under the SOW are highly interdependent or interrelated inputs that produce a single combined output given the nature of such arrangement. The output (or work-in-progress of such output) typically has no alternative use to us given the customized nature of the arrangement and we have enforceable rights given that the non-refundable milestone payments are prepayments in nature; control for NRE development services therefore transfers over time.

We determined that the most appropriate measure of progress for revenue recognition is the input method based on cost because we can reasonably estimate the total costs for the NRE, and the costs incurred reasonably reflects our efforts to satisfy the performance obligation. The NRE costs include labor, material, overhead as well as the use of outside services. The total estimated NRE costs are based on a combination of historical costs together with quotes from vendors for supplying parts or services towards the completion. Adjustments to cost and profit estimates are made periodically due to changes in scope of work, hours to complete and estimated profitability, including those arising from final contract settlements. These changes may result in revisions to revenue and costs and are recognized in the period in which the revisions are determined. Any losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. If total NRE costs calculated upon completion in the current period are more than the estimated total costs at completion used to calculate revenue in a prior period, then the profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion.

Allowances for Warranty Obligations and Returns due to Stock Rotation

Our standard warranty obligation to our direct customers generally provides for a right of return of any product for a full refund in the event that such product is not merchantable or is found to be damaged or defective. At the time we recognize revenue, we record an estimate of future warranty returns to reduce revenue in the amount of the expected credit or refund to be provided to our direct customers. At the time we record the reduction to revenue related to warranty returns, we include within cost of revenue a write-down to reduce the carrying value of such products to net realizable value. Our standard warranty obligation to end-users provides for replacement of a defective product for one or more years. Factors that affect the warranty obligation include product failure rates, material usage and service delivery costs incurred in correcting product failures. We record the estimated cost associated with fulfilling the warranty obligation to end-users in cost of revenue. Because our products are manufactured by third-party manufacturers, in certain cases we have recourse to the third-party manufacturer for replacement or credit for the defective products. We give consideration to amounts recoverable from our third-party manufacturers in determining our warranty liability. Our estimated allowances for product warranties can vary from actual results, and we may have to record additional revenue reductions or charges to cost of revenue, which could materially impact our financial position and results of operations.

In addition to warranty-related returns, certain distributors and retailers generally have the right to return products for stock rotation purposes. Upon shipment of the product, we reduce revenue by an estimate of potential future stock rotation returns related to the current period product revenue. We analyze historical returns, channel inventory levels, current economic trends and changes in customer demand for our products when evaluating the adequacy of the allowance for stock rotation returns. Our estimated allowances for returns due to stock rotation can vary from actual results, and we may have to record additional revenue reductions, which could materially impact our financial position and results of operations.

Sales Incentives

We accrue for sales incentives offered to customers as a marketing expense if we receive an identifiable benefit in exchange and can reasonably estimate the fair value of the identifiable benefit received; otherwise, it is recorded as a reduction to revenue. As a consequence, we record a substantial portion of our channel marketing costs as a reduction of revenue. We record estimated reductions to revenue for sales incentives when the related revenue is recognized or ahead of customer or end customer commitment if customary business practice creates an implied expectation that such activities will occur in the future.

Valuation of Inventory

We value our inventory at the lower of cost or net realizable value, cost being determined using the first-in, first-out method. We continually assess the value of our inventory and will periodically write down its value to account for estimated excess and obsolete inventory based upon assumptions about future demand and market conditions. On a quarterly basis, we review inventory quantities on hand and on order under non-cancelable purchase commitments and compare those quantities to our estimated forecast of product demand for the next nine months to determine what inventory, if any, is not saleable. We base our analysis on the product demand forecast but take into account market conditions, product development plans, product life expectancy and other factors. Based on this analysis, we write down the carrying value of the affected inventory to account for estimated excess and obsolete amounts. At the point of loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. As demonstrated during prior years, demand for our products can fluctuate significantly. If actual demand is lower than our forecasted demand and we fail to reduce our manufacturing accordingly, we could be required to write down the value of additional inventory, which would have a negative effect on our gross profit.

Goodwill

Goodwill pertains to the acquisitions of Avaak, Inc. (“Avaak”) and Placemeter, Inc. (“Placemeter”). Goodwill represents the purchase price exceeds the estimated fair value of net assets of businesses acquired in a business combination. We perform an annual impairment assessment of goodwill at the reporting unit level on the first day of the fourth fiscal quarter. The analysis may include both qualitative and quantitative factors to assess the likelihood of an impairment. Should certain events or indicators of impairment occur between annual impairment tests, we will perform the impairment test as those events or indicators occur. Examples of such events or circumstances include: a significant decline in our expected future cash flows, a sustained, significant decline in our stock price and market capitalization, a significant adverse change in the business climate and slower growth rates.

We test goodwill for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of the reporting unit is less than its carrying amount. The qualitative assessment considers: macroeconomic conditions, industry and market considerations, cost factors, overall company financial performance, events affecting the reporting units and changes in our stock price. If the reporting unit does not pass the qualitative assessment, we estimate its fair value and compare the fair value with the carrying amount of the reporting unit, including goodwill. If the fair value is greater than the carrying amount of the reporting unit, we do not record an impairment.

We also test goodwill for impairment by performing a quantitative assessment, which is used to identify both the existence of impairment and the amount of impairment loss. The quantitative assessment compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value is less than the carrying amount, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. We would record any impairment charge within earnings in the consolidated statements of operations.

Stock-based compensation

Our employees have historically participated in NETGEAR’s stock-based compensation plans. Stock-based compensation expense has been allocated to us based on the awards and terms previously granted to our employees as well as an allocation of NETGEAR’s corporate and shared functional employee expenses. We measure stock-based compensation at the grant date based on the fair value of the award. The fair value of stock options and the shares offered under the employee stock purchase plan is estimated using the Black-Scholes option pricing model. Estimated compensation cost relating to restricted stock units ("RSUs") is based on the closing fair market value of NETGEAR’s common stock on the date of grant.

Equity awards granted by the Company under its own stock-based compensation plans on or after the completion of the IPO are comprised of performance-based stock options (the “PSOs”), stock options, RSUs, performance RSUs ("PSUs"), and market-based performance RSUs ("MPSUs"). The Company uses the fair value method of accounting for its equity awards granted to employees and measures the cost of employee services received in exchange for the stock-based awards. The Company recognizes this compensation expense generally on a straight-line basis over the requisite service period of the award. The fair value of stock options and PSOs is estimated on the grant or offering date using the Black-Scholes option pricing model and the forfeitures are recorded as they occur. The fair value of RSUs and PSUs is measured on the grant date based on the closing fair market value of the Company’s common stock. The Company utilizes a Monte Carlo pricing model customized to the specific provisions of the 2018 Plan to value the MPSUs awards on the grant date. The fair value determined using the Monte Carlo simulation model varies based on the assumptions used for the expected stock price volatility, the correlation coefficient between the Company and Russell 2000 Index, risk-free interest rates, and dividend yield.

The stock-based compensation cost is recognized ratably over the period during which an employee is required to provide service in exchange for the awards, usually the vesting period, which is generally four years for stock options and three to four years for RSUs. For PSOs and PSUs, stock-based compensation expense associated with individual performance milestones is recognized over the expected performance achievement period when the achievement becomes probable. For MPSUs, stock-based compensation expense is recognized ratably over the performance period subject to achievement of market conditions.

Our 2018 Employee Stock Purchase Plan ("ESPP") is intended to provide employees with the opportunity to purchase our common stock through accumulated payroll deductions at the end of specified purchase period. Eligible employees may contribute up to 15% of compensation, subject to certain income limits, to purchase shares of our common stock. The terms of the plan include a look-back feature that enables employees to purchase stock semi-annually at a price equal to 85% of the lesser of the fair market value at the beginning of the offering period or the purchase date. The duration of each purchasing period is generally six months. We determine the fair value using the Black-Scholes Model using various inputs, including our estimate of expected volatility, term, dividend yield and risk-free interest rate. We recognize compensation costs for the ESPP on a straight-line basis over the requisite service period of the award.

Income Taxes

We record our provision for income taxes in our consolidated financial statements using the asset and liability method. Under this method, we recognize income tax liabilities or receivable for the current year. We also recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. Our assessment considers the recognition of deferred tax assets on a jurisdictional basis. Accordingly, in assessing our future taxable income on a jurisdictional basis, we consider the effect of its transfer pricing policies on that income. We have placed a valuation allowance against U.S. federal and state deferred tax assets and certain foreign tax attribute carryforwards since we do not anticipate to realize the benefits of deferred tax assets.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. As we expand internationally, we will face increased complexity in determining the appropriate tax jurisdictions for revenue and expense items. Our policy is to adjust these unrecognized tax benefits in the period when facts and circumstances change, such as the closing of a tax audit, the expiration of statute of limitation for a relevant taxing authority to examine a tax position, or when additional information becomes available. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and operating results. The provision for income taxes includes the effects of any accruals that we believe are appropriate, as well as the related interest and penalties.

The Tax Act introduced the GILTI provisions effective in 2018, which generally impose a tax on the net income earned by foreign subsidiaries of U.S company in excess of a deemed return on their tangible assets. We recognize the tax on GILTI as a period cost when the tax is incurred.

Recent Accounting Pronouncements

For a complete description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial condition and results of operations, refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Emerging Growth Company Status

As an emerging growth company ("EGC"), under the Jumpstart Our Business Startups Act ("JOBS Act"), we are allowed to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies, unless we otherwise irrevocably elect not to avail ourselves of this exemption. While we have not made such an irrevocable election, we have not delayed the adoption of any applicable accounting standards.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We do not use derivative financial instruments in our investment portfolio. We have an investment portfolio of fixed income securities that are classified as available-for-sale securities. These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in highly rated short-term securities. Our investment policy requires investments to be rated triple-A with the objective of minimizing the potential risk of principal loss. Due to the short duration and conservative nature of our investment portfolio, a hypothetical movement of 10% in interest rates would not have a material impact on our operating results and the total value of the portfolio over the next fiscal year. We monitor our interest rate and credit risks, including our credit exposure to specific rating categories and to individual issuers. There were no impairment charges on our investments during fiscal year 2020.

Foreign Currency Exchange Rate Risk

We invoice some of our international customers in foreign currencies, including the Australian dollar and Canadian dollar. As the customers that are currently invoiced in local currency become a larger percentage of our business, or to the extent we begin to bill additional customers in foreign currencies, the impact of fluctuations in foreign currency exchange rates could have a more significant impact on our results of operations. For those customers in our international markets that we continue to sell to in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive and therefore reduce the demand for our products. Such a decline in the demand for our products could reduce sales and materially adversely affect our business, results of operations, and financial condition. Certain operating expenses of our foreign operations require payment in local currencies.

We are exposed to risks associated with foreign exchange rate fluctuations due to our international sales and operating activities. These risks may change over time as our business evolves and could negatively impact our operating results and financial condition. As we grow our operations, our exposure to foreign currency risk could become more significant. In the third fiscal quarter of 2018, we established a hedge program to hedge foreign currency exchange risks and currently do not expect to enter into foreign currency exchange contracts for trading or speculative purposes.

As of December 31, 2020, we had net assets in various local currencies. A hypothetical 10% movement in foreign exchange rates would have an immaterial impact on our net income (loss) for the period. Actual future gains and losses associated with our foreign currency exposures and positions may differ materially from the sensitivity analysis performed as of December 31, 2020 due to the inherent limitations associated with predicting foreign currency exchange rates and our actual exposures and positions. For the years ended December 31, 2020, 2019 and 2018, 10%, 24.7% and 20.9% of revenue was denominated in a currency other than the U.S. dollar, respectively.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Arlo Technologies, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Arlo Technologies, Inc. and its subsidiaries (the "Company") as of December 31, 2020 and December 31, 2019, and the related consolidated statements of operations, of comprehensive income (loss), of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and December 31, 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenue from contracts with customers in 2018.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

San Jose, California
February 26, 2021

We have served as the Company's auditor since 2018.

ARLO TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2020	**2019**
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 186,127	$ 236,680
Short-term investments (amortized cost of $19,996 and $19,967)	19,997	19,990
Accounts receivable, net (net of allowance for credit losses of $519 and $609)	77,643	127,317
Inventories	64,705	68,624
Prepaid expenses and other current assets	8,076	16,958
Total current assets	356,548	469,569
Property and equipment, net	15,821	21,352
Operating lease right-of-use assets, net	23,998	31,300
Intangibles, net	—	1,306
Goodwill	11,038	11,038
Restricted cash	4,164	4,139
Other non-current assets	2,399	4,008
Total assets	$ 413,968	$ 542,712
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 62,171	$ 111,650
Deferred revenue	53,142	50,362
Accrued liabilities	121,766	127,400
Income tax payable	267	4,489
Total current liabilities	237,346	293,901
Non-current deferred revenue	16,563	15,736
Non-current operating lease liabilities	25,029	29,001
Non-current income taxes payable	104	92
Other non-current liabilities	1,159	606
Total liabilities	280,201	339,336
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock: $0.001 par value; 50,000,000 shares authorized; none issued or outstanding	—	—
Common stock: $0.001 par value; 500,000,000 shares authorized; shares issued and outstanding: 79,336,242 at December 31, 2020 and 75,785,952 at December 31, 2019	79	76
Additional paid-in capital	366,455	334,821
Accumulated other comprehensive income (loss)	3	(2)
Accumulated deficit	(232,770)	(131,519)
Total stockholders' equity	133,767	203,376
Total liabilities and stockholders' equity	$ 413,968	$ 542,712

The accompanying notes are an integral part of these consolidated financial statements.

ARLO TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2020	2019	2018
	(In thousands, except per share data)		
Revenue:			
Products	$ 284,868	$ 323,242	$ 427,113
Services	72,286	46,765	37,805
Total revenue	357,154	370,007	464,918
Cost of revenue:			
Products	263,905	307,348	354,023
Services	37,860	26,855	18,820
Total cost of revenue	301,765	334,203	372,843
Gross profit	55,389	35,804	92,075
Operating expenses:			
Research and development	60,137	69,384	58,794
Sales and marketing	49,064	56,985	52,593
General and administrative	51,096	47,624	28,209
Separation expense	248	1,913	27,252
Gain on sale of business	(292)	(54,881)	—
Total operating expenses	160,253	121,025	166,848
Loss from operations	(104,864)	(85,221)	(74,773)
Interest income	802	2,737	1,239
Other income (expense), net	3,436	913	(1,177)
Loss before income taxes	(100,626)	(81,571)	(74,711)
Provision for income taxes	625	4,380	772
Net loss	$ (101,251)	$ (85,951)	$ (75,483)
Net loss per share:			
Basic	$ (1.30)	$ (1.14)	$ (1.12)
Diluted	$ (1.30)	$ (1.14)	$ (1.12)
Weighted average shares used to compute net loss per share:			
Basic	78,084	75,074	67,231
Diluted	78,084	75,074	67,231

The accompanying notes are an integral part of these consolidated financial statements.

ARLO TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Net loss	$ (101,251)	$ (85,951)	$ (75,483)
Other comprehensive income (loss), before and after tax:			
Unrealized gain (loss) on derivative instruments	27	(27)	2
Unrealized gain (loss) on available-for-sale securities	(22)	25	(2)
Total other comprehensive income (loss), before tax	5	(2)	—
Tax benefit (provision) related to derivative instruments	—	—	—
Tax benefit (provision) related to available-for-sale securities	—	—	—
Total other comprehensive income (loss), net of tax	5	(2)	—
Comprehensive loss	$ (101,246)	$ (85,953)	$ (75,483)

The accompanying notes are an integral part of these consolidated financial statements.

ARLO TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Net Parent Investment	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
				(In thousands)			
Balance as of December 31, 2017	—	$ —	$ —	$ 125,419	$ —	$ —	$ 125,419
Cumulative impact from adoption of ASC 606, net of tax	—	—	—	(3,061)	—	—	(3,061)
Net loss, prior to the completion of the Contribution	—	—	—	(29,634)	—	—	(29,634)
Net loss, after the completion of the Contribution	—	—	—	—	—	(45,849)	(45,849)
Issuance of common stock from initial public offering	11,747	12	174,725	—	—	—	174,737
Initial public offering costs paid by the Company	—	—	(1,404)	—	—	—	(1,404)
Initial public offering costs paid by Parent	—	—	(3,148)	—	—	—	(3,148)
Net transfer from Parent	—	—	—	43,549	—	—	43,549
Conversion of Net parent investment into common stock	62,500	62	139,030	(139,030)	—	—	62
Stock-based compensation expense funded by Parent	—	—	—	2,757	—	—	2,757
Stock-based compensation expense post-initial public offering	—	—	6,074	—	—	—	6,074
Change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	—	(2)	—	(2)
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	—	2	—	2
Balance as of December 31, 2018	74,247	74	315,277	—	—	(45,849)	269,502
Cumulative-effect adjustment from adoption of ASC 842, net of tax	—	—	—	—	—	281	281
Net loss	—	—	—	—	—	(85,951)	(85,951)
Stock-based compensation expense	—	—	19,582	—	—	—	19,582
Issuance of common stock under stock-based compensation plans	1,152	1	12	—	—	—	13
Issuance of common stock under Employee Stock Purchase Plan	767	1	1,825	—	—	—	1,826
Restricted stock unit withholdings	(380)	—	(1,875)	—	—	—	(1,875)
Change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	—	25	—	25
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	—	(27)	—	(27)
Balance as of December 31, 2019	75,786	76	334,821	—	(2)	(131,519)	203,376
Net loss	—	—	—	—	—	(101,251)	(101,251)
Stock-based compensation expense	—	—	27,418	—	—	—	27,418
Settlement of liability classified RSUs	—	—	4,242	—	—	—	4,242
Issuance of common stock under stock-based compensation plans	3,720	3	1,727	—	—	—	1,730
Issuance of common stock under Employee Stock Purchase Plan	1,110	1	3,024	—	—	—	3,025
Restricted stock unit withholdings	(1,280)	(1)	(4,777)	—	—	—	(4,778)
Change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	—	(22)	—	(22)
Change in unrealized gains and losses on derivatives, net of tax	—	—	—	—	27	—	27
Balance as of December 31, 2020	79,336	$ 79	$ 366,455	$ —	$ 3	$ (232,770)	$ 133,767

The accompanying notes are an integral part of these consolidated financial statements.

ARLO TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Cash flows from operating activities:			
Net loss	$ (101,251)	$ (85,951)	$ (75,483)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	10,206	10,681	5,307
Stock-based compensation expense	35,247	22,894	8,831
Allowance for (release of) credit losses and inventory reserves	964	(2,921)	6,739
Gain on sale of business	(292)	(54,881)	—
Deferred income taxes	50	(210)	(1,108)
Premium amortization (discount accretion) on investments, net	54	(461)	(120)
Changes in assets and liabilities:			
Accounts receivable, net	49,765	38,247	(118,778)
Inventories	2,862	53,604	(48,934)
Prepaid expenses and other assets	10,441	11,525	(16,592)
Accounts payable	(49,282)	28,791	87,307
Deferred revenue	3,607	22,567	11,253
Accrued liabilities	(8,901)	(34,714)	123,892
Net cash provided by (used in) operating activities	(46,530)	9,171	(17,686)
Cash flows from investing activities:			
Purchases of property and equipment	(3,892)	(6,664)	(21,666)
Proceeds from sale of business	—	52,694	—
Purchases of short-term investments	(50,083)	(29,768)	(54,619)
Proceeds from maturities of short-term investments	50,000	60,000	5,000
Net cash provided by (used in) investing activities	(3,975)	76,262	(71,285)
Cash flows from financing activities:			
Proceeds from initial public offering, net of offering costs	—	—	173,395
Restricted stock unit withholdings	(4,778)	(1,875)	—
Proceeds related to employee benefit plans	4,755	1,837	—
Net investment from NETGEAR	—	—	70,892
Net cash provided by (used in) financing activities	(23)	(38)	244,287
Net increase (decrease) in cash and cash equivalents and restricted cash	(50,528)	85,395	155,316
Cash and cash equivalents and restricted cash, at beginning of period	240,819	155,424	108
Cash and cash equivalents and restricted cash, at end of period	$ 190,291	$ 240,819	$ 155,424
Non-cash investing and financing activities:			
Purchases of property and equipment included in accounts payable and accrued liabilities	$ 564	$ 1,086	$ 16,003
De-recognized fair value of build-to-suit lease	$ —	$ (21,610)	$ —
Estimated fair value of a facility under build-to-suit lease including tenant improvements	$ —	$ —	$ 28,357
Supplemental cash flow information:			
Cash paid for income taxes, net	$ 5,614	$ 960	$ 89

The accompanying notes are an integral part of these consolidated financial statements.

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company and Basis of Presentation

The Company

Arlo Technologies, Inc. ("Arlo" or "the Company") combines an intelligent cloud infrastructure and mobile app with a variety of smart connected devices that transform the way people experience the connected lifestyle. The Company's deep expertise in product design, wireless connectivity, cloud infrastructure and cutting-edge AI capabilities focuses on delivering a seamless, smart home experience for Arlo users that is easy to setup and interact with every day. The Company's cloud-based platform provides users with visibility, insight and a powerful means to help protect and connect in real-time with the people and things that matter most, from any location with a Wi-Fi or a cellular connection. The Company conducts business across three geographic regions - Americas; Europe, Middle-East and Africa (“EMEA”); and Asia Pacific (“APAC”), and primarily generates revenue by selling devices through retail channels, wholesale distribution, wireless carrier channels, security solution providers, and Arlo's direct to consumer store and paid subscription services.

The Company has dual corporate headquarters located in San Jose, California and Carlsbad, California and also maintains offices to provide sales and customer support at various global locations.

On February 6, 2018, NETGEAR Inc. (“NETGEAR”) announced that its board of directors had unanimously approved the pursuit of a separation of its Arlo business from NETGEAR (the “Separation”) to be effected through an initial public offering (the “IPO”) of newly issued shares of the common stock of Arlo, then a wholly owned subsidiary of NETGEAR. On July 6, 2018, the Company filed a registration statement (as amended, the "IPO Registration Statement") relating to the IPO of common stock of Arlo with the U.S. Securities and Exchange Commission (the "SEC"). Following a series of restructuring steps prior to the completion of the IPO of Arlo common stock, the Arlo business was transferred from NETGEAR to Arlo (collectively, the “Contribution”).

On August 2, 2018, NETGEAR and Arlo announced the pricing of the IPO of 10,215,000 shares of Arlo’s common stock at a price to the public of $16.00 per share. On August 3, 2018, Arlo’s shares began trading on the New York Stock Exchange under the ticker symbol “ARLO.” On August 7, 2018, the Company completed its IPO of 11,747,250 shares of common stock (including 1,532,250 shares of common stock pursuant to the underwriters’ option to purchase additional shares, which was exercised in full on August 3, 2018), at $16.00 per share, before underwriting discounts and commissions and estimated offering costs. Cash proceeds from the IPO were $173.4 million, net of the portion of the offering cost paid by Arlo, which portion was $1.4 million. The total offering cost was $4.6 million, of which $3.2 million was paid by NETGEAR.

Prior to the completion of the IPO, the Company was a wholly owned subsidiary of NETGEAR and upon the closing of the IPO (including the issuance of additional shares of common stock pursuant to the underwriters’ option to purchase additional shares, which was exercised in full) on August 7, 2018, NETGEAR owned approximately 84.2% of the shares of Arlo’s outstanding common stock.

On November 29, 2018, NETGEAR announced that its board of directors had approved a special stock dividend (the “Distribution”) to NETGEAR stockholders of the 62,500,000 shares of Arlo common stock owned by NETGEAR. The Distribution was made on December 31, 2018 (the “Distribution Date”) to all NETGEAR stockholders of record as of the close of business on December 17, 2018 (the “Record Date”). In the Distribution, each NETGEAR stockholder of record on the Record Date received 1.980295 shares of Arlo common stock for every share of NETGEAR common stock held on the Record Date, subject to cash in lieu of fractional shares. The Distribution was intended to qualify as generally tax free to NETGEAR stockholders for U.S. federal income tax purposes. In connection with the Distribution, 62,500,000 shares of Arlo common stock held by NETGEAR were distributed to its stockholders and NETGEAR is no longer considered a related party to the Company.

Basis of Presentation

The combined financial statements of Arlo that cover dates prior to the completion of the IPO have been derived and carved out from the consolidated financial statements and accounting records of NETGEAR as if Arlo had operated on a stand-alone basis within the periods presented. In connection with the Separation and IPO, certain assets and liabilities presented have been transferred to Arlo at carry-over (historical cost) basis. Balances contributed by NETGEAR on or before the completion of the IPO were based on the master separation agreement between the Company and NETGEAR and related documents governing the Contribution.

Following the completion of the IPO, the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All periods presented have been accounted for in conformity with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and pursuant to the regulations of the U.S. Securities and Exchange Commission ("SEC").

Allocated Expenses from NETGEAR

Prior to the completion of the IPO, NETGEAR provided certain corporate services to the Company, which were allocated based on revenue, headcount, or other measures the Company has determined as reasonable through July 1, 2018. The amount of these allocations from NETGEAR reflected within operating expenses in the consolidated statements of operations was $30.6 million for the six months ended July 1, 2018, which included $9.4 million for research and development, $10.0 million for sales and marketing, and $11.2 million for general and administrative expense. Following July 1, 2018, the Company assumed responsibility for the costs of these functions.

Fiscal periods

The Company's fiscal year begins on January 1 of the year stated and ends on December 31 of the same year. The Company reports its results on a fiscal quarter basis rather than on a calendar quarter basis. Under the fiscal quarter basis, each of the first three fiscal quarters ends on the Sunday closest to the calendar quarter end, with the fourth quarter ending on December 31.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Management bases its estimates on various assumptions believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ materially from those estimates and operating results for the year ended December 31, 2020 are not necessarily indicative of the results that may be expected for any future period.

Note 2. Summary of Significant Accounting Policies

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity or a remaining maturity at the time of purchase of three months or less to be cash equivalents. The Company deposits cash and cash equivalents with high credit quality financial institutions.

Restricted cash

The Company maintains certain cash balances restricted as to withdrawal or use. Restricted cash is comprised primarily of cash used as a collateral for a letter of credit associated with the Company's lease agreement for its headquarters in San Jose, California. The Company deposits restricted cash with high credit quality financial institutions.

The following table shows reconciliation of cash and cash equivalents and restricted cash within the consolidated balance sheets to the amounts shown in the statements of cash flows:

	As of December 31,		
	2020	2019	2018
	(In thousands)		
Cash and cash equivalents	$ 186,127	$ 236,680	$ 151,290
Restricted cash	4,164	4,139	4,134
Total as presented on the consolidated statements of cash flows	$ 190,291	$ 240,819	$ 155,424

Short-term investments

Short-term investments are comprised of marketable securities that consist of government securities with an original maturity or a remaining maturity at the time of purchase of greater than three months and no more than 12 months. The marketable securities are held in the Company's name with a high quality financial institution, which acts as the Company's custodian and investment manager. These marketable securities are classified as available-for-sale securities in accordance with the provisions of the authoritative guidance for investments and are carried at fair value with unrealized gains and losses reported as a separate component of stockholders' equity.

Fair value measurements

The carrying amounts of the Company's financial instruments, including cash equivalents, restricted cash, short-term investments, accounts receivable, and accounts payable approximate their fair values due to their short maturities. Foreign currency forward contracts are recorded at fair value based on observable market data. The Company determines the fair values of its financial instruments based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. The fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Derivative financial instruments

The Company's subsidiaries have had, and will continue to have material future cash flows, including revenue and expenses, which are denominated in currencies other than the Company's functional currency. The Company and all its subsidiaries designate the U.S. dollar as the functional currency. Changes in exchange rates between the Company's functional currency and other currencies in which the Company transacts business will cause fluctuations in cash flow expectations and cash flow realized or settled. Accordingly, the Company uses derivatives to mitigate its business exposure to foreign exchange risk. The Company enters into foreign currency forward contracts in Australian dollars and Canadian dollars to manage its exposure to foreign exchange risk related to expected future cash flows on certain forecasted revenue, costs of revenue, operating expenses and existing assets and liabilities.

The Company's foreign currency forward contracts do not contain any credit risk-related contingent features. The Company is exposed to credit losses in the event of nonperformance by the counter-parties of its forward contracts. The Company enters into derivative contracts with high-quality financial institutions and limits the amount of credit exposure to any one counter-party. In addition, the derivative contracts typically mature in less than six months and the Company continuously evaluates the credit standing of its counter-party financial institutions. The counter-parties to these arrangements are large highly rated financial institutions and the Company does not consider non-performance a material risk.

The Company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including, but not limited to, materiality, accounting considerations or the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign exchange rates. The Company's accounting policies for these instruments are based on whether the instruments are designated as hedge or non-hedge instruments in accordance with the authoritative guidance for derivatives and hedging. The Company records all derivatives on the balance sheets at fair value. Cash flow hedge gains and losses are recorded in other comprehensive income ("OCI") until the hedged item is recognized in earnings. Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in Other income (expense), net in the consolidated statements of operations.

Cash flow hedges

To help manage the exposure of operating margins to fluctuations in foreign currency exchange rates, the Company hedges a portion of its anticipated foreign currency revenue, costs of revenue and certain operating expenses. These hedges are designated at the inception of the hedge relationship as cash flow hedges. The effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) ("AOCI") in stockholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in current earnings.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur within the designated hedge period or if not recognized within 60 days following the end of the hedge period. Deferred gains and losses in AOCI with such derivative instruments are reclassified immediately into earnings through Other income (expense), net. Any subsequent changes in fair value of such derivative instruments also are reflected in current earnings unless they are re-designated as hedges of other transactions.

Non-designated hedges

The Company enters into non-designated hedges under the authoritative guidance for derivatives and hedging to manage the exposure of non-functional currency monetary assets and liabilities held on its financial statements to fluctuations in foreign currency exchange rates, as well as to reduce volatility in other income and expense. The non-designated hedges are generally expected to offset the changes in value of its net non-functional currency asset and liability position resulting from foreign exchange rate fluctuations. Foreign currency denominated accounts receivable and payable are hedged with non-designated hedges when the related anticipated foreign revenue and expenses are recognized in the Company's financial statements.

Trade accounts receivable

The Company is exposed to credit losses primarily through sales of products and services. The Company's allowance for current estimated credit losses for trade accounts receivable is developed using historical collection experience, current and future economic and market conditions and a review of the current status of customers' trade accounts receivables. Due to the short-term nature of such receivables, the estimated amount of accounts receivable that may not be collected is based on aging of the accounts receivable balances and the financial condition of customers. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default.

The Company’s monitoring activities include timely and regular account reconciliations, dispute resolution, payment confirmation, review of customers' financial condition and macroeconomic conditions. Balances are written off when determined to be uncollectible. The Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and determined that the estimate of credit losses was not significantly impacted. Although the Company has historically not experienced significant credit losses, it is possible that there could be a material adverse impact from potential adjustments of the carrying amount of trade receivables.

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of principally investments, derivative financial instruments, and accounts receivable. The Company believes that there is minimal credit risk associated with the investment of its cash and cash equivalents, restricted cash, and short-term investments, due to the restrictions placed on the type of investment that can be entered into under the Company’s investment policy. The Company’s short-term investments consist of investment-grade securities, and the Company’s cash and investments are held and managed by high credit quality financial institutions.

The Company is exposed to credit loss in the event of nonperformance by counterparties to the foreign currency forward contracts used to mitigate the effect of foreign currency exchange rate changes. The Company enters into derivative contracts with high-quality financial institutions and limits the amount of credit exposure to any counterparty. The Company’s foreign currency forward contracts do not contain any credit-risk-related contingent features. In addition, the derivative contracts typically mature in less than six months and the Company continuously evaluates the credit standing of its counterparty financial institutions. The counterparties to these arrangements are large highly rated financial institutions and the Company does not consider non-performance a material risk. The Company believes the counterparties for its outstanding contracts are large, financially sound institutions and thus, the Company does not anticipate nonperformance by these counterparties.

The Company’s customers are primarily retailers and wholesale distributors who sell or distribute the products to a large group of end-users. The Company regularly performs credit evaluations of the Company’s customers’ financial condition and performance and considers factors such as historical experience, credit quality, age of the accounts receivable balances, geographic or country-specific risks and current economic conditions that may affect customers’ ability to pay. The Company does not require collateral from its customers. Historically, a substantial portion of the Company’s revenue has been derived from a limited number of retailers and wholesale distribution partners. As of December 31, 2020, three customers accounted for 32.7%, 18.5% and 15.3% of the Company’s total accounts receivable, net. As of December 31, 2019, one customer accounted for 51.3% of the Company’s total accounts receivable, net. No other customer accounted for 10% or greater of the Company’s total accounts receivable, net.

Inventories

Inventories consist of finished goods which are valued at the lower of cost or net realizable value, with cost being determined using the first-in, first-out method. The Company writes down its inventories based on estimated excess and obsolete amounts, determined primarily based on demand forecasts, but takes into account market conditions, product development plans, product life expectancy and other factors. At the point of loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase of the newly established cost basis. While management believes the estimates and assumptions underlying its current forecasts are reasonable, there is risk that additional charges may be necessary if current forecasts are greater than actual demand.

Property and equipment, net

Property and equipment are stated at historical cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Asset Category:	Range of Useful Lives
Computer equipment	2 years
Furniture and fixtures	5 years
Software	2-5 years
Machinery and equipment	2-3 years
Leasehold improvements	Shorter of remaining lease term or 7 years

Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The carrying value of the asset is reviewed on a regular basis for the existence of facts, both internal and external, that may suggest impairment. There was no impairment loss of property and equipment for the years ended December 31, 2020, 2019 and 2018.

Goodwill

Goodwill pertains to the acquisitions of Avaak, Inc. (“Avaak”) and Placemeter, Inc. (“Placemeter”). Goodwill represents the amount by which the purchase price exceeds estimated fair value of net assets of businesses acquired in a business combination. The Company performs an annual impairment assessment of goodwill at the reporting unit level on the first day of the fourth fiscal quarter. The Company identified that it has one reporting unit for the purpose of goodwill impairment testing and the reporting unit is at the same level as its operating segment and reportable segment. The analysis may include both qualitative and quantitative factors to assess the likelihood of an impairment. Should certain events or indicators of impairment occur between annual impairment tests, the Company will perform the impairment test as those events or indicators occur. Examples of such events or circumstances include a significant decline in the Company’s expected future cash flows, a sustained, significant decline in the Company’s stock price and market capitalization, a significant adverse change in the business climate and slower growth rates.

Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of the reporting unit is less than its carrying amount. The qualitative assessment considers macroeconomic conditions, industry and market considerations, cost factors, overall company financial performance, events affecting the reporting units, and changes in the Company’s stock price. If the reporting unit does not pass the qualitative assessment, the Company estimates its fair value and compares the fair value with the carrying amount of its reporting unit, including goodwill. If the fair value is greater than the carrying amount of its reporting unit, no impairment is recorded.

Goodwill is also tested for impairment by performing a quantitative assessment, which is used to identify both the existence of impairment and the amount of impairment loss. The quantitative assessment compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value is less than the carrying amount, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The impairment charge, if any would be recorded to earnings in the consolidated statements of operations. There was no impairment loss of goodwill for the years ended December 31, 2020, 2019 and 2018.

Intangibles, net

Intangibles, net pertain to the acquisitions of Avaak and Placemeter. Purchased intangibles with finite lives are amortized using the straight-line method over the estimated economic useful life, which range from three to five years. Finite-lived intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Examples of such events or circumstances include: a significant decrease in the market price of the asset, a significant decline in the Company’s expected future cash flows, significant changes or planned changes in its use of the assets, and a significant adverse change in the business climate. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the carrying amount of the asset exceeds its estimated undiscounted future net cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The carrying amount of the asset is reviewed on a regular basis for the existence of facts, both internal and external, that may suggest impairment. As of December 31, 2020, all finite-lived intangibles were fully amortized. No impairment charges were recorded for all periods presented.

Revenue recognition

On January 1, 2018, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606) (“ASC 606”) and applied this guidance to those contracts which were not completed at the date of adoption using the modified retrospective method. The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to Net parent investment effective January 1, 2018.

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred to the customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The majority of revenue comes from sales of hardware products to customers (retailers, distributors, security solution providers, service providers, and Arlo's direct to consumer store). Revenue is recognized at a point in time when control of the goods is transferred to the customer, generally occurring upon shipment or delivery, dependent upon the terms of the underlying contract. The amount recognized reflects the consideration the Company expects to be entitled to in exchange for the transferred goods.

The Company sells paid subscription services to its end user customers where it provides customers access to its cloud services. Revenue for subscription sales is generally recognized on a ratable basis over the contract term, beginning on the date that the service is made available to the customers at the time of registration. The subscription contracts are generally 30 days or 12 months in length, billed in advance. All such service or support sales are typically recognized using an output measure of progress by looking at the time elapsed, as the contracts generally provide the customer equal benefit throughout the contract period. In addition to selling paid subscriptions, the Company also sells services bundled with hardware products and accounts for these sales in line with the multiple performance obligations guidance.

Revenue from all sales types is recognized at transaction price, which is the amount the Company expects to be entitled to in exchange for transferring goods or providing services. Transaction price is calculated as selling price net of variable consideration which may include estimates for future returns, sales incentives, and price protection related to current period product revenue. The Company’s standard obligation to its direct customers generally provides for a full refund in the event that such product is not merchantable or is found to be damaged or defective. In determining estimates for future returns, management analyzes historical sales and returns data, channel inventory levels, current economic trends, and changes in customer demand for the Company’s products. Sales incentives and price protection are determined based on a combination of the actual amounts committed and estimated future expenditure based upon historical customary business practice. Typically variable consideration does not need to be constrained as estimates are based on predictive historical data or future commitments that are planned and controlled by the Company. However, the Company continues to assess variable consideration estimates such that it is probable that a significant reversal of revenue will not occur.

Contracts with multiple performance obligations

Some of the Company’s contracts with customers contain multiple promised goods or services. Such contracts include hardware products with bundled services, various subscription services, and support. For these contracts, the Company accounts for the promises separately as individual performance obligations if they are distinct. Performance obligations are determined to be considered distinct if they are both capable of being distinct and distinct within the context of the contract. In determining whether performance obligations meet the criteria for being distinct, the Company considers a number of factors, such as the degree of interrelation and interdependence between obligations, and whether or not the good or service significantly modifies or transforms another good or service in the contract. The embedded software in most of the hardware products is not considered distinct and therefore the combined hardware and incidental software are treated as one performance obligation and recognized at the point in time when control of product transfers to the customer. Services that are included with certain hardware products are considered distinct and therefore the hardware and service are treated as separate performance obligations.

After identifying the separate performance obligations, the transaction price is allocated to the separate performance obligations on a relative stand-alone selling price basis. Stand-alone selling prices are generally determined based on the prices charged to customers or using an adjusted market assessment. Stand-alone selling price of the hardware is directly observable from add-on camera and base station sales. Stand-alone selling price of the premium services are directly observable from direct sales to end users while the service is estimated using an adjusted market approach.

Revenue is then recognized for each distinct performance obligation as control is transferred to the customer. Revenue attributable to hardware is recognized at the time control of the product transfers to the customer. The transaction price allocated to the service is recognized over the specified service period or over the estimated useful life of the hardware, beginning when the customer is expected to activate their account. Useful life of the hardware is determined by industry norms, technical and financial relevance, frequency of new model releases, and user history.

Long-term Supply Arrangement - Verisure

The Company has entered into a Supply Agreement as part of the disposal of the Company's commercial operations in Europe as discussed in Note 4, *Disposal of Business,* in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, where Verisure prepays future product purchases with a minimum product purchase commitment also required. The Supply Agreement includes product purchases, paid subscription services, basic services, and an option for Verisure to acquire development services by submitting a statement of work (“SOW”). Products sold come with a standard twelve months warranty. Verisure assumes responsibilities for all warranty claims, returns of products and certain technical support provided to the end users. The Company provides technical support for paid subscription services where Verisure cannot resolve the issue. Verisure is responsible for any marketing and promotion of the Company's products and services sold in Europe.

Products are priced at a cost plus markup based on markups specified in the Supply Agreement and that price varies based on the cost of the product. The paid subscription services and basic services pricing is based on the number of users monthly and is priced at a cost plus markup specified in the Supply Agreement, which varies based on the user and service type. The transaction price for products and paid subscription services is entirely variable because the consideration is dependent on the actual costs. The Company allocates variable consideration specified for products entirely to products, and variable consideration specified for the paid subscription services entirely to the paid subscription services. For development services, no contract exists until an SOW is submitted and approved by both parties. For products, since quantity and product types are not specified in the agreement, contracts are not deemed to exist until the Company receives and accepts the customer purchase order ("PO"). Each product with a valid PO is considered a single performance obligation.

The Company recognizes variable consideration for products upon delivery and for services when the monthly service is rendered for paid subscription service and basic service. The non-refundable product prepayments do not relate to future goods or services, as such no further assessment of material rights is required. Further, as the transfer of products is at the discretion of the customer (i.e. when Verisure issues a PO), a significant financing component does not exist as it relates to product prepayments. The Company also expects that the product prepayments will be fully utilized by Verisure within 12 to 18 months, hence, no additional accounting consideration is necessary for breakage. The Company also concluded that it is acting as the principal in the Supply Agreement and determined that revenue should be presented gross.

NRE Arrangement - Verisure

The Supply Agreement also provides for certain development services under an SOW to Verisure ("NRE arrangement") as part of the disposal of the Company's commercial operations in Europe as discussed in Note 4, *Disposal of Business,*in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K. In the NRE arrangement, Verisure pays non-refundable installments upon the commencement of agreed-upon milestones. There is a single performance obligation as the distinct goods and services promised under the SOW are highly interdependent or interrelated inputs that produce a single combined output given the nature of such arrangements. The output (or work-in-progress of such output) typically has no alternative use to the Company given the customized nature of the arrangement and the Company has enforceable rights given that the non-refundable milestone payments are prepayments in nature; control for NRE development services therefore transfers over time.

The Company determined that the most appropriate measure of progress for revenue recognition is the input method based on cost because the Company can reasonably estimate the total costs for the NRE, and the costs incurred reasonably reflects the Company’s efforts to satisfy the performance obligation. The NRE costs include labor, material, overhead as well as the use of outside services. The total estimated NRE costs are based on a combination of historical costs together with quotes from vendors for supplying parts or services towards the completion. Adjustments to cost and profit estimates are made periodically due to changes in scope of work, hours to complete and estimated profitability, including those arising from final contract settlements. These changes may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Any losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. If total NRE costs calculated upon completion in the current period are more than the estimated total costs at completion used to calculate revenue in a prior period, then the profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion.

Warranties

Sales of hardware products regularly include warranties to end customers that cover bug fixes, minor updates such that the product continues to function according to published specifications in a dynamic environment, and phone support. These standard warranties are assurance type warranties and do not offer any services in addition to the assurance that the product will continue working as specified for one or more years. Therefore, warranties are not considered separate performance obligations in the arrangement. Instead, the expected cost of warranties is accrued as an expense in accordance with authoritative guidance.

Sales incentives

The Company accrues for sales incentives offered to customers as a marketing expense if it receives an identifiable benefit in exchange and can reasonably estimate the fair value of the identifiable benefit received; otherwise, it is recorded as a reduction to revenues. As a consequence, the Company records a substantial portion of its channel marketing costs as a reduction of revenue.

The Company records estimated reductions to revenue for sales incentives when the related revenue is recognized or ahead of customer or end customer commitment if customary business practice creates an implied expectation that such activities will occur in the future.

Shipping and handling costs

The Company includes shipping and handling fees billed to customers in Revenue. Shipping and handling costs associated with inbound freight are included in Cost of revenue. In cases where the Company gives a freight allowance to the customer for their own inbound freight costs, such costs are appropriately recorded as a reduction in Revenue. Shipping and handling costs associated with outbound freight are included in Sales and marketing expenses. The Company has elected to account for shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated products. Shipping and handling costs associated with outbound freight totaled $2.7 million, $2.3 million and $3.7 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Contract costs

The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that otherwise would have been recognized is one year or less. These costs are included in sales and marketing and general and administrative expenses. If the incremental costs of obtaining a contract, which consist of sales commissions, relate to a service recognized over a period longer than one year, costs are deferred and amortized in line with the related services over the period of benefit. Deferred commissions are classified as non-current based on the original amortization period of over one year. There were no deferred commissions as of December 31, 2020 and 2019.

Contract balances

The Company records accounts receivable when it has an unconditional right to consideration. Contract liabilities are recorded when cash payments are received or due in advance of performance. Contract liabilities consist of advance payments and deferred revenue, where the Company has unsatisfied performance obligations. Contract liabilities are classified as Deferred revenue on the consolidated balance sheets. Payment terms vary by customer. The time between invoicing and when payment is due is not significant. For certain products or services and customer types, payment is required before the products or services are delivered to the customer. Refer to Note 3, *Deferred Revenue,* in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for detailed disclosures regarding changes in contract balances for the years ended December 31, 2020 and 2019.

Research and development

Costs incurred in the research and development of new products are expensed as incurred.

Advertising costs

Advertising costs are expensed as incurred. Total advertising and promotional expenses were $12.7 million, $12.3 million and $13.4 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Stock-based compensation

The Company’s employees have historically participated in NETGEAR’s stock-based compensation plans. Stock-based compensation expense has been allocated to the Company based on the awards and terms previously granted to the Company’s employees as well as an allocation of NETGEAR’s corporate and shared functional employee expenses. The Company measures stock-based compensation at the grant date based on the fair value of the award. The fair value of stock options and the shares offered under the employee stock purchase plan is estimated using the Black-Scholes option pricing model. Estimated compensation cost relating to restricted stock units ("RSUs") is based on the closing fair market value of NETGEAR’s common stock on the date of grant.

Equity awards granted by the Company under its own stock-based compensation plans on or after the completion of the IPO are comprised of performance-based stock options (the “PSOs”), stock options, RSUs, performance RSUs ("PSUs"), and market-based performance RSUs ("MPSUs"). The Company uses the fair value method of accounting for its equity awards granted to employees and measures the cost of employee services received in exchange for the stock-based awards. The Company recognizes this compensation expense generally on a straight-line basis over the requisite service period of the award. The fair value of stock options and PSOs is estimated on the grant or offering date using the Black-Scholes option pricing model and the forfeitures are recorded as they occur. The fair value of RSUs and PSUs is measured on the grant date based on the closing fair market value of the Company’s common stock. The Company utilizes a Monte Carlo pricing model customized to the specific provisions of the 2018 Plan to value the MPSUs awards on the grant date. The fair value determined using the Monte Carlo simulation model varies based on the assumptions used for the expected stock price volatility, the correlation coefficient between the Company and Russell 2000 Index, risk-free interest rates, and dividend yield.

The stock-based compensation cost is recognized ratably over the period during which an employee is required to provide service in exchange for the awards, usually the vesting period, which is generally four years for stock options and three to four years for RSUs. For PSOs and PSUs, stock-based compensation expense associated with individual performance milestones is recognized over the expected performance achievement period when the achievement becomes probable. For MPSUs, stock-based compensation expense is recognized ratably over the performance period subject to achievement of market conditions.

The Company's 2018 Employee Stock Purchase Plan (“ESPP”) is intended to provide employees with the opportunity to purchase the Company's common stock through accumulated payroll deductions at the end of specified purchase period. Eligible employees may contribute up to 15% of compensation, subject to certain income limits, to purchase shares of the Company's common stock. The terms of the plan include a look-back feature that enables employees to purchase stock semi-annually at a price equal to 85% of the lesser of the fair market value at the beginning of the offering period or the purchase date. The duration of each purchasing period is generally six months. The Company determines the fair value using the Black-Scholes Model using various inputs, including our estimate of expected volatility, term, dividend yield and risk-free interest rate. The Company recognizes compensation costs for the ESPP on a straight-line basis over the requisite service period of the award.

On the Distribution Date, outstanding equity awards granted to Arlo employees under NETGEAR’s stock-based compensation plans were adjusted into NETGEAR awards and Arlo awards based on the conversion ratio as set forth in the employee matters agreement between Arlo and NETGEAR. The Company did not recognize any incremental expense in connection with the conversion of NETGEAR’s Stock based awards into Arlo awards. Refer to Note 13, *Employee Benefit Plans*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for a further discussion on stock-based compensation.

Leases

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) utilizing the modified retrospective transition method through a cumulative-effect adjustment at the beginning of the first fiscal quarter of 2019.

The Company determines if an arrangement is a lease at inception. Under the new standard, operating leases are included in operating lease right-of-use ("ROU") assets, accrued liabilities, and non-current operating lease liabilities in the consolidated balance sheets. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Fixed lease expense for lease payments are recognized in the consolidated statements of operations on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred.

ROU assets represent the Company's right to use an underlying asset over the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the incremental borrowing rate based on the information available was used at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made before the lease commencement date less any lease incentives received. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise the options. The lease agreements with lease and non-lease components are generally accounted as a single component.

Net income (loss) per share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. Potentially dilutive common shares include common shares issuable upon exercise of stock options and vesting of restricted stock awards, which are reflected in diluted net income (loss) per share by application of the treasury stock method. Potentially dilutive common shares are excluded from the computation of diluted net income (loss) per share when their effect is anti-dilutive.

Segment Information

The Company operates as one operating and reportable segment. The Company has identified its CEO as the Chief Operating Decision Maker ("CODM"). The CODM reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance.

Comprehensive income (loss)

Comprehensive income consists of net income (loss) and other gains and losses affecting stockholders' equity that the Company excluded from net income (loss), including unrealized gains and losses related to fair value of short-term investments and the effective portion of cash flow hedges that were outstanding at the end of the year.

Foreign currency translation and re-measurement

The Company's functional currency is the U.S. dollar. Foreign currency transactions of international subsidiaries are re-measured into U.S. dollars at the end-of-period exchange rates for monetary assets and liabilities, and at historical exchange rates for non-monetary assets and liabilities. Revenue is re-measured at average exchange rates in effect during each period. Expenses are re-measured at average exchange rates in effect during each period, except for expenses related to non-monetary assets and liabilities, which are re-measured at historical exchange rates. Gains and losses arising from foreign currency transactions are included in Other income (expense), net on the consolidated statements of operations.

Income taxes

We record our provision for income taxes in our consolidated financial statements using the asset and liability method. Under this method, we recognize income tax liabilities or receivable for the current year. We also recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. Our assessment considers the recognition of deferred tax assets on a jurisdictional basis. Accordingly, in assessing our future taxable income on a jurisdictional basis, we consider the effect of its transfer pricing policies on that income. We have placed a valuation allowance against U.S. federal and state deferred tax assets and certain foreign tax attribute carryforwards since we do not anticipate to realize the benefits of deferred tax assets.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. As we expand internationally, we will face increased complexity in determining the appropriate tax jurisdictions for revenue and expense items. Our policy is to adjust these unrecognized tax benefits in the period when facts and circumstances change, such as the closing of a tax audit, the expiration of statute of limitation for a relevant taxing authority to examine a tax position, or when additional information becomes available. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and operating results. The provision for income taxes includes the effects of any accruals that we believe are appropriate, as well as the related interest and penalties.

The Tax Act introduced the GILTI provisions effective in 2018, which generally impose a tax on the net income earned by foreign subsidiaries of U.S company in excess of a deemed return on their tangible assets. We recognize the tax on GILTI as a period cost when the tax is incurred.

Certain risks and uncertainties

The Company’s products are concentrated in the connected lifestyle solution industries, which are characterized by rapid technological advances, changes in customer requirements and evolving regulatory requirements and industry standards. The success of the Company depends on management’s ability to anticipate and/or to respond quickly and adequately to such changes. Any significant delays in the development or introduction of products and services could materially adversely affect the Company’s business, results of operations and financial condition.

The Company relies on a limited number of third parties to manufacture all of its products. If any of the Company’s third-party manufacturers cannot or will not manufacture its products in required volumes, on a cost-effective basis, in a timely manner or at all, the Company will have to secure additional manufacturing capacity. Any interruption or delay in manufacturing could materially adversely affect the Company’s business, results of operations and financial condition.

Recent accounting pronouncements

Emerging Growth Company Status

As an emerging growth company (“EGC”), the Jumpstart Our Business Startups Act (“JOBS Act”) allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies, unless the Company otherwise irrevocably elects not to avail itself of this exemption. The Company did not make such an irrevocable election and has not delayed the adoption of any applicable accounting standards.

Accounting Pronouncements Recently Adopted

ASU 2016-13 - Measurement of Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments” (Topic 326), which replaces the incurred-loss impairment methodology and requires immediate recognition of estimated credit losses expected to occur for most financial assets, including trade receivables. Credit losses on available-for-sale debt securities with unrealized losses will be recognized as allowances for credit losses, limited to the amount by which fair value is below amortized cost. The Company adopted Topic 326 on January 1, 2020, using a modified retrospective transition method, which requires a cumulative-effect adjustment, if any, to the opening balance of retained earnings to be recognized on the date of adoption with prior periods not restated. There was no cumulative-effect adjustment recorded on January 1, 2020.

ASU 2019-12 - Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for the Company beginning January 1, 2022 (or January 1, 2021 should the Company cease to be classified as an EGC), with early adoption permitted. The Company early adopted ASU 2019-12 on January 1, 2020. There was no material impact from the adoption of ASU 2019-12 on the Company's financial statements.

Accounting Pronouncements Not Yet Effective

In March 2020, the FASB issued ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting". The accounting standards update is intended to provide temporary optional expedients and exceptions to the U.S.

GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. This guidance may be applied prospectively through December 31, 2022. The Company is currently evaluating the impact this guidance may have on its financial statements and related disclosures.

With the exception of the new standards discussed above, there have been no other new accounting pronouncements that have significance, or potential significance, to the Company's financial position, results of operations, or cash flows.

Note 3. Deferred Revenue

Deferred revenue consists of advance payments and deferred revenue, where the Company has unsatisfied performance obligations. Deferred revenue consists of prepaid services and customer billings in advance of revenues being recognized from the Company's subscription contracts. Advance payments include prepayments for products and NRE services under the Supply Agreement with Verisure. Refer to Note 4, *Disposal of Business,* in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for a complete discussion of the Verisure transaction.

Transaction Price Allocated to the Remaining Performance Obligations

Remaining performance obligations represent the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as of the end of the reporting period. Unsatisfied and partially unsatisfied performance obligations consist of contract liabilities, in-transit orders with destination terms, and non-cancellable backlog. Non-cancellable backlog includes goods and services for which customer purchase orders have been accepted and that are scheduled or in the process of being scheduled for shipment.

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2020:

	1 year	2 years	Greater than 2 years	Total
		(In thousands)		
Performance obligations	$ 63,111	$ 15,788	$ 871	$ 79,770

The performance obligation greater than one year pertains to revenue deferral from prepaid services.

Contract Balances

The following table reflects the changes in contract balances for the year ended December 31, 2020 and 2019:

	Balance Sheet Location	December 31, 2020	December 31, 2019	2020 $ change	2020 % change
			(In thousands)		
Accounts receivable, net	Accounts receivable, net	$ 77,643	$ 127,317	$ (49,674)	(39.0)%
Contract liabilities - current	Deferred revenue	$ 53,142	$ 50,362	$ 2,780	5.5 %
Contract liabilities - non-current	Non-current deferred revenue	$ 16,563	$ 15,736	$ 827	5.3 %

For the year ended December 31, 2020, compared to the previous year, Accounts receivable, net decreased, primarily driven by customer mix, lower product shipments, the sale of our commercial operations in Europe to Verisure, and growth in sales from Arlo's direct to consumer store; current portion of deferred revenue increased, primarily due to $29.4 million Verisure prepayment for product purchases, which is expected to be utilized in fiscal 2021, $5.0 million Verisure NRE installment payments, and $7.9 million deferred service revenue, offset by $7.9 million service revenue recognized under the NRE arrangement with Verisure, application of $20.0 million 2019 Verisure prepayment for product purchases in fiscal 2020 against Accounts receivable, and $11.6 million service revenue recognition; and Non-current deferred revenue increased due to $9.8 million deferred service revenue and $10.6 million Verisure prepayment for product purchases, which is expected to be utilized in fiscal 2022.

For the years ended December 31, 2020 and 2019, $90.9 million and $71.6 million of revenue was deferred due to unsatisfied performance obligations, primarily relating to over time service revenue and Verisure prepayments for product purchases, and $67.3 million and $47.4 million of revenue was recognized for the satisfaction of performance obligations over time, respectively. $26.2 million and $26.4 million of this recognized revenue was included in the contract liability balance at the beginning of the period. There were no significant changes in estimates during the period that would affect the contract balances.

Disaggregation of Revenue

The Company conducts business across three geographic regions: Americas, EMEA, and APAC. Sales and usage-based taxes are excluded from revenue. Refer to Note 15, *Segment and Geographic Information*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for revenue by geography.

Note 4. Disposal of Business

On November 4, 2019, the Company and Verisure concurrently entered into an Asset Purchase Agreement (the “Purchase Agreement”) and Supply Agreement (the “Supply Agreement” and together with the Purchase Agreement, the “Verisure Agreements”). The Verisure Agreements created a strategic partnership that leverages both the Company and Verisure’s capabilities to create incremental scale to address the ever-growing demand for residential and commercial security. The strategic partnership will combine the Company’s innovative connected cameras and cloud services platform with Verisure’s professionally monitored security solutions to provide a new level of smart security for European customers. The Purchase Agreement provided that, upon the terms and subject to the conditions set forth in the Purchase Agreement, the Company transferred, sold and assigned to Verisure certain assets (the "Assets") related to the Company’s commercial operations in Europe (the "Business") to Verisure for $50.0 million in cash plus additional cash for certain inventory. The Purchase Agreement contains customary representations and warranties regarding Verisure, the Business and the Assets, indemnification provisions, termination rights and other customary provisions. The Company has agreed not to engage in any business that competes with the Business for a period of three years.

The transaction closed on December 30, 2019 pursuant to which the Company received $52.7 million including working capital adjustments, which resulted in a pretax gain of $54.9 million in the fourth fiscal quarter of 2019. In the first fiscal quarter of 2020, the Company recorded an additional gain of $292 thousand that was recorded in Gain on sale of business in the Company's unaudited condensed consolidated statements of operations as a result of the final working capital adjustment. As part of the transaction, certain employees were transferred to Verisure. These employees hold Company RSU awards, and the terms of the RSU awards were modified such that the RSU awards will continue to vest and settle after closing of the transaction in accordance with the original terms and conditions of RSU awards. Refer to Note.13 *Employee Benefit Plans*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for further detail relating to this modification.

The assets and liabilities sold and assigned to Verisure were determined to have met the criteria to be classified as held for sale as of November 4, 2019, the execution date of the Purchase Agreement. The transaction contemplated by the Purchase Agreement did not meet the criteria for discontinued operations as the Company is expected to have continued involvement in Europe through manufacturing and shipping of products to the region through sales to Verisure as part of the Supply Agreement and therefore no significant change in revenue from the region is expected; it was determined the transaction did not represent a strategic shift. The Company also assessed whether a loss is needed to be recorded upon initial classification of the assets and liabilities as held for sale to adjust its carrying amount to the fair value less cost to sell. As the carrying amount of the assets and liabilities was lower than fair value less cost to sell, no adjustment was necessary. As of the closing date of December 30, 2019, the Company concluded that no impairment exists for the assets and no adjustment was necessary for the liabilities. Further, the Company reassessed the fair value and cost to sell, and noted that they did not change since the initial classification of the assets and liabilities as held for sale. Given such, no loss adjustment was necessary.

The Supply Agreement provides that Verisure will become the exclusive distributor of Company products in Europe for all channels, and will non-exclusively distribute the Company's products through its direct channels globally for an initial terms of five years. During the five-year period commencing January 1, 2020, Verisure has an aggregate purchase commitment of $500.0 million. As of December 31, 2020, $47.3 million of the purchase commitment has been fulfilled. In 2019 and 2020, Verisure prepaid the Company $20.0 million for product purchases in fiscal 2020 and $40.0 million for product purchases in fiscal 2021 and fiscal 2022, respectively.

The Supply Agreement also provides certain NRE service to Verisure, including developing certain custom products specified by Verisure in exchange for an aggregate of $10.0 million, payable in installments upon meeting certain development milestones. In the second fiscal quarter of 2020, an additional $3.5 million was added to the contract price as a result of a modification to Verisure's specification for the Outdoor Custom Camera. As of December 31, 2020, Verisure has paid $7.5 million for this NRE service. For the year ended December 31, 2020, the Company has recognized service revenue of $7.9 million for this NRE service.

As part of the Purchase Agreement, the Company also entered into a Transition Services Agreement with Verisure (“Verisure TSA”) to assist Verisure with the transition of the Company’s European commercial operations. These transition services primarily include IT support and other services, including sales and marketing, operations and supply chain, finance, legal, and human resources. As compensation for these transition services, the Company will be reimbursed by Verisure based on actual direct costs plus allocation of overhead. For the year ended December 31, 2020, the Company charged Verisure $4.0 million for Verisure TSA services which was recorded as Other income, given such services are not related to the primary business in which the Company operates. The related Verisure TSA expenses in the same amount were recognized as incurred and reported under their natural expense classification.

Note 5. Balance Sheet Components

Available-for-sale short-term investments

	As of December 31, 2020				As of December 31, 2019			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(In thousands)							
U.S. treasuries	$ 19,996	$ 1	$ —	$ 19,997	$ 19,967	$ 23	$ —	$ 19,990

The Company’s short-term investments are classified as available-for-sale and consist of government securities with an original maturity or remaining maturity at the time of purchase of greater than three months and no more than twelve months. Accordingly, none of the available-for-sale securities have unrealized losses greater than twelve months. The Company did not recognize any other-than-temporary impairment losses related to available-for-sale short-term investment for the years ended December 31, 2019 and 2018. During the year ended December 31, 2020, with the adoption of ASU 2016-13, the Company did not recognize any allowance for credit losses related to available-for-sale short-term investment for the year ended .

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Accounts receivable, net

	As of December 31,	
	2020	2019
	(In thousands)	
Gross accounts receivable	$ 78,162	$ 127,926
Allowance for credit losses	(519)	(609)
Total accounts receivable, net	$ 77,643	$ 127,317

The following table provides a roll-forward of the allowance for credit losses that is deducted from the amortized cost basis of accounts receivable to present the net amount expected to be collected.

	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Balance at the beginning of the period	$ 609	$ 127	$ 207
Adoption of ASU 2016-13, cumulative-effect adjustment to retained earnings	—	—	—
Provision for expected credit losses	186	482	—
Amount recovered due to collection	(276)	—	(80)
Balance at the end of the period	$ 519	$ 609	$ 127

Property and equipment, net

	As of December 31,	
	2020	2019
	(In thousands)	
Machinery and equipment	$ 14,397	$ 13,402
Software	13,192	11,945
Computer equipment	4,083	4,047
Leasehold improvements	8,023	8,087
Furniture and fixtures	4,048	4,075
Total property and equipment, gross	43,743	41,556
Accumulated depreciation	(27,922)	(20,204)
Total property and equipment, net	$ 15,821	$ 21,352

Depreciation expense pertaining to property and equipment was $8.8 million, $9.2 million and $3.8 million for the years ended December 31, 2020, 2019 and 2018, respectively. Allocated depreciation expense from NETGEAR was $1.2 million for the year ended December 31, 2018. For the periods prior to the completion of the IPO, the consolidated statements of operations include both the depreciation expense directly identifiable as Arlo's and allocated depreciation expense from NETGEAR. Refer to *Allocated Expenses from NETGEAR* as discussed in Note 1, *The Company and Basis of Presentation*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for detailed disclosures regarding the methodology used for allocated expenses from NETGEAR.

Intangibles, net

	As of December 31, 2020			As of December 31, 2019		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(In thousands)					
Technology	$ 9,800	$ (9,800)	$ —	9,800	$ (8,540)	$ 1,260
Other	500	(500)	—	500	(454)	46
Total intangibles, net	$ 10,300	$ (10,300)	$ —	$ 10,300	$ (8,994)	$ 1,306

As of December 31, 2020, all finite-lived intangibles were fully amortized. Amortization expense of finite-lived intangibles was $1.3 million, $1.5 million and $1.5 million for the years ended December 31, 2020, 2019 and 2018, respectively. No impairment charges were recorded for all periods presented.

Goodwill

There was no change in the carrying amount of goodwill during the year ended December 31, 2020, and the goodwill as of December 31, 2020 and December 31, 2019 was $11.0 million.

On December 30, 2019, the Company derecognized $4.6 million goodwill associated with the Company's commercial operations in Europe, which was incorporated in the calculation of the gain on the sale of business to Verisure.

Goodwill Impairment

The Company performs an annual assessment of goodwill at the reporting unit level on the first day of the fourth fiscal quarter and during interim periods if there are triggering events to reassess goodwill. The Company operates as one operating and reportable segment.

In the first fiscal quarter of 2020, the uncertainty brought about by the COVID-19 pandemic adversely impacted the Company's stock price. The resulting impact to the Company’s market capitalization is a qualitative factor to consider when evaluating whether events or changes in circumstances indicate that it is more likely than not that a potential goodwill impairment exists. The Company concluded that the decline in the price of its common stock as a result of the COVID-19 impact was an indicator that the Company’s goodwill might be impaired. As a result, in the first fiscal quarter of 2020, the Company performed a quantitative assessment using the discounted cash flow model ("DCF model") as of March 29, 2020. The Company estimated the fair value of the business using the DCF model, as management believes forecasted operating cash flows are the best indicator of current fair value. The assumptions used in the DCF model include weighted-average cost of capital, projected revenue based on projected revenue growth rate, projected operating expenses, income taxes as well as capital expenditures and change in working capital. Estimating the fair value of the business was a subjective process involving the use of estimates and judgments, particularly related to future cash flows, which are inherently uncertain. Based on the results of the quantitative assessment using the DCF model, as of March 29, 2020, the respective fair value was substantially in excess of the carrying amount by $94.1 million, or 53%.

On the first day of the fourth quarter of 2020, the Company performed a qualitative assessment in consideration of macroeconomic conditions, industry and market conditions, cost factors, overall company financial performance, and changes in the Company's stock price. The Company did not believe it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The Company also performed a quantitative assessment by utilizing its market capitalization as a proxy for fair value of the business and comparing it to the carrying amount as of October 1, 2020. Based on the results of the quantitative assessment, the respective fair value was substantially in excess of the carrying amount by $276.2 million, or 195%.

As fair value was greater than carrying amount, goodwill was not impaired as of December 31, 2020. If there are events occurred or circumstances changed (i.e. a decline in the Company’s stock price based on market conditions and deterioration of the Company’s business) that would more likely than not reduce the fair value of the Company below its carrying amount, the Company may have to record a charge to its earnings for the associated goodwill impairment of up to $11.0 million.

Other non-current assets

	As of December 31,	
	2020	2019
	(In thousands)	
Non-current deferred income taxes	$ 1,269	$ 1,318
Deposits	122	764
Other	1,008	1,926
Total other non-current assets	$ 2,399	$ 4,008

Accrued liabilities

	As of December 31,	
	2020	2019
	(In thousands)	
Sales and marketing	$ 38,577	53,974
Sales returns	37,689	28,817
Accrued employee compensation	15,089	11,795
Operating lease liabilities	4,400	3,912
Freight	3,558	2,690
Warranty obligation	2,451	3,169
Other	20,002	23,043
Total accrued liabilities	$ 121,766	$ 127,400

Note 6. Fair Value Measurements

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019:

	As of December 31, 2020		
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)
	(In thousands)		
Assets:			
Cash equivalents: money-market funds (<90 days)	$ 1,934	$ 1,934	$ —
Available-for-sale securities: U.S. treasuries (1)	19,997	19,997	—
Foreign currency forward contracts (2)	24	—	24
Total assets measured at fair value	$ 21,955	$ 21,931	$ 24
Liabilities:			
Foreign currency forward contracts (3)	$ 199	$ —	$ 199
Total liabilities measured at fair value	$ 199	$ —	$ 199

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	December 31, 2019		
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)
	(In thousands)		
Assets:			
Cash equivalents: U.S. treasuries (<90 days)	$ 31,472	$ 31,472	$ —
Available-for-sale securities: U.S. treasuries [1]	19,990	19,990	—
Foreign currency forward contracts [2]	27	—	27
Total assets measured at fair value	$ 51,489	$ 51,462	$ 27
Liabilities:			
Foreign currency forward contracts [3]	$ 375	$ —	$ 375
Total liabilities measured at fair value	$ 375	$ —	$ 375

(1) Included in Short-term investments on the Company's consolidated balance sheets.
(2) Included in Prepaid expenses and other current assets on the Company's consolidated balance sheets.
(3) Included in Accrued liabilities on the Company's consolidated balance sheets.

The Company's investments in cash equivalents and available-for-sale securities are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company enters into foreign currency forward contracts with only those counterparties that have long-term credit ratings of A-/A3 or higher. The Company's foreign currency forward contracts are classified within Level 2 of the fair value hierarchy as they are valued using pricing models that take into account the contract terms as well as currency rates and counterparty credit rates. The Company verifies the reasonableness of these pricing models using observable market data for related inputs into such models. Additionally, the Company includes an adjustment for non-performance risk in the recognized measure of fair value of derivative instruments. As of December 31, 2020, the adjustment for non-performance risk did not have a material impact on the fair value of the Company's foreign currency forward contracts. The carrying value of non-financial assets and liabilities measured at fair value in the financial statements on a recurring basis, including accounts receivable and accounts payable, approximate fair value due to their short maturities. As of December 31, 2020, the Company has no Level 3 fair value assets or liabilities.

Note 7. Derivative Financial Instruments

Fair value of derivative instruments

The fair values of the Company's derivative instruments and the line items on the consolidated balance sheets to which they were recorded as of December 31, 2020 and 2019 are summarized as follows:

Derivative Assets	Balance Sheet Location	December 31, 2020	December 31, 2019	Balance Sheet Location	December 31, 2020	December 31, 2019
		(In thousands)			(In thousands)	
Derivative assets not designated as hedging instruments	Prepaid expenses and other current assets	$ 22	$ 27	Other accrued liabilities	$ 199	$ 347
Derivative assets designated as hedging instruments	Prepaid expenses and other current assets	2	—	Other accrued liabilities	—	28
Total		$ 24	$ 27		$ 199	$ 375

Refer to Note 6, *Fair Value Measurements,* in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for detailed disclosures regarding fair value measurements in accordance with the authoritative guidance for fair value measurements and disclosures.

Gross amounts offsetting of derivative instruments

The Company has entered into master netting arrangements which allow net settlements under certain conditions. Although netting is permitted, it is currently the Company's policy and practice to record all derivative assets and liabilities on a gross basis in the consolidated balance sheets.

The following tables set forth the offsetting of derivative assets and liabilities as of December 31, 2020 and 2019:

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
As of December 31, 2020	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Consolidated Balance Sheets**	**Net Amounts Of Assets Presented in the Consolidated Balance Sheets**	**Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
	(In thousands)					
Wells Fargo Bank	$ 24	$ —	$ 24	$ (24)	$ —	$ —

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
As of December 31, 2020	**Gross Amounts of Recognized Liabilities**	**Gross Amounts Offset in the Consolidated Balance Sheets**	**Net Amounts Of Liabilities Presented in the Consolidated Balance Sheets**	**Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
	(In thousands)					
Wells Fargo Bank	$ 199	$ —	$ 199	$ (24)	$ —	$ 175

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
As of December 31, 2019	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Consolidated Balance Sheets**	**Net Amounts Of Assets Presented in the Consolidated Balance Sheets**	**Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
	(In thousands)					
HSBC	$ 6	$ —	$ 6	$ (6)	$ —	$ —
Wells Fargo Bank	21	—	21	(21)	—	—
Total	$ 27	$ —	$ 27	$ (27)	$ —	$ —

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
As of December 31, 2019	**Gross Amounts of Recognized Liabilities**	**Gross Amounts Offset in the Consolidated Balance Sheets**	**Net Amounts Of Assets Presented in the Consolidated Balance Sheets**	**Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
	(In thousands)					
HSBC	$ 83	$ —	$ 83	$ (6)	$ —	$ 77
Wells Fargo Bank	292	—	292	(21)	—	271
Total	$ 375	$ —	$ 375	$ (27)	$ —	$ 348

Cash flow hedges

The Company typically hedges portions of its anticipated foreign currency exposure which generally are less than six months. The Company entered into six forward contracts related to its cash flow hedging program for the year ended December 31, 2020 with an average size of $1.4 million equivalent related to its cash flow hedging program.

The effects of the Company's cash flow hedges on the consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 are summarized as follows:

	Location and Amount of Gains (Losses) Recognized in Income on Cash Flow Hedges				
Year Ended December 31, 2020	**Revenue**	**Cost of revenue**	**Research and development**	**Sales and marketing**	**General and administrative**
			(In thousands)		
Statements of operations	$ 357,154	$ 301,765	$ 60,137	$ 49,064	$ 51,096
Gains (losses) on cash flow hedge	$ (32)	$ —	$ 5	$ 4	$ —

	Location and Amount of Gains (Losses) Recognized in Income on Cash Flow Hedges				
Year Ended December 31, 2019	**Revenue**	**Cost of revenue**	**Research and development**	**Sales and marketing**	**General and administrative**
			(In thousands)		
Statements of operations	$ 370,007	$ 334,203	$ 69,384	$ 56,985	$ 47,624
Gains (losses) on cash flow hedge	$ 390	$ (3)	$ (28)	$ (44)	$ (13)

	Location and Amount of Gains (Losses) Recognized in Income on Cash Flow Hedges				
Year Ended December 31, 2018	**Revenue**	**Cost of revenue**	**Research and development**	**Sales and marketing**	**General and administrative**
			(In thousands)		
Statements of operations	$ 464,918	$ 372,843	$ 58,794	$ 52,593	$ 28,209
Gains (losses) on cash flow hedge	$ 315	$ —	$ (2)	$ (28)	$ (11)

The Company expects to reclassify to earnings all of the amounts recorded in AOCI associated with its cash flow hedges over the next twelve months. For information on the unrealized gains or losses on derivatives reclassified out of AOCI into the consolidated statements of operations, refer to Note 8, *Accumulative Other Comprehensive Income (Loss),* in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur within the designated hedge period or if not recognized within 60 days following the end of the hedge period. The Company did not recognize any material net gains or losses related to the loss of hedge designation as there were no discontinued cash flow hedges during the year ended December 31, 2020, 2019 and 2018.

Non-designated hedges

The Company adjusts its non-designated hedges monthly and enters into about eight non-designated derivative per quarter with an average size of $2.4 million USD equivalent. The hedges range typically from 1 to 3 months in duration. The effects of the Company's non-designated hedge included in Other income (expense), net on the consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 are as follows:

		December 31,		
Derivatives Not Designated as Hedging Instruments	**Location of Gains (Losses) Recognized in Income on Derivative**	**2020**	**2019**	**2018**
			(In thousands)	
Foreign currency forward contracts	Other income (expense), net	$ (95)	$ (24)	$ 589

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Accumulated Other Comprehensive Income (Loss)

The following table sets forth the changes in AOCI by component for the years ended December 31, 2020, 2019 and 2018:

	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on derivatives	Estimated tax benefit (provision)	Total
		(In thousands)		
Balance as of December 31, 2017	$ —	$ —	$ —	$ —
Other comprehensive income (loss) before reclassifications	(2)	276	—	274
Less: Amount reclassified from accumulated other comprehensive income (loss)	—	274	—	274
Net current period other comprehensive income (loss)	(2)	2	—	—
Balance as of December 31, 2018	(2)	2	—	—
Other comprehensive income (loss) before reclassifications	25	275	—	300
Less: Amount reclassified from accumulated other comprehensive income (loss)	—	302	—	302
Net current period other comprehensive income (loss)	25	(27)	—	(2)
Balance as of December 31, 2019	23	(25)	—	(2)
Other comprehensive income (loss) before reclassifications	(22)	4	—	(18)
Less: Amount reclassified from accumulated other comprehensive income (loss)	—	(23)	—	(23)
Net current period other comprehensive income (loss)	(22)	27	—	5
Balance as of December 31, 2020	$ 1	$ 2	$ —	$ 3

The following tables provide details about significant amounts reclassified out of each component of AOCI for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31, 2020		Year Ended December 31, 2019		Year Ended December 31, 2018		
	Gains (Losses) Recognized in OCI - Effective Portion	Gains (Losses) Reclassified from OCI to Income - Effective Portion	Gains (Losses) Recognized in OCI - Effective Portion	Gains (Losses) Reclassified from OCI to Income - Effective Portion	Gains (Losses) Recognized in OCI - Effective Portion	Gains (Losses) Reclassified from OCI to Income - Effective Portion	Affected Line Item in the Statements of Operations
			(In thousands)				
Gains (losses) on cash flow hedge:							
Foreign currency contracts	$ 4	$ (32)	$ 275	$ 390	$ 276	$ 315	Revenue
Foreign currency contracts	—	$ —	—	(3)	—	—	Cost of revenue
Foreign currency contracts	—	$ 5	—	(28)	—	(2)	Research and development
Foreign currency contracts	—	$ 4	—	(44)	—	(28)	Sales and marketing
Foreign currency contracts	—	$ —	—	(13)	—	(11)	General and administrative
	$ 4	$ (23)	$ 275	$ 302	$ 276	$ 274	Total *

* There is no tax impact on all hedging gains and losses from derivative contracts due to the Company's full valuation allowance of its deferred tax assets.

Note 9. Income Taxes

Income (loss) before provision for income taxes consisted of the following:

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
United States	$ (104,551)	$ (103,836)	$ (79,581)
International	3,925	22,265	4,870
Total	$ (100,626)	$ (81,571)	$ (74,711)

Provision for income taxes consisted of the following:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Current:			
U.S. Federal	$ —	$ —	$ —
State	84	58	16
Foreign	438	4,524	1,425
	522	4,582	1,441
Deferred:			
U.S. Federal	—	—	—
State	—	—	—
Foreign	103	(202)	(669)
	103	(202)	(669)
Total	$ 625	$ 4,380	$ 772

Net deferred tax assets consisted of the following:

	As of December 31,	
	2020	2019
	(In thousands)	
Deferred Tax Assets:		
Accruals and allowances	$ 14,389	$ 11,334
Net operating loss carryforwards	22,216	14,355
Stock-based compensation	3,731	3,228
Lease liabilities	7,063	8,212
Deferred revenue	3,673	4,417
Tax credit carryforwards	6,311	3,262
Depreciation and amortization	2,810	1,030
Capitalized research and development expenses	17,376	6,847
Total deferred tax assets	77,569	52,685
Deferred Tax Liabilities:		
Lease assets	(5,804)	(7,450)
Total deferred tax liabilities	(5,804)	(7,450)
Valuation Allowance	(70,496)	(43,917)
Net deferred tax assets	$ 1,269	$ 1,318

Changes in allowance for deferred tax assets were as follows:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Balance at the beginning of the period	$ 43,917	$ 24,477	$ 15,611
Additions	31,890	38,336	13,760
Deductions	(5,311)	(18,896)	(4,894)
Balance at the end of the period	$ 70,496	$ 43,917	$ 24,477

Realization of the Company's deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. The Company does not anticipate to realize the net U.S. federal and state deferred tax assets and certain foreign tax attributes, which have been fully offset by a valuation allowance. As of December 31, 2020 and 2019, the valuation allowance was $70.5 million and $43.9 million, respectively. The valuation allowance increased by $26.6 million during 2020 mainly due to the increases in tax attribute carryforwards, capitalized expenditures for income tax purposes, and accruals and allowances.

The utilization of our net operating loss and credit carryforwards may be subject to annual limitation due to the ownership changes provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of portions of the net operating loss and tax credit carryforwards before utilization.

As of December 31, 2020, net operating loss carryforwards consisted of the following:

	Amount	Beginning Year of Expiration
	(in thousands)	
U.S. Federal [(1)]	$ 14,028	2031
U.S. Federal	79,073	Indefinite
California (tax effected, net of federal benefit)	981	2040
Other State (tax effected, net of federal benefit)	1,646	2024

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(1) All of the losses are subject to annual usage limitations under Internal Revenue Code Section 382.

As of December 31, 2020, tax credit carryforwards consisted of the following:

	Amount	Beginning Year of Expiration
	(in thousands)	
U.S. Federal	$ 3,688	2040
California	2,565	Indefinite
Foreign	1,309	2031

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The effective tax rate differs from the applicable U.S. statutory federal rate as follows:

	Year Ended December 31,		
	2020	2019	2018
Tax at federal statutory rate	21.0 %	21.0 %	21.0 %
State, net of federal benefit	4.4 %	3.0 %	5.9 %
Impact of international operations	0.8 %	1.4 %	0.4 %
U.S. Taxes on Foreign Entities	2.5 %	(3.6)%	(1.8)%
Stock-based compensation	(4.2)%	(2.6)%	(0.1)%
Tax credits	1.6 %	1.6 %	1.5 %
Change in valuation allowance	(26.4)%	(23.8)%	(25.2)%
Non-deductible transaction costs	(0.1)%	(0.7)%	(2.6)%
Goodwill derecognition	— %	(1.2)%	— %
Others	(0.2)%	(0.5)%	(0.1)%
Provision for income taxes	(0.6)%	(5.4)%	(1.0)%

The decrease in provision for income taxes for the year ended December 31, 2020 compared to the prior year was primarily due to lower foreign earnings in 2020, resulting from the sale of our commercial operations in Europe during the fourth quarter of 2019. Furthermore, 2019 included the gain on sale of certain assets related to the Company's commercial operations in Europe during the fourth quarter of 2019. Losses incurred predominantly in the U.S. continue to be subject to a full valuation allowance.

The decrease in provision for income taxes for the year ended December 31, 2019 compared to the prior year was primarily due to higher foreign earnings in 2019 and the gain on sale of certain assets related to the Company's commercial operations in Europe during the fourth quarter of 2019. Losses incurred predominantly in the U.S. continue to be subject to a full valuation allowance.

As of December 31, 2020, withholding taxes and state income taxes expected to be incurred on the foreign subsidiaries' earnings that are not indefinitely reinvested are immaterial.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits ("UTB") is as follows:

	Federal, State, and Foreign Tax	
	(In thousands)	
Balance as of December 31, 2017	$	1,022
Additions based on tax positions related to the current year		338
Adjustments to Net parent investments		(1,338)
Balance as of December 31, 2018		22
Additions based on tax positions related to the current year		674
Additions for tax positions of prior years		8
Balance as of December 31, 2019		704
Additions based on tax positions related to the current year		503
Additions for tax positions of prior years		148
Balance as of December 31, 2020	$	1,355

The total amount of unrecognized tax benefits, including interest and penalties, was $1.4 million and $0.7 million as of December 31, 2020 and 2019 respectively. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as part of the provision for income taxes.

The Company files income tax returns in the U.S. and numerous foreign jurisdictions. The Company is subject to income tax examinations by taxing authorities globally for years ending or after December 31, 2018. As a result of the spin-off of Arlo from NETGEAR in 2018, Arlo filed the consolidated U.S federal and various combined state income tax returns with NETGEAR for the calendar year ended December 31, 2018. The IRS is currently examining NETGEAR’s U.S federal income tax return for the calendar year of 2018. During calendar year 2020, the California Franchise Tax Board began an examination of NETGEAR’s 2018 tax year. The Company's estimate of the potential outcome of any uncertain tax positions is subject to management’s assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that the estimate has adequately reflected these matters. However, the Company's future results may include adjustments to estimates in the period the audits will be resolved, which may impact the Company's effective tax rate. The Company does not expect a significant change in unrecognized tax benefits within the next twelve months.

Note 10. Debt

Revolving Credit Facility

On November 5, 2019, the Company entered into a Business Financing Agreement (the “Credit Agreement”) with Western Alliance Bank, an Arizona corporation, as lender (the “Lender”).

The Credit Agreement provides for a two-year revolving credit facility (the “Credit Facility”) that matures on November 5, 2021 and that may, by its terms, be extended by mutual written agreement between the Company and the Lender. Borrowings under the Credit Facility are limited to the lesser of (x) $40.0 million, and (y) an amount equal to the borrowing base. The borrowing base will be 60% of the Company’s eligible receivables and eligible accounts receivable, less such reserves as the Lender may deem proper and necessary from time to time. The Lender is not required to make any advance under the Credit Facility during the period beginning on January 1st and continuing through June 30th, except for advances made against eligible receivables first invoiced between July 1 and December 31, 2019. The Credit Agreement also includes sublimits for the issuance by the Lender of letters of credit, credit card indebtedness and foreign exchange forward contract. Repayment of the borrowings under the Credit Facility are due upon collection of the eligible receivables. The proceeds of the borrowings under the Credit Facility may be used for working capital and general corporate purposes.

The obligations of the Company under the Credit Agreement are secured by substantially all of the Company’s domestic personal property, excluding intellectual property assets and more than 65% of the shares of voting capital stock of any of the Company’s foreign subsidiaries.

Borrowings under the Credit Agreement generally bear interest at floating rates based upon the prime rate subject to a floor rate of five percent (5%) plus two and one-quarter percentage points (2.25%), plus an additional five percentage points (5.0%) during any period that an event of default has occurred and is continuing. Among other fees, the Company is required to pay an annual facility fee equal to 0.25% of the limit under the Credit Facility due upon entry into the Credit Agreement and on each anniversary thereof. The annual facility fee is capitalized and being amortized as interest expense over a 12-month period. The Company incurred debt issuance costs for the Credit Agreement, which are recorded in prepaid expenses and other current assets in the Company's Consolidated Balance Sheets and are being amortized as interest expense over the contractual term of the Credit Agreement.

The Credit Agreement contains customary events of default and other restrictions, including a financial covenant that requires the Company to maintain $20.0 million of domestic cash and certain restrictions on the Company’s ability to incur additional indebtedness, consolidate or merge, enter into acquisitions, pay any dividend or distribution on the Company’s capital stock, redeem, retire or purchase shares of the Company’s capital stock, make investments or pledge or transfer assets, in each case subject to limited exceptions. If an event of default under the Credit Agreement occurs, then the Lender may cease making advances under the Credit Agreement and declare any outstanding obligations under the Credit Agreement to be immediately due and payable. In addition, if the Company files a bankruptcy petition, a bankruptcy petition is filed against the Company and is not dismissed or stayed within forty-five days, or the Company makes a general assignment for the benefit of creditors, then any outstanding obligations under the Credit Agreement will automatically and without notice or demand become immediately due and payable. As of December 31, 2020, the Company is in compliance with all the covenants of the Credit Agreement.

No amounts had been drawn under the Credit Facility as of December 31, 2020.

Note 11. Commitments and Contingencies

Operating Leases

The Company primarily leases office space, with various expiration dates through June 2029. Some of the leases include options to extend such leases for up to five years, and some include options to terminate such leases within one year. The terms of certain of the Company's leases provide for rental payments on a graduated scale. The Company recognizes lease expense on a straight-line basis over the lease term. For the six months ended July 1, 2018, lease expense reflected allocations from NETGEAR and may not be indicative of the Company's results. Lease expense was $7.0 million, $7.0 million and $1.4 million for the years ended December 31, 2020, 2019 and 2018, respectively. The lease expense was recorded within Cost of revenue, Research and development, and General and administrative on the Company's consolidated statements of operations. Short-term and variable lease costs were included in the lease expense and they were immaterial.

In connection with the leases for the Company's offices in San Jose, California and Richmond, Canada, the Company received tenant improvement allowances ("TIA") of $3.5 million and $450 thousand, respectively, in the second fiscal quarter of 2020 from lessors for certain improvements the Company made to the leased properties. The improvement made to the leased property in San Jose, California is considered as lessee-owned, and the Company recorded the improvement as a leasehold improvement within property and equipment, net and the TIA as a reduction to the ROU asset with the impact of the decrease recognized prospectively over the remaining lease term. The improvement made to the leased property in Richmond, Canada is considered as lessor-owned, and the Company recorded the improvement as a prepaid rent within prepaid expenses and other current assets and the TIA as a reduction to prepaid rent.

Supplemental cash flow information related to operating leases was as follows:

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 5,991	$ 4,888
Right-of-use assets obtained in exchange for lease liabilities		
Operating leases	$ 461	$ 21,742
Other non-cash increases in operating right of use assets	$ —	$ 788

Weighted average remaining lease term and weighted average discount rate related to operating leases were as follows:

	As of December 31,	
	2020	2019
Weighted average remaining lease term	6.9 years	7.7 years
Weighted average discount rate	5.69 %	5.67 %

The maturity of lease liabilities related to operating leases for each of the next five years and thereafter as of December 31, 2020 was as follows (in thousands):

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2021	$	5,931
2022		5,770
2023		4,977
2024		4,459
2025		3,186
Thereafter		11,498
Total lease payments		35,821
Less: interest [(1)]		(6,392)
Total	$	29,429
Accrued liabilities	$	4,400
Non-current operating lease liabilities		25,029
Total	$	29,429

[(1)] Leases that commenced before November 5, 2019 were calculated using the Company's incremental borrowing rate on a collateralized basis plus LIBOR rate that closely matches contractual term of most leases. Leases that commenced after November 5, 2019 were calculated using the Company's borrowing rate defined in the Credit Agreement with Western Alliance Bank.

As of December 31, 2019, maturity of lease liabilities related to operating leases for each of the next five years and thereafter were as follows (in thousands):

2020	$	5,660
2021		5,735
2022		5,589
2023		4,908
2024		4,450
Thereafter		14,669
Total lease payments		41,011
Less: interest [(1)]		(8,098)
Total	$	32,913
Accrued liabilities	$	3,912
Non-current operating lease liabilities		29,001
Total	$	32,913

[(1)] Calculated using the Company's incremental borrowing rate on a collateralized basis plus LIBOR rate that closely matches contractual term of most leases.

Letters of Credit

In connection with the build-to-suit lease agreement for the headquarters located in San Jose, California, the Company executed a letter of credit with the landlord as the beneficiary. As of December 31, 2020, the Company had approximately $3.6 million of unused letters of credit outstanding, of which $3.1 million pertains to the lease arrangement in San Jose, California.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Purchase Obligations

The Company has entered into various inventory-related purchase agreements with suppliers. Generally, under these agreements, 50% of orders are cancelable by giving a 46 to 60 days notice prior to the expected shipment date and 25% of orders are cancelable by giving a 31 to 45 days notice prior to the expected shipment date. Orders are non-cancelable within 30 days prior to the expected shipment date. As of December 31, 2020, the Company had approximately $19.5 million in non-cancelable purchase commitments with suppliers, respectively. The Company establishes a loss liability for all products it does not expect to sell for which it has committed purchases from suppliers. As of December 31, 2020, the loss liability from committed purchases was $1.2 million. From time to time the Company's suppliers procure unique complex components on the Company's behalf. If these components do not meet specified technical criteria or are defective, the Company should not be obligated to purchase the materials.

Warranty Obligations

Changes in the Company's warranty liability, which is included in Accrued liabilities in the consolidated balance sheets, were as follows:

	Year Ended December 31,		
	2020	2019	2018
		(In thousands)	
Balance at the beginning of the period	$ 3,169	$ 3,712	$ 31,756
Reclassified to sales returns upon adoption of ASC 606 [(1)]	—	—	(28,713)
Provision for warranty obligation made during the period	—	260	1,477
Settlements made during the period	(718)	(803)	(808)
Balance at the end of the period	$ 2,451	$ 3,169	$ 3,712

(1) Upon adoption of ASC 606 on January 1, 2018, warranty reserve balances totaling $28.7 million were reclassified to sales returns as these liabilities are payable to the Company's customers and settled in cash or by credit on account. Under ASC 606, these amounts are to be accounted for as sales with right of return.

Litigation and Other Legal Matters

Securities Class Action Lawsuits and Derivative Suit

The Company is involved in disputes, litigation, and other legal actions, including, but not limited to, the matters described below. In all cases, at each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies. In such cases, the Company accrues for the amount, or if a range, the Company accrues the low end of the range, only if there is not a better estimate than any other amount within the range, as a component of legal expense within litigation reserves, net. The Company monitors developments in these legal matters that could affect the estimate the Company had previously accrued. In relation to such matters, the Company currently believes that there are no existing claims or proceedings that are likely to have a material adverse effect on its financial position within the next 12 months, or the outcome of these matters is currently not determinable. There are many uncertainties associated with any litigation, and these actions or other third-party claims against the Company may cause the Company to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any intellectual property litigation may require the Company to make royalty payments, which could have an adverse effect in future periods. If any of those events were to occur, the Company's business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from the Company's estimates, which could result in the need to adjust the liability and record additional expenses.

Beginning on December 11, 2018, purported stockholders of Arlo Technologies, Inc. filed six putative securities class action complaints in the Superior Court of California, County of Santa Clara, and one complaint in the U.S. District

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Court for the Northern District of California against the Company and certain of its executives and directors. Some of these actions also name as defendants the underwriters in the Company's initial public offering ("IPO") and NETGEAR, Inc. ("NETGEAR"). The actions pending in state court are *Aversa v. Arlo Technologies, Inc., et al.*, No. 18CV339231, filed Dec. 11, 2018; *Pham v. Arlo Technologies, Inc. et al.*, No. 19CV340741, filed January 9, 2019; *Patel v. Arlo Technologies, Inc.*, No. 19CV340758, filed January 10, 2019; *Perros v. NetGear, Inc.*, No. 19CV342071, filed February 1, 2019; *Vardanian v. Arlo Technologies, Inc.*, No. 19CV342318, filed February 8, 2019; and *Hill v. Arlo Technologies, Inc. et al.*, No. 19CV343033, filed February 22, 2019. On April 26, 2019, the state court consolidated these actions as *In re Arlo Technologies, Inc. Shareholder Litigation*, No. 18CV339231 (the "State Action"). The action pending in federal court is *Wong v. Arlo Technologies, Inc. et al.*, No. 19-CV-00372 (the "Federal Action").

The plaintiffs in the State Action filed a consolidated complaint on May 1, 2019. The plaintiffs allege that the Company failed to adequately disclose quality control problems and adverse sales trends ahead of its IPO, violating the Securities Act of 1933, as amended. The complaint seeks unspecified monetary damages and other relief on behalf of investors who purchased Company common stock issued pursuant and/or traceable to the IPO.

On June 21, 2019, the court stayed the State Action pending resolution of the Federal Action, given the substantial overlap between the claims. The court has set a case management conference for May 5, 2021, so the parties can provide an update regarding the Federal Action.

In the Federal Action, the court appointed a shareholder named Matis Nayman as lead plaintiff. On June 7, 2019, plaintiff filed an amended complaint. Plaintiff alleges violations of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, based on alleged materially false and misleading statements about the Company's sales trends and products. In the amended complaint, plaintiff sought to represent a class of persons who purchased or otherwise acquired the Company's common stock (i) during the period between August 3, 2018 through December 3, 2018 and/or (ii) pursuant to or traceable to the IPO. Plaintiff seeks class certification, an award of unspecified damages, an award of costs and expenses, including attorneys' fees, and other further relief as the court may deem just and proper.

On August 6, 2019, defendants filed a motion to dismiss. The court granted that motion, and plaintiff filed a second amended complaint. On June 12, 2020, plaintiff filed an unopposed motion for preliminary approval of a class action settlement for $1.25 million, which was also the amount that the Company had accrued for loss contingency. The settlement remains subject to further court approval. On September 24, 2020, the court entered an order preliminarily approving the settlement. On February 5, 2021, plaintiff filed a motion for final approval of the settlement. The final approval hearing is scheduled for March 11, 2021.

In October 2020, the Company made a $1.25 million payment an escrow account administered by the court and plaintiff's counsel (the "Settlement Fund"). The Settlement Fund shall be deemed to be in the custody of the court and shall remain subject to the jurisdiction of the court until such time as the Settlement Fund is distributed pursuant to the settlement agreement and/or further order of the court.

In addition, to the State Action and the Federal Action, a purported stockholder named Leonard Pinto filed a tagalong derivative action on June 13, 2019 (the "Derivative Action") in the U.S. District Court for the Northern District of California. The action is brought on behalf of the Company against the majority of the Company's current directors. The complaint is based on the same alleged misconduct as the securities class actions but asserts claims for breach of fiduciary duty, waste of corporate assets, and violation of the Securities Exchange Act of 1934, as amended. On August 20, 2019, the court stayed the Derivative Action in deference to the Federal Action.

David W. Foster v. Arlo Technologies, Inc.

On April 15, 2020, a purported stockholder named David W. Foster filed a lawsuit under 8 Del. C. § 220 in the Delaware Court of Chancery. Plaintiff seeks inspection of corporate books and records to investigate the allegations underlying the State Actions and Federal Action. Plaintiff also seeks an order directing the Company to pay his costs and expenses. On June 30, 2020, the parties filed a stipulation to stay the case so that they could attempt to reach a negotiated resolution. On July 1, 2020, the court approved the stipulation. The parties have reached an agreement in principle to resolve the action and are working to resolve the remaining issues. The impact on the Company's financial statements is expected to be immaterial.

Skybell Technologies, Inc. v. Arlo Technologies, Inc.

On December 18, 2020, Skybell Technologies, Inc., SB IP Holdings, LLC, and Eyetalk365, LLC (collectively, "Complainants" or "Skybell") filed a Section 337 complaint against the Company, Vivint Smart Home, Inc. ("Vivint"), and SimpliSafe, Inc. ("SimpliSafe") at the U.S. International Trade Commission ("ITC"). The action alleges that the Company's cameras and video doorbell cameras infringe seven patents: 10,097,796 ("the '796 patent"), 10,200,660 ("the '660 patent"), 10,523,906 ("the '906 patent"), 10,097,797 ("the '797 patent"), 9,485,478 ("the '478 patent"), 10,674,120 ("the '120 patent"), and 9,432,638 ("the '638 patent") (collectively, "the Asserted Patents"). The Asserted Patents are all from the same family and generally directed to detecting a person at a camera and communicating video and audio from the camera to a cell phone along with various other features. The case was instituted on January 25, 2021 as Investigation No. 337-TA-1242. At December 31, 2020, it is too early to reasonably estimate any financial impact to the Company from this matter.

Indemnification of Directors and Officers

The Company, as permitted under Delaware law and in accordance with its bylaws, has agreed to indemnify its officers and directors for certain events or occurrences, subject to certain conditions, while the officer or director is or was serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum amount of potential future indemnification is unlimited; however, the Company has a director and officer insurance policy that will enable it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the fair value of each indemnification agreement will be minimal. The Company had no liabilities recorded for these agreements as of December 31, 2020 and 2019.

Indemnifications

Prior to the completion of the IPO, the Company historically participated in NETGEAR's sales agreements. In its sales agreements, NETGEAR typically agrees to indemnify its direct customers, distributors and resellers (the "Indemnified Parties") for any expenses or liability resulting from claimed infringements by NETGEAR's products of patents, trademarks or copyrights of third parties that are asserted against the Indemnified Parties, subject to customary carve-outs. The terms of these indemnification agreements are generally perpetual after execution of the agreement. The maximum amount of potential future indemnification is generally unlimited. From time to time, the Company receives requests for indemnity and may choose to assume the defense of such litigation asserted against the Indemnified Parties. The Company had no liabilities recorded for these agreements as of December 31, 2020 and 2019. In connection with the Separation, and after July 1, 2018, certain sales agreements were transferred to the Company, and the Company has replaced certain shared contracts, which include similar indemnification terms.

In addition, pursuant to the master separation agreement and certain other agreements entered into with NETGEAR in connection with the Separation and the IPO, NETGEAR has agreed to indemnify the Company for certain liabilities. The master separation agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of its business with the Company and financial responsibility for the obligations and liabilities of NETGEAR's business with NETGEAR. Under the intellectual property rights cross-license agreement entered into between the Company and NETGEAR, each party, in its capacity as a licensee, indemnifies the other party, in its capacity as a licensor, and its directors, officers, agents, successors and subsidiaries against any losses suffered by such indemnified party as a result of the indemnifying party's practice of the intellectual property licensed to such indemnifying party under the intellectual property rights cross-license agreement. Also, under the tax matters agreement entered into between the Company and NETGEAR, each party is liable for, and indemnifies the other party and its subsidiaries from and against any liability for, taxes that are allocated to the indemnifying party under the tax matters agreement. In addition, the Company has agreed in the tax matters agreement that each party will generally be responsible for any taxes and related amounts imposed on it or NETGEAR as a result of the failure of the Distribution, together with certain related transactions, to qualify as a transaction that is generally tax-free, for U.S. federal income tax purposes, under Sections 355 and 368(a)(1)(D) and certain other relevant provisions of the Code, to the extent that the failure to so qualify is attributable to actions, events or transactions relating to such party's respective stock, assets or business, or a breach of the relevant representations or covenants made by that party in the tax matters agreement. The transition services agreement generally provides that the applicable service recipient indemnifies the applicable service provider for liabilities that such service provider incurs arising from the provision of services other than liabilities arising from such service provider's gross negligence, bad faith or willful misconduct or material breach of the transition services agreement, and that the applicable service provider indemnifies the applicable service recipient for liabilities that such service recipient incurs arising from such service provider's gross negligence, bad faith or willful misconduct or material breach of the transition services agreement. Pursuant to the registration rights agreement, the Company has agreed to indemnify NETGEAR and its subsidiaries that hold registrable securities (and their directors, officers, agents and, if applicable, each other person who controls such holder under Section 15 of the Securities Act) registering shares pursuant to the registration rights agreement against certain losses, expenses and liabilities under the Securities Act, common law or otherwise. NETGEAR and its subsidiaries that hold registrable securities similarly indemnify the Company but such indemnification will be limited to an amount equal to the net proceeds received by such holder under the sale of registrable securities giving rise to the indemnification obligation.

Refer to Note 1, *The Company and Basis of Presentation*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for details relating to the Company's IPO and related transactions.

Change in Control and Severance Agreements

The Company has entered into change in control and severance agreements with certain of its executive officers (the "Severance Agreements"). Pursuant to the Severance Agreements, upon a termination without cause or resignation with good reason, the individual would be entitled to (1) cash severance equal to (a) the individual's annual base salary and an additional amount equal to his or her target annual bonus (for the Chief Executive Officer) or (b) the individual's annual base salary (for other executive officers), (2) 12 months of health benefits continuation, and (3) accelerated vesting of any unvested time-based equity awards that would have vested during the 12 months following the termination date. Upon a termination without cause or resignation with good reason that occurs during the one month prior to or 12 months following a change in control, the individual would be entitled to (1) (a) cash severance equal to a multiple (2 times for the Chief Executive Officer and 1 times for other executive officers) of the sum of the individual's annual base salary and target annual bonus, (2) a number of months of health benefits continuation (24 months for the Chief Executive Officer and 12 months for other executive officers) and (3) vesting of all outstanding, unvested equity awards (for the Chief Executive Officer) and the vesting of all outstanding, unvested time-based equity awards (for other executive officers). Severance will be conditioned upon the execution and non-revocation of a release of claims. The Company had no liabilities recorded for these agreements as of December 31, 2020.

On June 15, 2020 (the "Retirement Date"), Christine Gorjanc retired as the Chief Financial Officer, principal financial officer and principal accounting officer of the Company. In connection with her retirement, the Company, NETGEAR and Ms. Gorjanc entered into a Separation Agreement and Release (the "Separation Agreement") pursuant to which Ms. Gorjanc received a \$15,000 cash payment and accelerated vesting of (i) 8,749 shares subject to Company stock options, (ii) 43,216 shares subject to Company restricted stock units, (iii) 2,897 shares subject to NETGEAR stock options and (iv) 15,000 shares subject to NETGEAR restricted stock units. The Board of Directors of the Company appointed Gordon Mattingly as the Company's Chief Financial Officer, principal financial officer and principal accounting officer, effective as of the Retirement Date. In connection with his appointment as the Company's Chief Financial Officer, the Company entered into a confirmatory employment letter (the "Employment Agreement") with Mr. Mattingly. Pursuant to the Employment Agreement, Mr. Mattingly receives an annual base salary of \$383,000 and is eligible to receive an annual target bonus of 70% of his annual base salary. Mr. Mattingly will also continue to be eligible to participate in the Company's equity compensation plans and employee benefit plans available to other employees of the Company. The Company also entered into an updated change in control and severance agreement consistent with Mr. Mattingly’s new role of Chief Financial Officer.

On May 2, 2019, the Company and Patrick J. Collins III, the Company’s Senior Vice President of Products, entered into a Separation and Release Agreement (the “Separation Agreement”) regarding Mr. Collins’ separation from the Company, effective May 1, 2019. Pursuant to the Separation Agreement, Mr. Collins received cash severance equal to his annual base salary, 12 months of health benefits continuation and accelerated vesting of any of his unvested equity awards that would have vested during the 12 months following the termination date.

Environmental Regulation

The Company is required to comply and is currently in compliance with the European Union (“EU”) and other Directives on the Restrictions of the use of Certain Hazardous Substances in Electrical and Electronic Equipment (“RoHS”), Waste Electrical and Electronic Equipment (“WEEE”) requirements, Energy Using Product (“EuP”) requirements, the REACH Regulation, Packaging Directive and the Battery Directive.

The Company is subject to various federal, state, local, and foreign environmental laws and regulations, including those governing the use, discharge, and disposal of hazardous substances in the ordinary course of its manufacturing process. The Company believes that its current manufacturing and other operations comply in all material respects with applicable environmental laws and regulations; however, it is possible that future environmental legislation may be enacted or current environmental legislation may be interpreted to create an environmental liability with respect to its facilities, operations, or products.

Note 12. Restructuring Related Charges

On November 7, 2019, the Company announced a restructuring plan that includes, but is not limited to, reducing outside services, headcount, marketing and capital expenditures to manage the Company's operating expenses. As a result, the Company recorded restructuring charges of $44 thousand and $631 thousand for the years ended December 31, 2020 and 2019, respectively, which were primarily associated with headcount-related charges under the restructuring plan. The restructuring was completed in the first quarter of 2020. The following table represents the severance expense recorded in the Company's Consolidated Statements of Operations:

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Cost of revenue	$ 23	$ 69
Research and development	—	262
Sales and marketing	—	198
General and administrative	21	102
Total	$ 44	$ 631

Accrued restructuring and other charges are classified within Accrued liabilities on the Company's Consolidated Balance Sheets. The following table provides a summary of accrued restructuring and other charges activity:

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Balance at the beginning of the period	$ 120	$ —
Additions	44	631
Cash payments	(164)	(511)
Balance at the end of the period	$ —	$ 120

Note 13. Employee Benefit Plans

The Company grants options and RSUs under the 2018 Equity Incentive Plan (the "2018 Plan"), under which awards may be granted to all employees. Award vesting periods for this plan are generally three to four years. Options may be granted for periods of up to 10 years or such shorter term as may be provided in the agreement and at prices no less than 100% of the fair market value of Arlo's common stock on the date of grant. Options granted under the 2018 Plan generally vest over four years, the first tranche at the end of 12 months and the remaining shares underlying the option vesting monthly over the remaining three years.

The Company's employees have historically participated in NETGEAR's various stock-based plans, which are described below and represent the portion of NETGEAR's stock-based plans in which Arlo employees participated as of December 31, 2020. The Company's consolidated statements of operations reflect compensation expense for these stock-based plans associated with the portion of NETGEAR's plans in which Arlo employees participated.

The following table sets forth the available shares for future grants under the 2018 Plan as of December 31, 2020 and December 31, 2019:

	Number of Shares
	(In thousands)
Shares reserved as of December 31, 2018	3,969
Additional authorized shares	2,970
Granted [1]	(6,700)
Forfeited/ cancelled [2]	2,011
Shares traded for taxes	380
Shares available for grants as of December 31, 2019	2,630
Additional authorized shares	3,031
Granted [3]	(7,396)
Forfeited/ cancelled [4]	3,569
Shares traded for taxes	1,279
Shares available for grants as of December 31, 2020	3,113

(1) Includes 0.8 million shares consisting of RSUs (50% of the grant), PSUs (25% of the grant) and MPSUs (25% of the grant) granted to the Company's Named Executive Officers ("NEOs") during the fiscal quarter ended September 29, 2019. The shares subject to the MPSUs that were granted to Ms. Gorjanc were cancelled in connection with her separation from the Company during the fiscal quarter ended June 28, 2020. This also includes 0.2 million shares as a result of modification for the employees transferred in the Verisure transaction.

(2) Includes 0.3 million shares subject to awards that were cancelled in connection with Mr. Collins' separation from the Company, 0.5 million shares subject to the options granted to the CEO in connection with the IPO ("IPO Options") that were cancelled as the performance metrics for Tranches 4 and 5 of the IPO Options were not achieved, 59 thousand shares subject to the IPO Options issued to Mrs. Gorjanc that were cancelled as the performance metrics for such options were not achieved, and 0.2 million shares as a result of modification for the employees transferred in the Verisure transaction.

(3) Includes 2.0 million shares consisting of RSUs (50% of the grant), PSUs (25% of the grant), and MPSUs (25% of the grant) granted to the Company's NEOs during the fiscal quarter ended June 28, 2020. Also includes 1.1 million immediately vested shares granted to employees for annual bonus in RSU form.

(4) Includes (a) 1.4 million IPO options that were voluntarily cancelled by the Company's CEO in January 2020 with no replacement award, (b) 0.1 million IPO Options granted to Ms. Gorjanc that were cancelled for not achieving performance milestones, (c) 0.2 million shares subject to the PSUs granted to the Company's NEOs that were cancelled as the performance milestone was not achieved, and (d) awards that were cancelled in connection with Ms. Gorjanc's separation from the Company (0.3 million IPO Options and 54 thousand shares subject to the MPSUs).

On March 3, 2020, the Company registered an aggregate of up to 3,788,756 shares of the Company’s common stock on Registration Statement on Form S-8, including 3,031,005 shares issuable pursuant to the Company's 2018 Plan that were automatically added to the shares authorized for issuance under the 2018 Plan on January 1, 2020 pursuant to an “evergreen” provision contained in the 2018 Plan and 757,751 shares issuable pursuant to the Company’s 2018 ESPP that were automatically added to the shares authorized for issuance under the 2018 ESPP on January 1, 2020 pursuant to an “evergreen” provision contained in the 2018 ESPP.

Employee Stock Purchase Plan

The Company sponsors an Employee Stock Purchase Plan ("ESPP"), pursuant to which eligible employees may contribute up to 15% of compensation, subject to certain income limits, to purchase shares of Arlo’s common stock. The terms of the plan include a look-back feature that enables employees to purchase stock semi-annually at a price equal to 85% of the lesser of the fair market value at the beginning of the offering period or the purchase date. The duration of each offering period is generally six months, with the first offering period having commenced on February 15, 2019 and ended on August 14, 2019. As of December 31, 2020, approximately 1.1 million shares were available for issuance under the ESPP.

The Company’s employees have historically participated in NETGEAR’s ESPP. For the year ended December 31, 2018, the Company recognized ESPP compensation expense of $0.2 million. For the year ended December 31, 2018, employees specifically identifiable to Arlo purchased approximately 37,000 shares of NETGEAR’s common stock at an average exercise price of $45.06.

Option Activity

The Company’s stock option activity during the year ended of December 31, 2020 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
	(In thousands)	(In dollars)	(In years)	(In thousands)
Outstanding as of December 31, 2019 (2)	6,040	$ 11.56		
Granted	—	—		
Exercised	(247)	6.98		
Forfeited/ Cancelled (3)	(2,359)	14.72		
Expired	—	—		
Outstanding as of December 31, 2020	3,434	$ 9.72	4.80	$ 1,595
Vested and expected to vest as of December 31, 2020	3,434	$ 9.72	4.80	$ 1,595
Exercisable Options as of December 31, 2020	2,998	$ 9.10	4.44	$ 1,569

(1) Representing the total pre-tax intrinsic values (the difference between the Company’s closing stock price on the last trading day of 2020 and the exercise price, multiplied by the number of shares underlying the in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2020. This amount changes based on the fair market value of the Company’s stock.

(2) Includes IPO Options of 2.8 million shares. Tranches 1 to 5 granted to Mr. Collins were cancelled in connection with his separation from the Company in May 2019. Tranches 4 and 5 granted to the CEO were cancelled in 2019 as the performance milestones for those tranches were not achieved, Tranches 1, 2 and 3 granted to the CEO were voluntarily forfeited in January 2020 with no replacement award. The performance milestones for Tranches 4 and 5 that were granted to Ms. Gorjanc were not met, hence, Tranche 4 was cancelled in 2019 and Tranche 5 was cancelled in June 2020. Tranches 1 to 3 granted to Ms. Gorjanc were cancelled in connection with her separation from the Company in June 2020.

(3) Includes 1.4 million shares subject to the IPO Options that were voluntarily cancelled by the CEO in January 2020 with no replacement award, 0.1 million IPO Options granted to Ms. Gorjanc that were cancelled as the performance milestone was not achieved, and 0.3 million IPO Options that were cancelled in connection with Ms. Gorjanc's separation from the Company.

	Year Ended December 31,		
	2020	2019	2018
	(In millions, except per share data)		
Total intrinsic value of options exercised	$ 0.20	$ —	$ —
Total fair value of options vested	$ 1.00	$ 3.10	$ —
Weighted-average grant date fair value per share of options granted	NA	$ 2.59	$ 7.02

The following table summarizes significant ranges of outstanding the Company's stock options as of December 31, 2020.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price Per Share	Shares Exercisable	Weighted-Average Exercise Price Per Share
	(In thousands)	(In years)	(In dollars)	(In thousands)	(In dollars)
3.90 - 6.67	778	3.26	$ 6.47	772	$ 6.49
6.68 - 7.83	688	1.25	6.97	688	6.97
8.11 - 8.76	892	5.85	8.46	830	8.43
10.09 - 14.39	596	7.10	13.98	428	13.98
16.00 - 16.00	480	7.59	16.00	280	16.00
3.90 - 16.00	3,434	4.80	9.72	2,998	9.10

The following table sets forth the weighted average assumptions used to estimate the fair value of the Company's stock options granted using Black-Scholes option pricing model during the years ended December 31, 2020, 2019 and 2018 and purchase rights granted under the Company's ESPP during the years ended December 31, 2020 and 2019:

	Stock Options			ESPP	
	2020	2019	2018	2020	2019
Expected life (in years)	NA	6.3	6.3	0.5	0.5
Risk-free interest rate	NA	2.28 %	2.86 %	0.84 %	2.49 %
Expected volatility	NA	73.0 %	40.0 %	102.0 %	97.6 %
Dividend yield	NA	—	—	—	—

The Company's common stock did not have sufficient history of being publicly traded at grant date, hence, the estimated term of the Company's stock options granted was determined by a combination of using a simplified method, which is an average of the contractual term and vesting period of the stock options and using management best estimate of the expected term. The risk-free interest rate of stock options granted was based on the implied yield currently available on U.S. Treasury securities, with a remaining term commensurate with the estimated expected term. The estimated volatility assumption was calculated based on a compensation peer group analysis of stock price volatility on the grant date.

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The risk-free interest rate of the purchase rights granted under the Company's ESPP is based on the implied yield currently available on U.S. Treasury securities, with a remaining term commensurate with the estimated expected term. Expected volatility of the purchase rights granted under the Company's ESPP is based on historical volatility over the most recent period commensurate with the estimated expected term.

NETGEAR's stock option activity for Company employees during the year ended December 31, 2020 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)	(In dollars)	(In years)	(In thousands)
Outstanding as of December 31, 2019	205	$ 25.94		
Exercised	(142)	$ 22.74		
Forfeited/cancelled	(47)	$ 36.73		
Expired	—	$ —		
Outstanding as of December 31, 2020	16	$ 22.49	3.00	$ 288
Vested and expected to vest as of December 31, 2020	16	$ 22.49	3.00	$ 288
Exercisable options as of December 31, 2020	12	$ 20.11	1.66	$ 241

	Year Ended December 31, 2020	2019	2018
	(In millions, except per share data)		
Total intrinsic value of options exercised	$ 0.6	$ 0.6	$ 0.6
Total fair value of options vested	$ —	$ 0.8	$ 1.1
Weighted-average grant date fair value per share of NETGEAR's stock options granted to employees specifically identifiable to Arlo	NA	$ —	$ 20.63

The following table summarizes significant ranges of outstanding NETGEAR's stock options as of December 31, 2020.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price Per Share	Shares Exercisable	Weighted-Average Exercise Price Per Share
	(In thousands)	(In years)	(In dollars)	(In thousands)	(In dollars)
19.19 - 19.19	7	1.56	$ 19.19	7	$ 19.19
20.10 - 20.10	2	1.30	20.10	2	20.10
21.86 - 21.86	3	2.10	21.86	3	21.86
29.23 - 29.23	4	6.80	29.23	—	—
19.19 - 29.23	16	3.00	22.49	12	20.11

The following table sets forth the weighted average assumptions used to estimate the fair value of NETGEAR's stock options granted and purchase rights granted under the NETGEAR's ESPP for Company employees during the year ended December 31, 2018:

	Stock Options	ESPP [1]
Expected life (in years)	4.4	0.5
Risk-free interest rate	2.32 %	1.81 %
Expected volatility	30.9 %	37.1 %
Dividend yield	—	—

(1) Company employees have completed their participation into NETGEAR's ESPP by the end of the second quarter of fiscal 2018. As of December 31, 2018, no shares had been purchased under the 2018 ESPP by Company employees, as the program was suspended until the completion of the Distribution.

The estimated expected term of NETGEAR's options granted to Company employees under NETGEAR's plans is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk-free interest rate of options granted and the purchase rights granted under NETGEAR's ESPP is based on the implied yield currently available on U.S. Treasury securities, with a remaining term commensurate with the estimated expected term. Expected volatility of NETGEAR's options granted and the purchase rights granted under NETGEAR's ESPP is based on historical volatility over the most recent period commensurate with the estimated expected term.

RSU Activity

Arlo's RSU activity during the year ended of December 31, 2020 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)	(In dollars)	(In years)	(In thousands)
Outstanding as of December 31, 2019 [1]	7,851	$ 6.50		
Granted [2]	7,396	3.03		
Vested [3]	(3,474)	6.38		
Forfeited [4]	(1,210)	4.63		
Outstanding as of December 31, 2020	10,563	$ 4.33	1.43	$ 82,287

(1) Includes 0.8 million shares consisting of RSUs (50% of the grant), PSUs (25% of the grant) and MPSUs (25% of the grant) granted to the Company's NEOs during the fiscal quarter ended September 29, 2019. The RSUs will vest in three equal annual installments during the period that begins on the RSU grant date. The shares subject to PSUs that were granted to the Company's NEOs were cancelled as the revenue milestone was not achieved for the year ended December 31, 2019. The MPSUs will vest at the end of the three-year period that begins on the MPSU grant date based on performance of the Company's common stock relative to the Benchmark during the three-year period from the grant date. A positive 3.3x or negative 2.5x multiplier will be applied to the total shareholder returns ("TSR"), such that the number of shares vested will increase by 3.3% or decrease by 2.5% of the target numbers, for each 1% of positive or negative TSR relative to the Benchmark. In the event the Company's common stock performance is below negative 30% relative to the Benchmark, no shares will be vested. In no event will the number of shares vested exceed 200% of the target for that tranche. As of December 31, 2020, 200% of the outstanding MPSUs are expected to vest.

(2) Includes 2.0 million shares consisting of RSUs (50% of the grant), PSUs (25% of the grant), and MPSUs (25% of the grant) granted to the Company's NEOs during the fiscal quarter ended June 28, 2020. The RSUs will vest in three equal annual installments during the period that begins on the RSU grant date. The PSUs will vest in three equal annual installments during the period that begins on the PSU grant date based on the extent to which a cash balance milestone as of December 31, 2020 is achieved. The maximum number of shares that NEOs can earn is 120% of the target number of the PSUs. The minimum number of shares that NEOs can earn is 75% of the target number of the PSUs. As of December 31, 2020, 120% of the outstanding PSUs are expected to vest. The MPSUs will vest at the end of the three-year period that begins on the MPSU grant date based on performance of the Company's common stock relative to the Benchmark during the three-year period from the grant date. A positive 3.3x or negative 2.5x multiplier will be applied to the total shareholder returns ("TSR"), such that the number of shares vested will increase by 3.3% or decrease by 2.5% of the target numbers, for each 1% of positive or negative TSR relative to the Benchmark. In the event the Company's common stock performance is below negative 30% relative to the Benchmark, no shares will be vested. In no event will the number of shares vested exceed 200% of the target for that tranche. As of December 31, 2020, 200% of the outstanding MPSUs are expected to vest.
Also includes 1.1 million immediately vested shares granted to employees for annual bonus in RSU form.

(3) Includes 43 thousand shares subject to the RSUs that were accelerated in connection with Ms. Gorjanc's separation from the Company. Also includes 1.1 million immediately vested shares granted to employees for annual bonus in RSU form.

(4) Includes 0.2 million shares subject to the PSUs granted to the Company's NEOs that were cancelled as the performance milestone was not achieved and 54 thousand shares subject to the MPSUs granted to Ms. Gorjanc that were cancelled in connection with her separation from the Company.

	Year Ended December 31,		
	2020	2019	2018
	(In millions, except per share data)		
Total intrinsic value of RSUs vested (the release date fair value)	$ 13.02	$ 5.51	$ 0.04
Total fair value of RSUs vested (the grant date fair value)	$ 22.15	$ 12.90	$ 0.04
RSU granted weighted-average fair value per share	$ 3.03	$ 4.77	$ 14.46

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company determined the fair value of the PSUs using the closing price of the Company's common stock as of the grant date. For PSUs, stock-based compensation expense of performance milestone is recognized over the expected performance achievement period when the achievement becomes probable.

The Company utilized a Monte Carlo pricing model customized to the specific provisions of the 2018 Plan to value the MPSUs awards on the grant date. The fair value of the MPSUs granted during the three months ended June 28, 2020 and September 29, 2019 was $4.11 and $4.14 per share, respectively. The assumptions used in this model to estimate fair value at the grant date are as follows:

	Year Ended December 31,	
	2020	2019
Expected life	3.0	3.0
Risk-free interest rate	0.24 %	1.52 %
Expected volatility	69.3 %	65.1 %
Dividend yield	—	—
Stock Beta	0.48	0.30

NETGEAR's RSU activity for Company employees during the year ended December 31, 2020 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)	(In dollars)	(In years)	(In thousands)
Outstanding as of December 31, 2019	278	$ 36.14		
Vested [(1)]	(129)	34.53		
Forfeited	(22)	36.08		
Outstanding as of December 31, 2020	127	37.81	0.66	$ 5,147

(1) Includes 15 thousand shares subject to the RSUs that were accelerated in connection with Ms. Gorjanc's separation from the Company.

	Year Ended December 31,		
	2020	2019	2018
	(In millions, except per share data)		
Total intrinsic value of RSUs vested (the release date fair value)	$ 3.2	$ 5.8	$ 6.9
Total fair value of RSUs vested (the grant date fair value)	$ 4.5	$ 5.6	$ 5.0
RSU granted weighted-average fair value per share	NA	NA	$ 67.24

Stock-Based Compensation Expense

The Company's employees have historically participated in NETGEAR's various stock-based plans, which are described below and represent the portion of NETGEAR's stock-based plans in which Company employees participated. The Company's consolidated statements of income reflect compensation expense for these stock-based plans associated with the portion of NETGEAR's plans in which Company employees participated. The stock-based compensation expense for Company employees consist of Company RSUs, PSUs, MPSUs and stock options and NETGEAR RSUs and stock options granted to Company employees, employees' annual bonus in RSU form, allocated charges deemed attributable to Company operations resulting from NETGEAR’s in 2018, and the purchase rights under the NETGEAR’s ESPP in 2018. The following table sets forth the stock-based compensation expense included in the Company’s consolidated statements of operations during the periods indicated:

	Year Ended December 31,				
	2020	2019	2018		
	Total	Total	Direct [1]	Indirect	Total
	(In thousands)				
Cost of revenue	$ 2,961	$ 2,013	$ 608	$ 583	$ 1,191
Research and development	9,055	6,868	3,078	396	3,474
Sales and marketing	4,106	3,859	1,992	969	2,961
General and administrative	19,125	10,154	3,153	2,100	5,253
Total stock-based compensation expense [2]	$ 35,247	$ 22,894	$ 8,831	$ 4,048	$ 12,879

(1) Reflecting expenses for those legacy NETGEAR stock-based plans that have converted to equivalent Arlo stock-based plans upon the spin-off transaction.
(2) There was no tax benefit as a result of the Company's net operating loss position.

The Company recognizes these compensation expenses generally on a straight-line basis over the requisite service period of the award.

As part of the Verisure transaction in 2019, certain employees who held Company RSU awards granted under the 2018 Plan, were transferred to Verisure. Such RSU awards continued to vest and settle after the closing of the transaction in accordance with the terms and conditions under the original award’s plan. Management determined that the modification of the RSUs awards was a Type III modification (improbable-to-probable) under ASC 718, under which any compensation expense previously recognized was reversed and the total fair value of the modified awards was recognized as a liability in the Company’s consolidated balance sheets on the closing date. Accordingly, the modification of the awards resulted in a liability of $859 thousand and total compensation expense of $623 thousand on the closing date in 2019.

In January 2020, the IPO Options granted to the CEO were voluntarily forfeited with no replacement award. The cancellation was treated as a settlement for no consideration and all remaining unrecognized compensation cost of $7.4 million was accelerated and recognized as stock-based compensation expense for the three months ended March 29, 2020.

In the second fiscal quarter of 2020, $1.2 million of previously recognized compensation expense was reversed as a result of cancellation of unvested shares upon Ms. Gorjanc's separation from the Company. In addition, $0.4 million of compensation expense was recognized for Ms. Gorjanc's accelerated vested shares upon her separation from the Company.

As of December 31, 2020, $1.4 million of unrecognized compensation cost related to Arlo’s stock options was expected to be recognized over a weighted-average period of 1.2 years. $27.4 million of unrecognized compensation cost related to unvested Arlo’s RSUs, PSUs and MPSUs was expected to be recognized over a weighted-average period of 2.3 years.

As of December 31, 2020, $31 thousand of unrecognized compensation cost related to NETGEAR's stock options for Arlo employees was expected to be recognized over a weighted-average period of 0.8 years. $2.8 million of unrecognized compensation cost related to unvested NETGEAR's RSUs for Arlo employees was expected to be recognized over a weighted-average period of 1.1 years.

401(k) Plan

In January 2019, the Company adopted the Arlo 401(k) Plan to which employees may contribute up to 100% of salary subject to the legal maximum. In the fourth quarter of fiscal year 2018, the Company began matching 50% of contributions for employees that remain active with the Company through the end of the fiscal year, up to a maximum of $8,000 before fiscal 2020 and $4,000 starting fiscal 2020 in employee contributions per fiscal year. During the years ended December 31, 2020 and 2019, the Company recognized $0.9 million and $1.5 million in expenses for Arlo employees related to Arlo 401(k) Plan match, respectively.

The Company's employees historically participated in NETGEAR's 401(k) Plan, which was adopted in April 2000. Under NETGEAR's 401(k) Plan, employees were able to contribute up to 100% of salary subject to the legal maximum while NETGEAR matched 50% of contributions for employees that remain active with NETGEAR or its subsidiaries through the end of the fiscal year, up to a maximum of $6,000 in employee contributions per fiscal year. During the year ended December 31, 2018, the Company recognized $0.5 million in expenses for employees specifically identifiable to Arlo related to NETGEAR 401(k) Plan match.

Note 14. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. The weighted average number of shares outstanding for the basic and diluted net income (loss) per share for the periods prior to the completion of the IPO is based on the number of shares of Arlo common stock outstanding on August 2, 2018, the effective date of the registration statement relating to the IPO (the "IPO Registration Statement"). On that date, the Company issued 62,499,000 shares of common stock to the Company's sole stockholder of record, NETGEAR (after which NETGEAR held 62,500,000 shares of common stock, which represented all of the then issued and outstanding common stock). Potentially dilutive common shares, such as common shares issuable upon exercise of stock options and vesting of restricted stock awards are typically reflected in the computation of diluted net income (loss) per share by application of the treasury stock method. For certain periods presented, due to the net losses reported, these potentially dilutive securities were excluded from the computation of diluted net loss per share, since their effect would be anti-dilutive.

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Net loss per share for the years ended December 31, 2020, 2019 and 2018 were as follows:

	Year Ended December 31,		
	2020	**2019**	**2018**
	(In thousands, except for per share data)		
Numerator:			
Net loss	$ (101,251)	$ (85,951)	$ (75,483)
Denominator:			
Weighted average common shares - basic	78,084	75,074	67,231
Potentially dilutive common shares	—	—	—
Stock option and RSU conversion [1]	—	—	—
Weighted average common shares - dilutive	78,084	75,074	67,231
Basic net loss per share	$ (1.30)	$ (1.14)	$ (1.12)
Diluted net loss per share	$ (1.30)	$ (1.14)	$ (1.12)
Anti-dilutive employee stock-based awards, excluded	5,623	9,692	1,109

(1) On December 31, 2018, 6.8 million shares subject to stock options and RSUs were added to the Company's equity awards as issued and outstanding resulting from the adjustment of NETGEAR's equity awards that were granted to both NETGEAR and Arlo employees and non-employee directors, a portion of which were converted as Arlo awards. The dilutive effect of these converted stock options and RSUs is reflected above per share by application of the treasury stock method and none are potentially dilutive.

Note 15. Segment and Geographic Information

Segment Information

The Company operates as one operating and reportable segment. The Company has identified its CEO as the Chief Operating Decision Maker ("CODM"). The CODM reviews financial information presented on a combined basis for purposes of allocating resources and evaluating financial performance.

Geographic Information

The Company conducts business across three geographic regions: Americas, EMEA and APAC. Revenue consists of gross product shipments and service revenue, less allowances for estimated sales returns, price protection, end-user customer rebates and other channel sales incentives deemed to be a reduction of revenue per the authoritative guidance for revenue recognition, net changes in deferred revenue, and gains or losses from hedging. For reporting purposes, revenue by geography is generally based upon the ship-to location of the customer for device sales and device location for service sales.

The following table shows revenue by geography for the periods indicated:

	Year Ended December 31,		
	2020	**2019**	**2018**
	(In thousands)		
Americas			
United States ("U.S.")	$ 255,599	$ 271,502	$ 359,936
Americas (excluding U.S.)	13,796	17,658	16,869
EMEA	61,832	57,232	65,462
APAC	25,927	23,615	22,651
Total revenue	$ 357,154	$ 370,007	$ 464,918

The Company's Property and equipment, net are located in the following geographic locations:

	As of December 31,	
	2020	2019
	(In thousands)	
Americas		
United States ("U.S.")	$ 12,644	$ 17,100
Americas (excluding U.S.)	629	904
EMEA	234	316
APAC		
China	1,821	2,089
APAC (excluding China)	493	943
Total property and equipment, net	$ 15,821	$ 21,352

Significant Customers

Four customers accounted for 20.6%, 17.3%, 14.6% and 12.2% of revenue for the year ended December 31, 2020. Two customers accounted for 32.3% and 10.1% of revenue for the year ended December 31, 2019. Three customers accounted for 24.4%, 17.5%, and 16.6% of revenue for the year ended December 31, 2018.

ARLO TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

QUARTERLY UNAUDITED FINANCIAL DATA

The following table presents unaudited quarterly financial information for the years ended December 31, 2020 and 2019.

	December 31, 2020	September 27, 2020	June 28, 2020	March 29, 2020
	(In thousands, except per share amounts)			
Revenue	$ 114,836	$ 110,236	$ 66,632	$ 65,450
Gross profit	$ 24,538	$ 21,409	$ 5,489	$ 3,953
Provision for (benefit from) income taxes	$ 182	$ 115	$ 183	$ 145
Net income (loss)	$ (15,210)	$ (17,459)	$ (29,256)	$ (39,326)
Net income (loss) per share—basic (1)	$ (0.19)	$ (0.22)	$ (0.38)	$ (0.51)
Net income (loss) per share—diluted	$ (0.19)	$ (0.22)	$ (0.38)	$ (0.51)

	December 31, 2019 (2)	September 29, 2019	June 30, 2019	March 31, 2019
	(In thousands, except per share amounts)			
Revenue	$ 122,413	$ 106,116	$ 83,598	$ 57,880
Gross profit	$ 13,706	$ 10,503	$ 9,650	$ 1,945
Provision for income taxes	$ 3,525	$ 286	$ 349	$ 220
Net loss	$ 19,615	$ (30,590)	$ (33,692)	$ (41,284)
Net loss per share—basic (1)	$ 0.26	$ (0.41)	$ (0.45)	$ (0.55)
Net loss per share—diluted	$ 0.26	$ (0.41)	$ (0.45)	$ (0.55)

(1) Net loss per share basic and diluted are computed independently for each quarter presented based on the weighted-average basic and fully diluted shares outstanding for each quarter. As a result, the sum of quarterly Net loss per share basic and diluted information may not equal annual Net loss per share basic and diluted.

(2) The Company disposed its commercial operations in Europe in the fourth quarter of 2019. Refer to Note 4, *Disposal of Business*, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for a complete discussion of the disposal.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our periodic and current reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2020. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), were effective as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the criteria set forth in "Internal Control-Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2020 based on those criteria.

This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm due to the Company's EGC status and is exempted from the auditor attestation requirement of Section 404(b) of the Sarbanes-Oxley Act.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting. We have not experienced any significant impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. The design of our processes and controls allow for remote execution with accessibility to secure data. We are continually monitoring and assessing the COVID-19 situation to minimize the impact, if any, on the design and operating effectiveness on our internal controls.

Inherent Limitations on Effectiveness of Disclosure Controls and Procedures

It should be noted that any system of controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals in all future circumstances.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item and not set forth below will be set forth in our definitive proxy statement for our 2021 Annual Meeting of Stockholders (the "2021 Proxy Statement") to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020, and is incorporated herein by reference.

We have adopted a Code of Ethics that applies to our Chief Executive Officer and senior financial officers, including our Chief Financial Officer, as required by the SEC. The current version of our Code of Ethics can be found on our Internet site at http://www.arlo.com. Additional information required by this Item regarding our Code of Ethics is incorporated by reference to the information contained in the section captioned "Corporate Governance Policies and Practices" in our 2021 Proxy Statement.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Ethics by posting such information on our website at http://www.arlo.com within four business days following the date of such amendment or waiver.

Item 11. Executive Compensation

The information required by this item will be set forth in the Proxy Statement and is incorporated herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be set forth in the Proxy Statement and is incorporated herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be set forth in the Proxy Statement and is incorporated herein.

Item 14. Principal Accounting Fees and Services

The information required by this item will be set forth in the Proxy Statement and is incorporated herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements.

The following consolidated financial statements of Arlo Technologies, Inc. are filed as part of this Annual Report on Form 10-K in Item 8, *Financial Statements and Supplementary Data*.

(2) Financial Statement Schedules.

All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable or because the information required is already included in the consolidated financial statements or the notes to those consolidated financial statements.

(3) Exhibits.

INDEX TO EXHIBITS

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**Date**	**Number**	**Filed Herewith**
3.1	Amended and Restated Certificate of Incorporation of Arlo Technologies, Inc.	8-K	8/7/2018	3.1	
3.2	Amended and Restated Bylaws of Arlo Technologies, Inc.	8-K	8/7/2018	3.2	
4.1	Common Stock Certificate of Arlo Technologies, Inc.	S-1/A	7/23/2018	4.1	
4.2	Description of Common Stock of Arlo Technologies, Inc.				X
10.1	Master Separation Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018	8-K	8/7/2018	10.1	
10.2	Transition Services Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018	8-K	8/7/2018	10.2	
10.3	Tax Matters Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018	8-K	8/7/2018	10.3	
10.4	Employee Matters Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018	8-K	8/7/2018	10.4	
10.5	Intellectual Property Rights Cross-License Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018	8-K	8/7/2018	10.5	
10.6	Registration Rights Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018	8-K	8/7/2018	10.6	
10.7	Office Lease, by and between LT Orchard Parkway, LLC and Arlo Technologies, Inc. dated as of June 28, 2018	S-1	7/6/2018	10.7	
10.8 *	Confirmatory Employment Letter with Matthew McRae	8-K	8/7/2018	10.7	
10.9 *	Confirmatory Employment Letter with Christine Gorjanc	8-K	8/7/2018	10.8	
10.10 *	Confirmatory Employment Letter with Patrick Collins	8-K	8/7/2018	10.9	
10.11 *	Confirmatory Employment Letter with Brian Busse	8-K	8/7/2018	10.10	
10.12 *	Change in Control and Severance Agreement	8-K	8/7/2018	10.11	
10.13 *	2018 Equity Incentive Plan	8-K	8/7/2018	10.12	
10.14 *	2018 Employee Stock Purchase Plan	10-K	2/22/2019	10.14	
10.15 *	Performance-Based Option Grant Agreement	8-K	8/7/2018	10.14	
10.16 *	Indemnification Agreement for directors and executive officers	S-1/A	7/23/2018	10.16	
10.17 *	Non-Employee Director Restricted Stock Unit Grant Agreement	10-Q	8/27/2018	10.17	
10.18	Cooperation Agreement, dated April 30, 2019, by and among Arlo Technologies, Inc. and the VIEX Parties listed therein	8-K	5/1/2019	10.1	
10.19 *	Separation Agreement, dated May 2, 2019, by and between Arlo Technologies, Inc. and Patrick J. Collins III	10-Q	8/6/2019	10.2	
10.20 *	Form of Service and Stock Market Performance-Based Restricted Stock Unit Agreement for Executive Officers	10-Q	11/8/2019	10.1	
10.21 *	Form of Service and Revenue Performance-Based Restricted Stock Unit Agreement for Executive Officers	10-Q	11/8/2019	10.2	
10.22 *	Form of Service-Based Restricted Stock Unit Agreement for Executive Officers	10-Q	11/8/2019	10.3	
10.23 †	Asset Purchase Agreement, by and between Arlo Technologies, Inc. and Verisure S.à.r.l. dated as of November 4, 2019	10-K	2/28/2020	10.23	
10.24 †	Supply Agreement, by and between Arlo Technologies, Inc. and Verisure S.à.r.l. dated as of November 4, 2019	10-K	2/28/2020	10.24	
10.25	Business Financing Agreement, by and between Arlo Technologies, Inc. and Western Alliance Bank dated as of November 5, 2019	10-K	2/28/2020	10.25	
10.26*	Separation Agreement, dated April 23, 2020, by and among Arlo Technologies, Inc., NETGEAR, Inc. and Christine Gorjanc	10-Q	8/6/2020	10.1	
10.27*	Confirmatory Employment Letter with Gordon Mattingly	10-Q	8/6/2020	10.2	
10.28*	Form of Change in Control and Severance Agreement for non-CEO Executive Officers	10-Q	8/6/2020	10.3	
10.29*	Form of Service and Cash Balance Performance-Based Restricted Stock Unit Agreement for Executive Officers	10-Q	8/6/2020	10.4	

10.30*	Non-Employee Director Compensation Policy	X
21.1	List of subsidiaries and affiliates	X
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm	X
24.1	Power of Attorney (included on the Signatures page)	X
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer	X
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer	X
32.1	Section 1350 Certification of Principal Executive Officer	X
32.2	Section 1350 Certification of Principal Financial Officer	X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X
104	104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	X

* Indicates management contract or compensatory plan or arrangement.

† Certain portions of this exhibit (indicated by "[***]") have been omitted as the Registrant has determined (i) the omitted information is not material and (ii) the omitted information would likely cause harm to the Registrant if publicly disclosed.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California, on the 26th day of February 2021.

ARLO TECHNOLOGIES, INC.

Registrant

/s/ MATTHEW MCRAE

Matthew McRae
Chief Executive Officer
(Principal Executive Officer)

/s/ GORDON MATTINGLY

Gordon Mattingly
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: February 26, 2021

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Matthew McRae and Gordon Mattingly, and each of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ MATTHEW MCRAE Matthew McRae	Chief Executive Officer *(Principal Executive Officer)*	February 26, 2021
/s/ GORDON MATTINGLY Gordon Mattingly	Chief Financial Officer *(Principal Financial and Accounting Officer)*	February 26, 2021
/s/ PRASHANT AGGARWAL Prashant Aggarwal	Director	February 26, 2021
/s/ JOCELYN E. CARTER-MILLER Jocelyn E. Carter-Miller	Director	February 26, 2021
/s/ RALPH E. FAISON Ralph E. Faison	Director	February 26, 2021
/s/ MICHAEL W. POPE Michael W. Pope	Director	February 26, 2021
/s/ AMY ROTHSTEIN Amy Rothstein	Director	February 26, 2021
/s/ GRADY K. SUMMERS Grady K. Summers	Director	February 26, 2021

DESCRIPTION OF COMMON STOCK

The following summary description of the common stock of Arlo Technologies, Inc. (“we,” “our” or “us”) is based on the provisions of our amended and restated certificate of incorporation, as well as our amended and restated bylaws, and the applicable provisions of the Delaware General Corporation Law (the “DGCL”). This information is qualified entirely by reference to the applicable provisions of our amended and restated certificate of incorporation, our amended and restated bylaws and the DGCL. Our amended and restated certificate of incorporation and amended and restated bylaws have previously been filed as exhibits with the Securities and Exchange Commission.

Common Stock

Voting

Each holder of our common stock is entitled to one vote for each share on all matters to be voted upon by the common stockholders, and there will be no cumulative voting rights.

Dividends and Other Distributions

Subject to any preferential rights of any outstanding preferred stock, holders of our common stock are entitled to receive ratably the dividends, if any, as may be declared from time to time by our board of directors out of funds legally available for that purpose.

Distribution on Dissolution

If there is a liquidation, dissolution or winding up of our company, holders of our common stock are entitled to ratable distribution of our assets remaining after the payment in full of liabilities and any preferential rights of any outstanding preferred stock.

Other Rights

Holders of our common stock have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the common stock. Our common stock does not contain restrictions on alienability of the securities to be registered. All outstanding shares of our common stock are fully paid and non-assessable. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Anti-Takeover Effects of Various Provisions of Delaware Law and Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws

Provisions of the DGCL and our amended and restated certificate of incorporation and amended and restated bylaws could make it more difficult to acquire us by means of a tender offer, a proxy contest or otherwise, or to remove incumbent officers and directors. These provisions, summarized below, are expected to discourage certain types of coercive takeover practices and takeover bids that our board of directors may consider inadequate and to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of its ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure it outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

Delaware Anti-Takeover Statute

As a Delaware corporation, we are subject to Section 203 of the DGCL regarding corporate takeovers. In general, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years following the time the person became an interested stockholder, unless:

- prior to the date of the transaction, the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time such transaction commenced, excluding, for purposes of determining the number of shares outstanding, (1) shares owned by persons who are directors and also officers of the corporation and (2) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder.

In this context, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status owned, 15% or more of a corporation's outstanding voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

Classified Board

Our amended and restated certificate of incorporation and amended and restated bylaws provide that our board of directors is divided into three classes. Directors for each class will be elected at the annual meeting of stockholders held in the year in which the term for that class expires and thereafter will serve for a term of three years. At any meeting of stockholders for the election of directors at which a quorum is present, the election will be determined by a plurality of the votes cast by the stockholders entitled to vote in the election. Under the classified board provisions, it would take at least two elections of directors for any individual or group to gain control of our board of directors. Accordingly, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of us.

Removal of Directors

Our amended and restated certificate of incorporation provides that so long as our board of directors is classified, our stockholders may remove our directors only for cause, by an affirmative vote of holders of at least a majority of the voting power of the then-outstanding shares of voting stock.

Amendments to Certificate of Incorporation and Bylaws

Our amended and restated certificate of incorporation provides that it may be amended or altered in any manner provided by the DGCL, provided that the amendment of certain provisions will require the approval of at least two-thirds of the voting power of all of the then-outstanding shares of our voting stock. Our amended and restated bylaws may be adopted, amended, altered or repealed by stockholders upon the approval of at least a majority of the voting power of all of the then-outstanding shares of our voting stock, provided that the amendment of certain provisions will require the approval of at least two-thirds of the voting power of all of the then-outstanding shares of stock entitled to vote generally in the election of directors. Additionally, our amended and restated certificate of incorporation provides that our amended and restated bylaws may be adopted, amended, altered or repealed by the board of directors.

Size of Board and Vacancies

Our amended and restated certificate of incorporation provides that the number of directors which constitute the board of directors shall be as designated or provided for in our amended and restated bylaws. Our amended and restated bylaws provide that the number of directors on our board of directors will be fixed exclusively by our board of directors. Any vacancies on our board of directors resulting from any increase in the authorized number of directors or the death, resignation, retirement, disqualification, removal from office or other cause will be filled by a majority of the board of directors then in office, whether or not less than a quorum. Our amended and restated bylaws provide that any director appointed to fill a vacancy on our board of directors will hold office until his or her successor has been elected and qualified.

Special Stockholder Meetings

Our amended and restated certificate of incorporation provides that only the chairman of the board of directors, the lead independent director or the chief executive officer or the president, or the board of directors, acting pursuant to a resolution adopted by the majority of the board of directors, may call special meetings of stockholders. Stockholders may not call special stockholder meetings.

Stockholder Action by Written Consent

Our amended and restated certificate of incorporation expressly prohibits the right of our stockholders to act by written consent. From and after such time, stockholder action must take place at the annual or a special meeting of stockholders.

Requirements for Advance Notification of Stockholder Nominations and Proposals

Our amended and restated certificate of incorporation mandates that stockholder nominations for the election of directors be given in accordance with the bylaws. Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors, as well as minimum qualification requirements for stockholders making the proposals or nominations. Additionally, our amended and restated bylaws require that candidates for election as director disclose their qualifications and make certain representations.

No Cumulative Voting

The DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless the company's certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation does not provide for cumulative voting.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

Listing

Our common stock is listed on NYSE under the symbol "ARLO."

Arlo Technologies, Inc.

Non-Employee Director Compensation Policy

Each member of the Board of Directors (the "***Board***") who is not also serving as an employee of or consultant to Arlo Technologies, Inc. (the "***Company***") or any of its subsidiaries (each such member, an "***Eligible Director***") will receive the compensation described in this Non-Employee Director Compensation Policy for his or her Board service. An Eligible Director may decline all or any portion of his or her compensation by giving notice to the Company prior to the date cash may be paid or equity awards are to be granted, as the case may be. This policy may be amended at any time in the sole discretion of the Board.

Annual Cash Compensation

The annual cash compensation amount set forth below is payable to Eligible Directors in equal quarterly installments, payable in arrears on the last day of each fiscal quarter in which the service occurred. If an Eligible Director joins the Board or a committee of the Board at a time other than effective as of the first day of a fiscal quarter, each annual retainer set forth below will be pro-rated based on days served in the applicable fiscal year, with the pro-rated amount paid for the first fiscal quarter in which the Eligible Director provides the service and regular full quarterly payments thereafter. All annual cash fees are vested upon payment.

1. Annual Board Service Retainer:
   a. All Eligible Directors: $32,000
   b. Chair of the Board Service Retainer (in addition to Eligible Director Service Retainer): $50,000

2. Annual Committee Chair Service Retainer:
   a. Chair of the Audit Committee: $22,000
   b. Chair of the Compensation Committee: $15,000
   c. Chair of the Nominating and Corporate Governance Committee: $10,000
   d. Chair of the Cybersecurity Committee: $20,000

3. Annual Committee Member Service Retainer (not applicable to Committee Chairs):
   a. Member of the Audit Committee: $10,000
   b. Member of the Compensation Committee: $7,500
   c. Member of the Nominating and Corporate Governance Committee: $5,000
   d. Member of the Cybersecurity Committee: $10,000

Equity Compensation

The equity compensation set forth below will be granted under the Company's 2018 Equity Incentive Plan (the "***Plan***").

1. Initial Grant: On the date of such Eligible Director's initial election or appointment to the Board (or, if such date is not a market trading day, the first market trading day thereafter), the Eligible Director will be automatically, and without further action by the Board or the Compensation Committee of the Board, granted a Restricted Stock Unit ("***RSU***"), with such number of shares of common stock covering such RSU equal to $180,000, with such dollar amount pro-rated for the date of such initial election or appointment in relation to the date of the previous annual meeting of stockholders, divided by the closing price of the common stock as reported on the New York Stock Exchange on the date of the grant (rounded down to the nearest whole share) (the "***Initial Grant***"). The Initial Grant will fully vest on the date of the next annual meeting of stockholders, subject to the Eligible Director's continued service through each such vesting date.

2. Annual Grant: On the date of each annual meeting of the stockholders of the Company, each Eligible Director who continues to serve as a non-employee member of the Board following such annual meeting of stockholders, will be automatically, and without further action by the Board or the Compensation Committee of the Board, granted a RSU, with such number of shares of common stock covering such RSU equal to $180,000 divided by the closing price of the common stock as reported on the New York Stock Exchange on the date of the grant (rounded down to the nearest whole share) (the "***Annual Grant***"). The Annual Grant will fully vest on the date of the following year's annual meeting of stockholders, subject to the Eligible Director's continued service through such vesting date.

Non-Employee Director Compensation Limit

Notwithstanding the foregoing, the aggregate value of all compensation granted or paid, as applicable, to any individual for service as an Outside Director (as defined in the Plan) shall in no event exceed the limits set forth in the Plan.

Exhibit 21.1

Subsidiaries and Affiliates of the Registrant

Arlo Technologies, Inc.
Arlo Technologies Australia Pty Ltd
Arlo Technologies Canada Limited
Arlo France SAS
Arlo Germany GmbH
Arlo Hong Kong Limited
Arlo Asia Limited
Arlo Technologies International Ltd
Arlo Sweden
Arlo Taiwan Co. Ltd
Arlo Technologies UK Limited
Arlo Italy Srl
Arlo Technologies Services India Private Ltd
Avaak, Inc.
Placemeter Inc.
Placemeter France SAS

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-226576, 333-229335 and 333-236864) of Arlo Technologies, Inc. of our report dated February 26, 2021 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Jose, California
February 26, 2021

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Matthew McRae, certify that:

1. I have reviewed this Annual Report on Form 10-K of Arlo Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting;
   and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 26, 2021

/s/ MATTHEW MCRAE

Matthew McRae
Chief Executive Officer
Arlo Technologies, Inc.

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Gordon Mattingly, certify that:

1. I have reviewed this Annual Report on Form 10-K of Arlo Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting;
   and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 26, 2021

/s/ GORDON MATTINGLY

Gordon Mattingly
Chief Financial Officer
Arlo Technologies, Inc.

EXHIBIT 32.1

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

In connection with the Annual Report of Arlo Technologies, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew McRae, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2021

By: /s/ MATTHEW MCRAE
Matthew McRae
Chief Executive Officer
Arlo Technologies, Inc.

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Form 10-K), irrespective of any general incorporation language contained in such filing.

EXHIBIT 32.2

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

In connection with the Annual Report of Arlo Technologies, Inc. (the “Company”) on Form 10-K for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gordon Mattingly, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2021

By: /s/ GORDON MATTINGLY
Gordon Mattingly
Chief Financial Officer
Arlo Technologies, Inc.

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Form 10-K), irrespective of any general incorporation language contained in such filing.