

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, 2021

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  
(State or other jurisdiction of incorporation or organization)  
2200 Faraday Ave., Suite #150  
Carlsbad, California  
(Address of principal executive offices)

38-4061754  
(I.R.S. Employer Identification Number)  
92008  
(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 | <input type="checkbox"/> | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         |                          | Emerging growth company   | <input checked="" type="checkbox"/> |

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 27, 2021 was \$581.4 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 25, 2021 (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 84,795,549 shares as of February 25, 2022.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2022 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 COVID-19 pandemic and its variants, 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; we may overestimate our ability to maintain, protect, and enhance our intellectual property; our efforts to retain key personnel and to attract, retain and motivate qualified personnel with technical expertise may not be successful; 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 COVID-19 pandemic and its variants, could have an adverse impact on our business, operations and the markets and communities in which we, our partners and customers operate.
- 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 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, including due to the COVID-19 pandemic, we may be unable to sell or timely deliver our products, and our operating expenses could increase.

- If we lose the services of key personnel, we may not be able to execute our business strategy effectively.
- 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 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.
- We entered into an asset purchase agreement (the “Asset Purchase Agreement”) and supply agreement (the “Supply Agreement”) with Verisure Sàrl (“Verisure”) that gives 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 continue to be a successful collaboration.
- We are dependent on information technology systems, infrastructure and data. System security risks, breaches of data protection, cyber-attacks, and erroneous or non-malicious actions or failures to act by our employees or others with authorized access to our networks 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.
- 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.
- 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.

## **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 22.9 million smart connected devices, and, as of December 31, 2021, our smart platform had approximately 6.1 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.

## **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 ("Arlo Smart") 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. In the third quarter of 2021, we introduced Arlo Secure, our new service plan with coverage for unlimited cameras and an enhanced Emergency Response solution. Arlo Secure replaced Arlo Smart, our previous service plan. Existing Arlo Smart customers are entitled to either retain their existing plans or upgrade to the new Arlo Secure plans of their choosing. 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***

#### *Released in 2021*

**Arlo Essential Indoor Camera**, released in the first quarter of 2021, features 1080p HD video with enhanced night vision that allows users to capture important details day or night, a 130-degree diagonal field-of-view, motion and audio protection and full duplex audio for two-way conversations. The Arlo Essential Indoor Camera's unique automated privacy shield is a reassuring feature designed to ease privacy concerns around having a security camera indoors. When the privacy shield is in the disarm mode, recording, motion and audio detection is disabled and won't be enabled until the shield is opened by the user via the Arlo app. Users can also signal the privacy shield to open automatically and begin recording by starting a live stream or changing the camera to arm mode. This gives users the power to decide when their camera is monitoring a room and recording video/audio, and when it is not. Arlo Essential Indoor Camera also has built-in siren and works compatibly with Amazon Alexa, Google Assistant and IFTTT for easy interaction, automation and control.

**Arlo Go 2 LTE/Wi-Fi Security Camera**, released in the fourth quarter of 2021, delivers smarter security for remote or hard-to-access locations and enables LTE and Wi-Fi connectivity for monitoring vacation homes, construction sites, commercial properties, trails and more. Arlo Go 2 LTE/Wi-Fi Security Camera works with 4G cellular data plan to provide continuous connectivity and uninterrupted security and provides users with 100% wire-free setup, weather-resistant design, a swappable, rechargeable battery and the ability to connect to Wi-Fi when in range. Users can view and record 1080p full HD video day and night, as well as capture important details with color night vision thanks to an integrated spotlight. The two-way, full-duplex audio ensures clear communication with visitors, while a built-in siren can be triggered remotely or automatically to ward off intruders. Arlo Go 2 is also equipped with GPS positioning to track the camera's whereabouts, allowing users to locate multiple devices across an expansive area, or in the event of theft.

*Released in Prior Years*

**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 Video 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, Arlo 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. Arlo 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 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, Arlo 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, Arlo Pro 3 offers advanced image quality for DIY security that anyone can easily install in minutes and monitor from anywhere using the Arlo app. Arlo Pro 3 also includes a new Arlo SmartHub that securely manages network traffic to the camera in addition to enhancing power and Wi-Fi performance for better range and battery life.

**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 Arlo 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 Floodlight Camera**, released in the first quarter of 2020 and is the first wire-free floodlight camera 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 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 Wi-Fi, the latest solution can be powered by its rechargeable battery or be hardwired for continuous charging.

**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 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 Wi-Fi 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 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 Wi-Fi, the latest solution can be powered by its rechargeable battery or be hardwired for continuous charging.

**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 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 various Arlo 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.

### ***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**

In the third quarter of 2021, we introduced Arlo Secure, our new service plan with coverage for unlimited cameras and an enhanced Emergency Response solution. Arlo Secure replaced Arlo Smart, our previous service plan. Existing Arlo Smart customers are entitled to either retain their existing plans or upgrade to the new Arlo Secure plan of their choosing. The premium services boast support for unlimited household security devices, along with advanced AI object detection, and smarter, more interactive notifications. Additionally, the new 24/7, one-touch Emergency Response is available with the Secure Plus plan, enabling Arlo users to directly dispatch first responders during an emergency for quicker action. A three-month free trial period of Arlo Secure is provided with various Arlo camera and doorbell products. The features of the Arlo Secure subscriptions include:

- *Emergency Response (Arlo Secure Plus)* – With one touch, dispatch fire, police, or medical responders to the camera's location. If directed by the user, Arlo's Emergency Response team can also provide critical location information to responders en route to better prepare them, such as gate codes, medical conditions of family members, and pet details.
- *2K (Arlo Secure) and 4K (Arlo Secure Plus) Cloud-based Video Recording* – View 30 days of recordings securely stored on Arlo's SmartCloud platform, for ultimate peace of mind and protection even if the device is damaged or stolen in a break-in, storm or other physical incident.
- *Unlimited Cameras* – Users can enjoy Arlo Secure service for all cameras in their home with one all-encompassing plan. Add new Arlo cameras for no additional charge.
- *Advanced Object Detection* – Arlo processes and filters 50 million events each day through advanced object detection backed by visual artificial intelligence, allowing for better recognition of people, packages, vehicles, and animals to add key context to notifications and reduce unwanted alerts.



- *Smart Interactive Notifications* – Users can take quicker action by responding to rich notifications or viewing an animated preview of a notification video through the lock screen on their smartphone.
- *Smoke and CO Alarm Detection* – Get notified when the camera hears a smoke or CO alarm triggered.
- *Cloud-based Activity Zones* – Users can reduce unwanted notifications by highlighting specific areas on their property where they want motion to be detected.
- *Call a Friend* – Customers can instantly call a friend through the Arlo App from their notification screen with one tap.
- *24/7 Priority Support* – Subscribers get priority technical support through the in-app Help Center with omni-channel access to phone, chat, Community or self-help articles.

Our paid services subscriber base has grown from over 230,000 paid accounts as of December 31, 2019 to about 1,067,000 as of December 31, 2021. 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 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, security solution providers as well as directly to consumers through our own online store.

**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 retailer is Best Buy and its affiliates. For the year ended December 31, 2021, we derived 13.0% of our revenue from Best Buy and its affiliates, which is the only retailer that accounted for 10% or greater of our revenue in 2021.

**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, from which we derived 30.8% of our revenue, and Securitas Security Services USA, Inc.

**Arlo.com.** In the third quarter of 2019, we launched our online direct to consumer store to sell our products directly to our customers. We also sell most of our services, such as Arlo Smart and Arlo Secure, directly to consumers.

#### **Agreements with Verisure**

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. 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 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.

Pursuant to the terms and subject to the conditions set forth in the Supply Agreement, Verisure is 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, 2021, \$160.1 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 an Outdoor Custom Camera being developed.

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, 2021, our research and development staff consisted of 131 employees, located in our offices worldwide, and was comprised of front-end and back-end software engineers, radio frequency 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 Wistron NeWeb Corporation, 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. As we expand our product portfolio, we continue to explore new potential manufacturing

partners that may provide us with competitive advantages on technology and cost. 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. 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 and Australia. 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 product 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, 2021, 2020 and 2019, our third and fourth quarters collectively represented 58.4%, 63.0% and 61.8%, respectively, of our revenue for such years. Therefore, timely and effective product 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, 2021, we had a backlog of \$4.4 million, compared to \$5.7 million as of December 31, 2020 and \$5.4 million as of December 31, 2019. 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 95 issued United States patents, 45 pending United States patent applications, 23 international patents, including patents issued by China and the EU, 22 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 seven registered trademarks and three pending trademark applications in the United States, as well as 49 registered trademarks and 22 pending trademark applications outside of the United States. We currently hold trademark registrations for “ARLO” in ten countries: the United States, Australia, Brazil, Canada, Chile, China, Japan, Mexico, Peru, and Trinidad and Tobago, 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.

## **Culture and Human Capital Resources**

Our culture, mission and values are a critical part of our success. In fact, core to our vision of bringing peace of mind by connecting and protecting what people care about the most is creating the right environment for our people. We strive to ensure that our employees are continually connected to our vision and mission through appropriate communication, throughout our talent proposition and as we serve our customers.

Our culture focuses on connecting our people in an inclusive and flexible workforce, connecting our employees with the right development opportunities, and linking our group success with individual performance. It is founded on an employee value proposition that puts people and teams at the center of our business. Through radical collaboration, trust, and conscious leadership, our diverse teams continue to create innovative solutions for our customers.

We protect our culture through leadership excellence and developing the right leadership behaviors that are both conscious and strategic in their impact on our performance. We value creativity, agility, hard work, transparency, and integrity, as we focus on continually innovating and improving our technology, solutions, brand, and partnerships.

Human capital measures and objectives used to manage our business focus on employee safety and wellness, talent acquisition and retention, employee engagement, development and training, diversity and inclusion, and compensation and pay equity. We strive to attract and retain exceptionally talented, diverse, and ethical employees, and we are proud of the culture we have built. Our talented employees, located throughout the United States, Canada, Asia, Australia, and Europe communicate, connect and work together to deliver a world-class end-to-end connected lifestyle solution. We believe that we maintain a good working relationship with our employees, and we have not experienced any labor disputes. As of December 31, 2021, we had a total of 353 full-time employees, of which approximately 69% were based in the United States, and approximately 31% were based in other global regions.

### ***Diversity and Inclusion***

Arlo is proud to be an equal opportunity workplace and an affirmative action employer. We always strive to treat all employees and job applicants based on merit, qualifications, personality, and talent, and to draw from a diverse candidate pool as we recruit new talent across all levels. We deeply connect people from all backgrounds and beliefs and strive for a truly inclusive and collaborative working environment.

We have taken action alongside a group of more than 1,200 businesses in a collective commitment to make progress towards advancing diversity and inclusion in our workplace, communities, and country. We value diversity and integrate it into our business by striving to ensure that our company is representative of the customers we serve and that inclusion is at the core of our workplace culture. In 2020, our Chief Executive Officer signed the CEO Action for Diversity & Inclusion pledge, the largest CEO-driven business commitment to advance diversity and inclusion within the workplace

to underscore our commitment. By making the pledge, we go beyond accepting diversity and committed to the following actions:

- Continue to cultivate our workplace to support open dialogue on complex, and sometimes difficult conversations about diversity and inclusion.
- Make unconscious bias education available to everyone.
- Share best known—and unsuccessful—actions.
- Create and share strategic inclusion and diversity plans with our board of directors as a way to prioritize diversity and inclusion and to drive accountability in our organization.

For the second year running, we are partnering with the GEM Consortium ("GEM"). GEM connects highly qualified students from underrepresented groups to STEM graduate programs with much-needed financial support that is often the deciding factor in pursuing graduate education. We have welcomed a number of GEM interns at Arlo.

We host a number of events and days of observance with guest and internal speakers at Arlo. Each Spring, for example, we hold a "Week of Understanding" with speakers on key diversity and inclusion topics. These events provide a platform for dialogue and an opportunity for every employee to learn, discuss, and appreciate differences between colleagues as we grow to drive greater inclusion at Arlo and truly reflect the customers we serve.

### ***COVID-19 and Employee Safety***

During the COVID-19 pandemic, our primary focus has been on the safety and well-being of our employees and their families. Our global pandemic efforts include implementing early and continuous updates to our health and safety policies and processes, migrating 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. As the pandemic continues, the health and well-being of our workforce remains our top priority while we ensure productivity while working from home.

### **Company Information**

We were incorporated in Delaware in January 2018 in connection with the separation of our business (the "Separation") from NETGEAR, Inc. ("NETGEAR"). Our principal executive offices are located at 2200 Faraday Ave., Suite #150, Carlsbad, California 92008, and our telephone number is (408) 890-3900. Our website is <http://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 website 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 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. 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.



## 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 COVID-19 pandemic and its variants, 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. 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.

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.

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 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. As a result, we have experienced component shortages, including longer lead times for components and supply constraints, that have affected both our ability to meet scheduled product deliveries and worldwide demand for our products. Also, as a result of the COVID-19 pandemic, our supply chain partners are limited by production capacity, constrained by material availability, labor shortages, factory uptime and freight capacity, each of which constrains our ability to capitalize fully on end market demand. As of December 31, 2021, international freight capacity has dropped, causing air and ocean freight rates to materially increase. Furthermore, transit times have also increased, causing us to rely more on air freight in order to meet our customers' demands. For the year ended December 31, 2021, we saw a 138% increase in freight-in expense compared to the prior year, as a result of the higher sea and air freight rates and component shortages which necessitated use of air freight to meet customer requested delivery dates. We expect supply chain constraints to continue in 2022. While we have been successful in navigating COVID-19 related challenges to date, any further disruptions brought about by the COVID-19 pandemic to our supply chain and operations could have a significant negative impact on our net revenue, gross and operating margin performance.

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 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 and throughout 2021 we experienced component shortages, including longer lead times for components, and supply constraints, which we expect to continue in 2022. Such shortages and constraints affected our ability to meet scheduled product deliveries and worldwide demand for our products in 2021, and may affect our ability in 2022. 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 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 Wistron NeWeb Corporation. 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, international conflicts, such as the potential escalating conflict between Russia and Ukraine, 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 American orders, could significantly disrupt our business. Our international freight is regularly subject 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 by other methods. From time to time in the past and increasingly more common during the COVID-19 pandemic, 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 continue to 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.

***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 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 Secure 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 Secure, 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 Secure 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 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 \$56.0 million for the year ended December 31, 2021, and we have a history of losses and may continue to incur operating and net losses for the foreseeable future. As of December 31, 2021, our accumulated deficit was \$288.8 million.



As of December 31, 2021, our cash and cash equivalents and short-term investments totaled \$175.7 million. In October 2021, we entered into a Loan and Security Agreement with Bank of America, N.A. (the "Credit Agreement"), providing for a credit facility of up to \$40.0 million and as of December 31, 2021, 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 the Credit Agreement. While based on our current plans, the Credit Agreement with Bank of America, N.A., 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, Canary and Eufy. 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.

***We entered into an asset purchase agreement (the “Asset Purchase Agreement”) and supply agreement (the “Supply Agreement”) with Verisure Sàrl (“Verisure”) that gives 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 continue to be a successful collaboration.***

Verisure has 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 continuing to sell 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 contain 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 dependent on information technology systems, infrastructure and data. System security risks, breaches of data protection, cyber-attacks, and erroneous or non-malicious actions or failures to act by our employees or others with authorized access to our networks 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 Secure, 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 and 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. The multitude and complexity of our computer systems may make them vulnerable to service interruption or destruction, breaches of security, disruption of data integrity, inadvertent errors that expose our data or systems, malicious intrusion, or random attacks. Likewise, data privacy or security incidents or intentional or non-malicious 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 users, or other business partners may be exposed to unauthorized persons or to

the public, or that risk of loss or misuse of this information could occur, resulting 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. 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 disruption in our business, including a cyber-attack, hacking, fraud, social engineering, or other forms of deception. 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, for example, 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.

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 Secure services, our revenue and overall gross margin would likely decline.

***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 acquired two of our competitors, Blink and Ring, in 2017 and 2018, respectively. 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, 2021, we derived 13.0% of our revenue from Best Buy and its affiliates and 30.8% of our revenue from Verisure and its 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. Verisure has an aggregate purchase commitment of \$500.0 million during a five-year period commencing January 1, 2020. Other than with Verisure, we generally have no minimum purchase commitments or long-term contracts with our 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 intended 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.

***We have spent, and expect to continue to spend, significant amounts on advertising and other marketing campaigns, which may not be successful or cost effective.***

We have spent, and expect to continue to spend, significant amounts on advertising and other marketing campaigns, such as television, print advertising, and social media, as well as increased promotional activities, to acquire new customers, and we expect our marketing expenses to increase in the future as we continue to spend significant amounts to increase awareness of our smart connected devices and services. For the years ended December 31, 2021 and 2020, sales and marketing expenses were \$48.9 million and \$49.1 million, respectively, representing approximately 11% and 14% of our revenue, respectively. While we seek to structure our advertising campaigns in the manner that we believe is most likely to encourage people to purchase our products and services, we may fail to identify advertising opportunities that satisfy our anticipated return on advertising spend as we scale our investments in marketing or to fully understand or estimate the conditions and behaviors that drive customer behavior. If any of our advertising campaigns prove less

successful than anticipated in attracting customers, we may not be able to recover our advertising spend, and our revenue may fail to meet market expectations, either of which could have an adverse effect on our business. There can be no assurance that our advertising and other marketing efforts will result in increased sales of our products or services.

***Introducing new products and services may be difficult and expensive. If we are unable to do so successfully, our brand may be adversely affected and we may not be able to maintain or grow our current revenue and profit levels.***

To successfully evolve our product offerings of smart connected devices to appeal to our consumers, we will be required to predict, understand, and react to the rapidly changing tastes of consumers and provide appealing products in a timely manner. New product models that we introduce may not be successful with consumers or our brand may fall out of favor with consumers. If we are unable to anticipate, identify, or react appropriately to changes in consumer preferences, our revenues may decrease, our brand image may suffer, our operating performance may decline, and we may not be able to execute our growth plans.

We have increased the rate of new product and service introductions, including new lines of Arlo cameras, smart lights, and doorbell products, and we may encounter difficulties that we did not anticipate during the product development stage. If we are not able to efficiently manufacture new products in quantities sufficient to support wholesale, retail, and e-commerce distribution, especially in light of the ongoing COVID-19 pandemic and its variants, we may not be able to recover our investment in the development of new product and service iterations and product lines, and we would continue to be subject to the risks inherent to having a limited product line. Even if we develop and manufacture new products and services that consumers find appealing, the ultimate success of any new products or services may depend on our pricing. We may not provide the appropriate level of marketing in order to educate the market and potential consumers about our new products and services. Achieving market acceptance will require us to exert substantial product development and marketing efforts, which could result in a material increase in our research and development and sales and marketing expenses. There can be no assurance that we will have the resources necessary to undertake such efforts effectively or that such efforts will be successful or that we will dedicate our limited marketing resources to the right product lines and services. Failure to gain market acceptance for new products and services could impede our ability to maintain or grow current revenue levels, reduce profits, adversely affect the image of our brand, erode our competitive position, and result in long-term harm to our business and financial results.

***If we fail to enhance our brand, our ability to expand our customer base will be impaired and our operating results may suffer.***

We believe that developing and maintaining awareness of the Arlo brand is critical to achieving widespread acceptance of our existing and future products and is an important element in attracting new customers. Furthermore, we expect the importance of global brand recognition to increase as competition increases. If customers do not perceive our products to be of high quality, our brand and reputation could be harmed, which could adversely impact our financial results. In addition, brand promotion efforts may not yield significant revenue or increased revenue sufficient to offset the additional expenses incurred in building our brand. Maintaining, protecting, and enhancing our brand may require us to make substantial investments, and these investments may not be successful. If we fail to successfully maintain, promote, and position our brand and protect our reputation, or if we incur significant expenses in this effort, our business, financial condition and operating results may be adversely affected.

***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 Secure 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 are constantly evolving 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. Alleged violations of any 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. On June 28, 2021, the European Commission announced a decision of “adequacy” concluding that the UK ensures an equivalent level of data protection to the GDPR, which provides some relief regarding the legality of continued personal data flows from the EEA to the UK. Some uncertainty remains, however, as this adequacy determination must be renewed after four years and may be modified or revoked in the interim. We cannot fully predict how the Data Protection Act, the UK GDPR, and other UK data protection laws or regulations may develop in the medium to longer term nor the effects of divergent laws and guidance regarding how data transfers to and from the UK will be regulated.

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. For example, on March 2, 2021, Virginia enacted the Virginia Consumer Data Protection Act ("CDPA") which becomes effective on January 1, 2023, and on June 8, 2021, Colorado enacted the Colorado Privacy Act ("CPA") which takes effect on July 1, 2023. The CPA and CDPA are similar to the CCPA and CPRA but aspects of these state privacy statutes remain unclear, resulting in further legal uncertainty and potentially requiring us to modify our data practices and policies and to incur substantial additional costs and expenses in an effort to comply. Complying with the GDPR, CCPA, CPRA, CDPA, CPA, or other laws, regulations, amendments to or re-interpretations of existing laws and regulations, and contractual or other obligations relating to privacy, data protection, data transfers, data localization, or information security may require us to make changes to our services to enable us or our customers to meet new legal requirements, incur substantial operational costs, modify our data practices and policies, and restrict our business operations. Any actual or perceived failure by us to comply with these laws, regulations, or other obligations may lead to significant fines, penalties, regulatory investigations, lawsuits, significant costs for remediation, damage to our reputation, or other liabilities.

Some observers have noted that the CCPA, CPRA, CDPA, and CPA 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.

***We are subject to financial and operating covenants in the Credit Agreement with Bank of America, N.A. 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 the sum of (i) 90% of investment grade eligible receivables and (ii) 85% of non-investment grade eligible accounts, less applicable reserves established by the lender. The Credit Agreement also includes a \$5.0 million sublimit for the issuance by the lender of letters of credit. In addition, the Credit Agreement includes an uncommitted accordion feature that allows us to from time to time request that the lender increase the aggregate revolving loan commitments by up to an additional \$25.0 million in the aggregate, subject to the satisfaction of certain conditions. The Credit Agreement contains other customary covenants, including certain restrictions on maintaining a minimum cash balance, achieving certain fixed charge coverage ratio for two consecutive quarters, 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.

***Instability in geographies where we have operations and personnel or where we derive amounts of revenue could have a material adverse effect on our business, customers, operations and financial results.***

Economic, civil, military and political uncertainty exists and may increase regions where we operate and derive our revenue. Various countries in which we operate are experiencing and may continue to experience military action and civil and political unrest. We have operations in the emerging market economies of Eastern Europe, including operations in Belarus utilizing employees and contractors who perform services relating to new product releases. In late February 2022, Russian military forces launched significant military action against Ukraine. Sustained conflict and disruption in the region is likely. The impact to Belarus and Ukraine, as well as actions taken by other countries, including new and stricter sanctions by Canada, the United Kingdom, the European Union, the U.S. and other countries and organizations against officials, individuals, regions, and industries in Russia, Belarus and Ukraine, and each country's potential response to such sanctions, tensions and military actions, could have a material adverse effect on our product development timelines. Any such material adverse effect from the conflict and enhanced sanctions activity may disrupt our receipt of software development services and cause us to shift all or portions of our work occurring in the region to other countries. We are actively monitoring the security of our employees and contractors in Belarus and the stability of our infrastructure, including communications and internet availability. To date we have not experienced any material interruptions in our operations there and we are in the process of transitioning our operations out of Belarus to other locations. If we are unable to effectively transition those services or replicate their capabilities in another country, our ability to timely introduce new products and financial results may be harmed.

***Global geopolitical, economic and business 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. Further, the imposition of and changes in the U.S.' and other governments' duties, trade regulations, trade wars, tariffs, other restrictions or other geopolitical events, including the evolving relations between U.S. and China and evolving relations with Russia due to the current hostilities between Russia and Ukraine, create uncertainty regarding our ability to market and distribute our products into non-U.S. jurisdictions and any failure to effectively anticipate or respond to such events could materially adversely affect our business, results of operations, and financial condition.

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.

In recent years, the U.S. Government has imposed increases to the ad valorem duties applicable to certain products imported from China, including increases of up to 25% for some items. We are actively addressing the risks related to these additional 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 acquired two of our competitors, Blink and Ring. For the year ended December 31, 2021, we derived 7.6% 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 Secure 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 38.9% and 27.5% of overall revenue for the years ended December 31, 2021 and 2020, 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 after the Separation from NETGEAR 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.

As of December 31, 2021, our U.S. federal and state net operating loss carryforwards were approximately \$109.3 million and approximately \$62.5 million, respectively. Moreover, our U.S. federal and state research and development tax credits were approximately \$4.7 million and approximately \$3.8 million, respectively. The utilization of our net operating loss and tax credit carryforwards may be subject to annual limitation due to ownership changes as provided by Sections 382 and 383 of the Code and similar state provisions. Such an annual limitation could result in the expiration of portions of our net operating loss and tax credit carryforwards before utilization. In the event that we experience ownership changes due to future transactions in our stocks, the utilization of net operating loss and tax credit carryforwards to reduce our future taxable income and tax liabilities may be limited, which could affect our profitability.

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”) has 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 are subject to income tax examinations by taxing authorities globally. We apply judgment in determining our provision for income taxes and other tax liabilities. While we believe our estimates are reasonably adequate, there are many transactions where the final tax determination is uncertain. If any adverse outcome from an examination determines the taxes we owe are higher than accrued or drives an increase in our effective tax rates, our results of operations could be affected.

***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. 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 governmental export and import controls, economic sanctions, and anti-corruption laws regulations, that could impair our ability to compete in international markets and subject us to liability if we are not in full compliance with applicable laws.***

Our business activities are subject to various restrictions under U.S. export controls and similar laws and regulations, 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. 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. Any decreased use of our solutions or limitation on our ability to export or sell our solutions could adversely affect our business, results of operations and financial condition.

We are also subject to various domestic and international anti-corruption laws, such as the United States Foreign Corrupt Practices Act, as well as other similar anti-bribery laws and regulations. These laws and regulations generally prohibit companies and their employees and intermediaries from authorizing, offering, providing, and accepting improper

payments or benefits for improper purposes. These laws also require that we keep accurate books and records and maintain compliance procedures designed to prevent any such actions. Although we take precautions to prevent violations of these laws, our exposure for violating these laws increases as our international presence expands and as we increase sales and operations in foreign jurisdictions.

***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 sublease counterparties 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 or sublease counterparties 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 or sublease counterparties to obtain financing, our customers' or sublease counterparties' ability to pay could be adversely impacted, which in turn could materially adversely affect our business, results of operations, and financial condition.

In June, 2021, we entered into a sublease agreement, with a term that runs concurrent with the term of the head lease, for our San Jose office space in light of the COVID-19 pandemic and its impact on the changing nature of office space use by our workforce. We believe we have secured a quality subtenant with appropriate sublease terms. However, if the subtenant default on their sublease obligations with us or otherwise terminate their sublease with us, we may experience a loss of planned sublease rental income, which could result in a material charge against our operating results. If that were to happen, we may be unable to enter into a new sublease on acceptable terms or at all and even if we do, such sublease may result in our incurring liabilities and expenses in future periods or the rent payments we receive from a new subtenant being less than our rent obligations under the head lease. Under these circumstances, we would be responsible for any shortfall.

***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. We have designed the Arlo platform to seamlessly integrate 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 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 our initial public offering (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 (as defined below), 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.***

In November 2018, NETGEAR announced that its board of directors had approved a special stock dividend (the "Distribution") to its stockholders, consisting of 62,500,000 shares of our common stock owned by NETGEAR. In connection with the Distribution, 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, 2021, we have 84,453,212 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 Item 8 of Part II 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 Jumpstart Our Business Act ("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 of the Sarbanes Oxley Act of 2002 ("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 New York Stock Exchange ("NYSE"), and certain provisions of the Section 404 and the regulations promulgated thereunder, which will impose significant compliance obligations upon us.

Section 404, 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, which requires annual management assessments of the effectiveness of our internal control over financial reporting. Upon loss of status as an "emerging growth company" as defined in the 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 Section 404 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 corporate headquarters located in Carlsbad, California, where we occupy approximately 63,500 square feet of office space pursuant to a lease agreement that expires in November 2024. We also lease approximately 77,800 square feet of office space in San Jose pursuant to a lease agreement that expires in June 2029. In June 2021, we entered into a sublease agreement, with a term that runs concurrent with the term of the head lease, for our San Jose office space in light of the COVID-19 pandemic and its impact on the changing nature of office space use by our workforce.

During fiscal 2021, our international sales personnel were based out of local sales offices or home offices in Australia and Canada. Our international 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 also lease office space in Cork, Ireland.

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, 2021, 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**

We are subject to legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. Our material legal proceedings are described under the heading “Litigation and Other Legal Matters” in 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 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 25, 2022, we had 9 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, and we are unable to estimate the total number of stockholders represented by these record holders.

#### 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.

#### Securities Authorized for Issuance under Equity Compensation Plans

See Item 12 of Part III of this Annual Report on Form 10-K regarding information about securities authorized for issuance under our equity compensation plans.

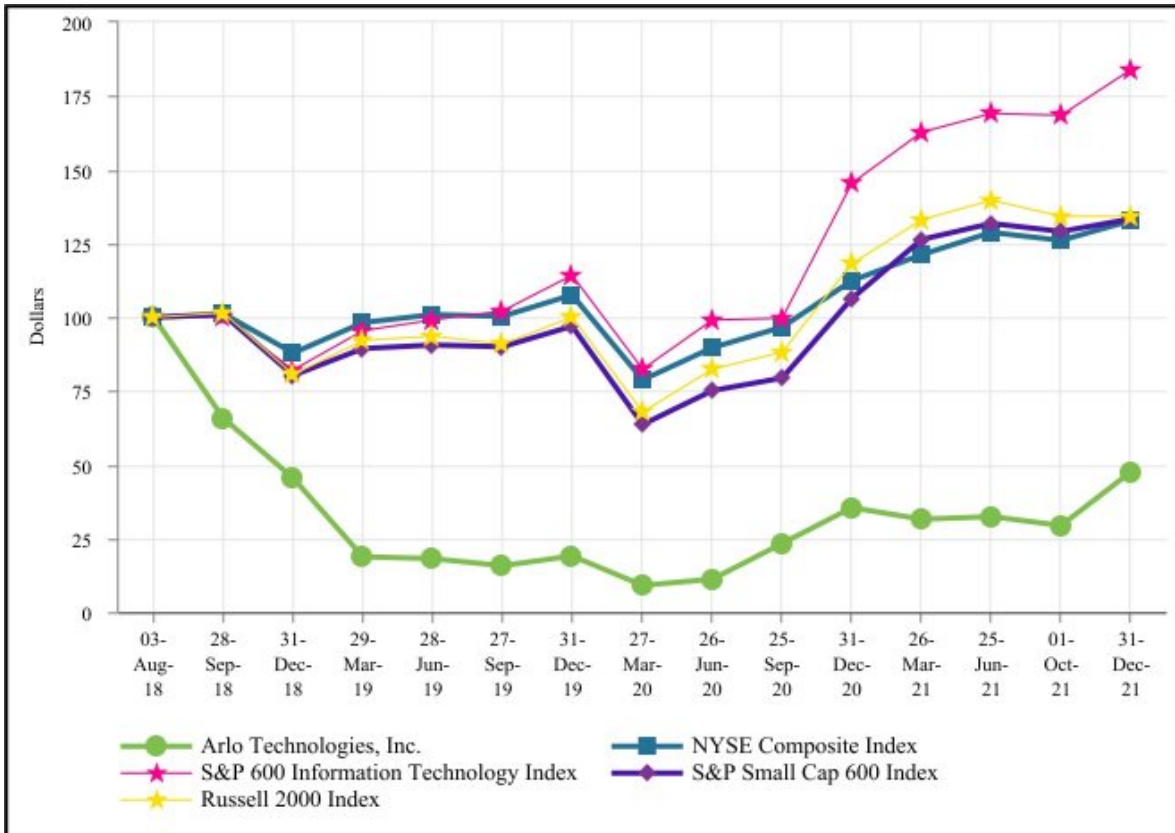
#### Recent Sales of Unregistered Securities and Purchases of Equity Securities by the Issuer

None.

#### 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, 2021 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”), the Standard and Poor’s Small Cap 600 Index (“S&P Small Cap 600 Index”) and the Russell 2000 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, 2021. 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, the S&P Small Cap 600 Index and the Russell 2000 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.



Item 6. [Reserved]

## **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.*

*We have elected to omit discussion on the earliest of the three years covered by the consolidated financial statements presented. Refer to Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations located in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed on February 26, 2021, for reference to discussion of the fiscal year ended December 31, 2019, the earliest of the three fiscal years presented.*

### **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 22.9 million smart connected devices, and as of December 31, 2021, our smart platform had approximately 6.1 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 38.9% and 27.5% of our revenue for the years ended December 31, 2021 and 2020, respectively.

For the years ended December 31, 2021 and 2020, we generated revenue of \$435.1 million and \$357.2 million, respectively. Loss from operations was \$60.1 million and \$104.9 million for the years ended December 31, 2021 and 2020, respectively. Loss from operations for the years ended December 31, 2021 and 2020 included separation expense of \$1.6 million and \$0.2 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. 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, |          |           |
|--------------------------------|--|----------|-----------|
|                                | 2021   | % Change | 2020      |
|                                | (In thousands, except percentage data)               |          |           |
| Cumulative registered accounts | 6,131  | 21.5 %   | 5,047     |
| Cumulative paid accounts       | 1,067  | 145.3 %  | 435       |
| Annual recurring revenue       | \$ 90,100  | 93.5 %   | \$ 46,552 |

**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, and includes accounts owned by Verisure. 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.

**Annual Recurring Revenue.** Effective as of the third quarter of 2021, we adopted Annual Recurring Revenue ("ARR") as one of the key indicators of our business performance. We believe ARR enables measurement of our business initiatives, and serves as an indicator of our future growth. ARR represents the amount of paid service revenue that we expect to recur annually and is calculated by taking our recurring paid service revenue for the last calendar month in the fiscal quarter, multiplied by 12 months. Recurring paid service revenue represents the revenue we recognize from our paid accounts and excludes prepaid service revenue and NRE service revenue from strategic partners. The ARR for the comparative period presented was derived following the same methodology. ARR is a performance metric and should be viewed independently of revenue and deferred revenue, and is not intended to be a substitute for, or combined with, any of these items.

#### COVID-19 Effect on Financial Results

We continue to closely monitor developments and are taking steps to mitigate the potential risks related to the COVID-19 pandemic to us, our employees and our customers. The extent of the impact of the COVID-19 pandemic on our business operations will depend on future developments, including the duration of the pandemic, the broader implications of the macro-economic recovery and the impact on overall customer demand, all of which are uncertain and cannot be predicted. Our priorities and actions during the COVID-19 pandemic continue to be focused on protecting the health and safety of all those we serve, our employees, our customers, our suppliers and our communities, including implementing continuous updates to our health and safety policies and processes and progress made through vaccinations. We continue to instruct all but a limited number of our global workforce to work remotely as a precautionary measure intended to minimize the risk of the virus to them and the communities in which we operate, while we continue to focus 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 presented by the COVID-19 pandemic. We also continue to work with our suppliers to address any supply chain disruptions, which might include larger component backlogs, component cost increases, 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. As a result, we have experienced component shortages, including longer lead times for components and supply constraints, that have affected both our ability to meet scheduled product deliveries and worldwide demand for our products. Also, as a result of the COVID-19 pandemic, our supply chain partners are limited by production capacity, constrained by material availability, labor shortages, factory uptime and freight capacity, each of which constrains our ability to capitalize fully on end market demand. The increased lead time in production due to component shortages and supply chain disruption brought our inventory down to a record low level at \$38.4 million as of December 31, 2021. In addition, as of December 31, 2021, international freight capacity has dropped, causing air and ocean freight rates to materially increase. Furthermore, transit times have also increased, causing us to rely more on air freight in order to meet our customers' demands. For the year ended December 31, 2021, we saw a 138% increase in freight-in expense compared to the prior year, as a result of the higher sea and air freight rates and component shortages which necessitated use of air freight to meet customer requested delivery dates. We expect supply chain constraints to persist in 2022. While we have been broadly successful in navigating COVID-19 related challenges to date, any further disruptions brought about by the COVID-19 pandemic to our supply chain and operations could have a significant negative impact on our net revenue, gross and operating margin performance.

In addition, as a result of the COVID-19 pandemic, 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 our hedging instruments, among others. During the second quarter of 2021, we evaluated our existing real estate lease portfolio in light the COVID-19 pandemic and its impact on the changing nature of office space use by our workforce. This evaluation resulted in the decision to sublease our office space in San Jose, California. As a result, we recorded an impairment charge of \$9.1 million, which includes \$6.8 million associated with the right-of-use assets and \$2.3 million associated with other lease related property and equipment. Refer to Note 5, *Balance Sheet Components* 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 the impairment of the right-of-use asset and long-lived assets.

Throughout 2021, we remained focused on navigating these on-going challenges presented by the COVID-19 pandemic 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 subleasing excess office space. 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.

## **Components of Our Operating Results**

### ***Revenue***

Our gross revenue consists primarily of sales of devices, prepaid and paid 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 for an initial term of five years. 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 personnel expense for operation staff, 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 and service 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 as we manage our expenses while continuing to develop new product and service offerings. Research and development expense directly attributable to delivering the Verisure NRE is recognized in cost of service.

### ***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; outbound freight costs; and credit card processing fees. We expect our sales and marketing expense to increase in the future as we invest in marketing to drive awareness of our brand and drive demand for our products and services.

***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 fluctuate as a percentage of our revenue in future periods based on fluctuations in our revenue and the timing of such expense.

***Impairment Charges***

During the second quarter of 2021, we reviewed certain of our right-of-use assets and other lease-related assets for impairment in conjunction with our decision to sublease our office space in San Jose, California. As a result, we recorded an impairment charge for the right-of-use asset and other lease-related assets included in the San Jose office asset group.

***Separation Expense***

Separation expense consists primarily of costs of legal and professional services for IPO-related litigation associated with our separation from NETGEAR.

***Gain on Sale of Business***

Gain on sale of business represents the gain on the sale of our 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 stay relatively flat as we deploy our short-term investments and cash and cash equivalents to fund our operations, while interest rates are expected to increase.

***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 and the Employee Retention Credit ("ERC") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") for qualified wages in Other income.

## 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,                |         |              |         |
|-----------------------------|--|---------|--------------|---------|
|                             | 2021                                   |         | 2020         |         |
|                             | (In thousands, except percentage data) |         |              |         |
| <b>Revenue:</b>             |  |         |              |         |
| Products                    | \$ 331,620                             | 76.2 %  | \$ 284,868   | 79.8 %  |
| Services                    | 103,517                                | 23.8 %  | 72,286       | 20.2 %  |
| Total revenue               | 435,137                                | 100.0 % | 357,154      | 100.0 % |
| <b>Cost of revenue:</b>     |  |         |              |         |
| Products                    | 285,334                                | 65.6 %  | 263,905      | 73.9 %  |
| Services                    | 41,768                                 | 9.6 %   | 37,860       | 10.6 %  |
| Total cost of revenue       | 327,102                                | 75.2 %  | 301,765      | 84.5 %  |
| Gross profit                | 108,035                                | 24.8 %  | 55,389       | 15.5 %  |
| <b>Operating expenses:</b>  |  |         |              |         |
| Research and development    | 59,063                                 | 13.6 %  | 60,137       | 16.8 %  |
| Sales and marketing         | 48,909                                 | 11.2 %  | 49,064       | 13.7 %  |
| General and administrative  | 49,489                                 | 11.4 %  | 51,096       | 14.3 %  |
| Impairment charges          | 9,116                                  | 2.1 %   | —            | — %     |
| Separation expense          | 1,596                                  | 0.4 %   | 248          | 0.1 %   |
| Gain on sale of business    | —                                      | — %     | (292)        | (0.1)%  |
| Total operating expenses    | 168,173                                | 38.6 %  | 160,253      | 44.9 %  |
| Loss from operations        | (60,138)                               | (13.8)% | (104,864)    | (29.4)% |
| Interest income             | 11                                     | 0.0 %   | 802          | 0.2 %   |
| Other income (expense), net | 4,775                                  | 1.1 %   | 3,436        | 1.1 %   |
| Loss before income taxes    | (55,352)                               | (12.7)% | (100,626)    | (28.2)% |
| Provision for income taxes  | 677                                    | 0.2 %   | 625          | 0.2 %   |
| Net loss                    | \$ (56,029)                            | (12.9)% | \$ (101,251) | (28.3)% |

## 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,                |          |            |
|-----------------------|--|----------|------------|
|                       | 2021                                   | % Change | 2020       |
|                       | (In thousands, except percentage data) |          |            |
| Americas              | \$ 271,182                             | 0.7 %    | \$ 269,395 |
| Percentage of revenue | 62.3 %                                 |          | 75.4 %     |
| EMEA                  | \$ 134,232                             | 117.1 %  | \$ 61,832  |
| Percentage of revenue | 30.8 %                                 |          | 17.3 %     |
| APAC                  | \$ 29,723                              | 14.6 %   | \$ 25,927  |
| Percentage of revenue | 6.8 %                                  |          | 7.3 %      |
| Total revenue         | \$ 435,137                             | 21.8 %   | \$ 357,154 |

Revenue increased 21.8% across all geographic regions for the year ended December 31, 2021 compared to the prior year. Product revenue increased by \$46.8 million, or 16.4% for the year ended December 31, 2021 compared to the prior year, primarily driven by a 117.1% increase in product sales to Verisure. The increase is also driven by customer mix and the associated contractual terms and the decreases in provisions for sales returns, price protection and marketing expenditures deemed to be a reduction of product revenue. Service revenue increased by \$31.2 million, or 43.2%, for the year ended December 31, 2021 compared to the prior year, primarily due to increased paid accounts.

### Cost of Revenue

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

|  | Year Ended December 31, |          |            |
|--|-------------------------|----------|------------|
|  | 2021                    | % Change | 2020       |
| (In thousands, except percentage data) |                         |          |            |
| Cost of revenue:                       |                         |          |            |
| Products                               | \$ 285,334              | 8.1 %    | \$ 263,905 |
| Services                               | 41,768                  | 10.3 %   | 37,860     |
| Total cost of revenue                  | \$ 327,102              | 8.4 %    | \$ 301,765 |

Cost of revenue increased 8.4% for the year ended December 31, 2021 compared to the prior year driven by increases in both product revenue and service revenue. Cost of product revenue increased \$21.4 million, or 8.1% for the year ended December 31, 2021 compared to the prior year, primarily due to increases in shipped product costs and freight-in expense as a result of COVID-19 related supply chain disruption, partially offset by lower warranty cost and excess and obsolete inventory provision compared to the prior year. The decrease in warranty cost is a result of a lower scrap rate driven by increased and more profitable refurbished product sales, lower returns and fewer product transitions. The decrease in excess and obsolete inventory provision is due to fewer product transitions and more effective inventory management. Cost of service revenue increased \$3.9 million, or 10.3% for the year ended December 31, 2021 compared to the prior year, driven by service revenue growth, offset by cost optimizations implemented.

### Gross Margin

The following table presents gross margin for the periods indicated:

|  | Year Ended December 31, |          |           |
|--|-------------------------|----------|-----------|
|  | 2021                    | % Change | 2020      |
| (In thousands, except percentage data) |                         |          |           |
| Gross margin:                          |                         |          |           |
| Products                               | \$ 46,286               | 120.8 %  | \$ 20,963 |
| Services                               | 61,749                  | 79.4 %   | 34,426    |
| Total gross margin                     | \$ 108,035              | 95.0 %   | \$ 55,389 |
| Gross margin percentage:               |                         |          |           |
| Products                               | 14.0 %                  |          | 7.4 %     |
| Services                               | 59.7 %                  |          | 47.6 %    |
| Total gross margin percentage          | 24.8 %                  |          | 15.5 %    |

Gross margin increased for the year ended December 31, 2021 compared to the prior year, due to a combination of both product and service margin increases. The product margin increase is primarily due to customer mix driving a decreased provision for price protection and lower marketing expenditures that are deemed to be reductions of revenue, decreased warranty costs and a lower excess and obsolete inventory provision, partially offset by higher freight-in costs as a result of COVID-19 related supply chain disruption. Service margin increased for year ended December 31, 2021, compared to the prior year, primarily due to an increase in paid service revenue coupled with various cost optimizations implemented.

**Operating Expenses*****Research and Development***

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

|                                  | Year Ended December 31,                |          |           |
|----------------------------------|--|----------|-----------|
|                                  | 2021                                   | % Change | 2020      |
|                                  | (In thousands, except percentage data) |          |           |
| Research and development expense | \$ 59,063                              | (1.8)%   | \$ 60,137 |

Research and development expense decreased for the year ended December 31, 2021 compared to the prior year, due to a decrease of \$2.8 million in IT and facility overhead, partially offset by an increase of \$0.9 million in personnel-related expenses and a decrease of \$1.0 million in various research and development expenses that were attributed to the Verisure NRE arrangement. For the year ended December 31, 2021, research and development expenses amounting to \$2.8 million were attributed to the Verisure NRE arrangement and classified as cost of service revenue.

***Sales and Marketing***

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

|                             | Year Ended December 31,                |          |           |
|-----------------------------|--|----------|-----------|
|                             | 2021                                   | % Change | 2020      |
|                             | (In thousands, except percentage data) |          |           |
| Sales and marketing expense | \$ 48,909                              | (0.3)%   | \$ 49,064 |

Sales and marketing expense decreased for the year ended December 31, 2021 compared to the prior year, primarily due to a decrease of \$1.8 million in outside professional services and a decrease of \$1.7 million in marketing expenditures, partially offset by an increase of \$2.1 million in personnel-related expenses, and an increase of \$1.4 million in credit card processing fees driven by the growth in sales from Arlo's direct to consumer store and paid accounts service revenue.

***General and Administrative***

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

|                                    | Year Ended December 31,                |          |           |
|------------------------------------|--|----------|-----------|
|                                    | 2021                                   | % Change | 2020      |
|                                    | (In thousands, except percentage data) |          |           |
| General and administrative expense | \$ 49,489                              | (3.1)%   | \$ 51,096 |

General and administrative expense decreased for the year ended December 31, 2021 compared to the prior year, primarily due to a decrease of \$4.0 million in personnel-related expenditures partially brought about by the one-time charge for stock-based compensation expense recognized in the first quarter of 2020 upon the voluntary forfeiture of our CEO's stock options in January 2020, a decrease of \$1.9 million in legal and professional services and a decrease of \$0.8 million in Verisure transaction costs which was recognized in the first half of 2020, partially offset by an increase of \$1.6 million in IT and facility overhead.

**Impairment Charges**

The following table presents impairment charges for the periods indicated:

|                    | Year Ended December 31,                |          |      |
|--------------------|--|----------|------|
|                    | 2021                                   | % Change | 2020 |
|                    | (In thousands, except percentage data) |          |      |
| Impairment charges | \$ 9,116                               | **       | \$ — |

\*\*Percentage change not meaningful.

During the second quarter of 2021, we reviewed certain of our right-of-use assets and other lease-related assets for impairment in conjunction with our decision to sublease our office space in San Jose, California. As a result, we recorded an impairment charge of \$9.1 million, which included \$6.8 million associated with the right-of-use assets and \$2.3 million associated with the leasehold improvements and furniture, fixtures and equipment included in the San Jose office asset group. Refer to Note 5, *Balance Sheet Components* 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 the impairment of the right-of-use asset and long-lived assets.

**Separation Expense**

The following table presents separation expense for the periods indicated:

|                    | Year Ended December 31,                |          |        |
|--------------------|--|----------|--------|
|                    | 2021                                   | % Change | 2020   |
|                    | (In thousands, except percentage data) |          |        |
| Separation expense | \$ 1,596                               | 543.5 %  | \$ 248 |

Separation expense consists primarily of the costs of legal and professional services for IPO-related litigation associated with our Separation from NETGEAR.

**Gain on sale of business**

|                          | Year Ended December 31,                |          |          |
|--------------------------|--|----------|----------|
|                          | 2021                                   | % Change | 2020     |
|                          | (In thousands, except percentage data) |          |          |
| Gain on sale of business | \$ —                                   | **       | \$ (292) |

\*\*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. In the first quarter of 2020, we recognized an additional gain of \$0.3 million as a result of the final working capital adjustment. 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,                |          |          |
|-----------------------------|--|----------|----------|
|                             | 2021                                   | % Change | 2020     |
|                             | (In thousands, except percentage data) |          |          |
| Interest income             | \$ 11                                  | (98.6)%  | \$ 802   |
| Other income (expense), net | \$ 4,775                               | 39.0 %   | \$ 3,436 |

Interest income decreased for the year ended December 31, 2021, compared to the prior year, primarily due to the decrease in our short-term investments and cash and cash equivalents as we funded our operations and a decline in interest rates. Other income (expense), net increased for the year ended December 31, 2021 compared to the prior year, primarily due to the ERC under the CARES Act for qualified wages amounting to \$1.8 million, which was recognized as Other income in the second quarter of 2021, partially offset by decreases in Verisure TSA related income. The CARES Act was signed into law on March 27, 2020 in response to the COVID-19 pandemic. The ERC, as one of the provisions that provide economic relief for individuals and businesses under the CARES Act, is a refundable payroll tax credit that encouraged businesses to keep employees on the payroll during the COVID-19 pandemic.

**Provision for Income Taxes**

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

|                            | Year Ended December 31,                |          |               |
|----------------------------|--|----------|---------------|
|                            | 2021                                   | % Change | 2020          |
|                            | (In thousands, except percentage data) |          |               |
| Provision for income taxes | \$ 677                                 | 8.3 %    | \$ 625        |
| <i>Effective tax rate</i>  | <i>(1.2)%</i>                          |          | <i>(0.6)%</i> |

Our effective tax rate for 2021 was lower than the U.S. federal income tax rate of 21% primarily due to a lower effective tax rate on foreign earnings and valuation allowance on our net U.S. deferred tax assets and certain foreign tax attributes as it is more likely than not that some or all of our deferred tax assets will not be realized.

The increase in provision for income taxes for the year ended December 31, 2021 compared to the prior year was primarily due to higher foreign earnings in 2021. Refer to Note 9, *Income taxes* in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for additional discussion.

**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, 2021, our accumulated deficit was \$288.8 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, 2021, we had cash, cash equivalents and short-term investments totaling \$175.7 million. As of December 31, 2021, 7.4% of our cash and cash equivalents were held outside of the U.S. Starting in 2018, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") 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 October 2021, we entered into the Credit Agreement with Bank of America, N.A., providing for a credit facility of up to \$40.0 million. In addition, the Credit



Agreement includes an uncommitted accordion feature that allows us to request the lender increase the loan commitments by up to an additional \$25.0 million, subject to the satisfaction of certain conditions. As of December 31, 2021, 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 the Credit Agreement.

Based on our current plans, the Credit Agreement with Bank of America, N.A., 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, |                    |
|---|-------------------------|--------------------|
|   | 2021                    | 2020               |
|   | (In thousands)          |                    |
| Net cash used in operating activities                         | \$ (23,197)             | \$ (46,530)        |
| Net cash provided by (used in) investing activities           | 17,732                  | (3,975)            |
| Net cash used in financing activities                         | (4,970)                 | (23)               |
| Net decrease in cash and cash equivalents and restricted cash | <u>\$ (10,435)</u>      | <u>\$ (50,528)</u> |

#### *Operating activities*

Net cash used in operating activities decreased by \$23.3 million for the year ended December 31, 2021 compared to the prior year. This decrease comprised a \$48.7 million reduction in adjusted net loss for cash flows, offset by an increase in working capital used in operations of \$25.4 million, mainly driven by an increase in accounts receivable and a decrease in deferred revenue, partially offset by increased accounts payable and lower inventory balance.

Our days sales outstanding (“DSO”) decreased to 50 days as of December 31, 2021 as compared to 64 days as of December 31, 2020, primarily due to more front-loaded shipments in the fourth quarter and slightly improved quarter end aging. 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 \$38.4 million as of December 31, 2021 from \$64.7 million as of December 31, 2020, driven by longer production lead times, component shortages and supply chain disruptions, which necessitated extensive use of air freight, all of which were brought about by COVID-19-related issues, coupled with lower returns. Our ending inventory turns were 10.5x in the three months ended December 31, 2021 up from 5.0x turns in the three months ended December 31, 2020, primarily as a result of the lower inventory balance and extensive use of air freight, as previously discussed. Our accounts payable increased to \$84.1 million as of December 31, 2021 from \$62.2 million as of December 31, 2020, primarily as a result of higher inventory purchases in the fourth quarter of 2021.

*Investing activities*

Net cash used in investing activities decreased by \$21.7 million for the year ended December 31, 2021 compared to the prior year, primarily due to maturity of our of short-term investments.

*Financing activities*

Net cash used in financing activities was \$5.0 million for the year ended December 31, 2021 and comprised withholding tax from restricted stock unit releases of \$13.2 million, offset by proceeds from our 2018 Employee Stock Purchase Plan contributions and exercises of stock options of \$8.23 million.

***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, 2021, we had a backlog of \$4.4 million, compared to \$5.7 million as of December 31, 2020. 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.

***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, 2021 and 2020, gross rent expense was \$7.0 million in both years.

***Letters of Credit***

In connection with the lease agreement for office space located in San Jose, California, we executed a letter of credit with the landlord as the beneficiary. As of December 31, 2021, we had approximately \$3.6 million of unused letters of credit outstanding, of which \$3.1 million pertains to the lease agreement.

***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, 2021, we had \$32.9 million in non-cancelable purchase commitments with suppliers. We expect to sell all products for which we have committed purchases from suppliers.

## Critical Accounting 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 the 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 estimates which require management to make difficult, subjective and complex judgements often as a result of the need to make estimate on matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or assumptions. Actual results could differ from those estimates.

### *Revenue recognition*

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.

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. As of December 31, 2021 and 2020, accrued warranty-related returns amounted to \$18.0 million and \$24.9 million, respectively.

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. As of December 31, 2021 and 2020, accrued stock rotation amounted to \$1.8 million and \$4.2 million, respectively

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. As of December 31, 2021 and 2020, accrued sales and marketing amounted to \$31.4 million and \$38.6 million, respectively.

#### ***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 salable. 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. At December 31, 2021 and 2020, excess and obsolescence reserve amounted to \$2.7 million and \$6.3 million, respectively.

#### ***Long-lived Assets and Right-of-use Assets Impairment***

During the second quarter of 2021, we evaluated our real estate lease portfolio in light of the COVID-19 pandemic and the changing nature of office space use by our workforce. This evaluation included a decision to sublease our office space in San Jose, California. This change in the use of our San Jose office space led management to test the recoverability of the carrying amount of the asset group related to the sublease. On May 25, 2021, the carrying amount of the asset group exceeded the anticipated undiscounted value of the sublease income over the sublease term. Accordingly, we reviewed certain of our right-of-use assets and other lease related assets including leasehold improvements, furniture, fixtures and equipment under the sublease asset group for impairment.

As a result of the evaluation, we recorded an impairment charge of \$9.1 million, which included \$6.8 million associated with the right-of-use assets and \$2.3 million associated with other lease related property and equipment, in the second quarter of 2021. The assets found to be impaired were written down to their fair value calculated using a discounted cash flow method (income approach). The fair value of the asset group was determined by utilizing projected cash flows from the sublease, discounted by a risk-adjusted discount rate that reflects the level of risk associated with receiving future cash flows. The inputs utilized in the analyses were classified as Level 3 inputs within the fair value hierarchy. Refer to Note 6, *Fair Value Measurements* and 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 additional information about the fair value measured on a non-recurring basis and for further information about the sublease, respectively.

### ***Goodwill Impairment***

On the first day of the fourth quarter of 2021, we performed an annual assessment of goodwill at the reporting unit level. We operate as one operating and reportable segment. We performed a qualitative assessment in consideration of macroeconomic conditions, industry and market conditions, cost factors, overall company financial performance, and changes in our stock price. We believed that it was more-likely-than-not that the fair value of the reporting unit was greater than our respective carrying value and therefore performing the next step of impairment test for the reporting unit was unnecessary. No goodwill impairment was recognized in the years ended December 31, 2021, and 2020. If there are events occurred or circumstances changed (i.e. a decline in our stock price based on market conditions and deterioration of our business) that would more likely than not reduce our fair value below the carrying amount, we may have to record a charge to our earnings for the associated goodwill impairment of up to \$11.0 million.

### ***Uncertain Tax Position***

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. We apply significant judgement in determining our uncertain tax positions. Although we believe that our reserves of uncertain tax position are reasonably adequate, no assurance can be given that the final outcome of these matters will not be different from our reserves. When facts and circumstances change, our reserves are adjusted, 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 reserves 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.

### **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 2021.

***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. See Note 2, *Summary of Significant Accounting Policies* for more information regarding the hedge program.

As of December 31, 2021, we had net assets in various local currencies. A hypothetical 10% movement in foreign exchange rates would have an immaterial impact on our net 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, 2021 due to the inherent limitations associated with predicting foreign currency exchange rates and our actual exposures and positions. For the years ended December 31, 2021 and 2020, 6% and 10% 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, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 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.

***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 audits 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  
March 2, 2022

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

**ARLO TECHNOLOGIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

|  | As of December 31, |            |
|--|--------------------|------------|
|  | 2021               | 2020       |
| (In thousands, except share and per share data)  |                    |            |
| <b>ASSETS</b>  |                    |            |
| Current assets:  |                    |            |
| Cash and cash equivalents  | \$ 175,749         | \$ 186,127 |
| Short-term investments (amortized cost of \$— and \$19,996)  | —                  | 19,997     |
| Accounts receivable, net (net of allowance for credit losses of \$337 and \$519)   | 79,564             | 77,643     |
| Inventories  | 38,390             | 64,705     |
| Prepaid expenses and other current assets  | 9,919              | 8,076      |
| Total current assets   | 303,622            | 356,548    |
| Property and equipment, net  | 9,595              | 15,821     |
| Operating lease right-of-use assets, net   | 14,814             | 23,998     |
| Goodwill   | 11,038             | 11,038     |
| Restricted cash  | 4,107              | 4,164      |
| Other non-current assets   | 4,314              | 2,399      |
| Total assets   | \$ 347,490         | \$ 413,968 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                    |            |
| Current liabilities:   |                    |            |
| Accounts payable   | \$ 84,098          | \$ 62,171  |
| Deferred revenue   | 29,442             | 53,142     |
| Accrued liabilities  | 97,377             | 121,766    |
| Income tax payable   | 12                 | 267        |
| Total current liabilities  | 210,929            | 237,346    |
| Non-current deferred revenue   | 1,344              | 16,563     |
| Non-current operating lease liabilities  | 21,470             | 25,029     |
| Non-current income taxes payable   | 94                 | 104        |
| Other non-current liabilities  | 1,001              | 1,159      |
| Total liabilities  | 234,838            | 280,201    |
| 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: 84,453,212 at December 31, 2021 and 79,336,242 at December 31, 2020 | 84                 | 79         |
| Additional paid-in capital   | 401,367            | 366,455    |
| Accumulated other comprehensive income   | —                  | 3          |
| Accumulated deficit  | (288,799)          | (232,770)  |
| Total stockholders' equity   | 112,652            | 133,767    |
| Total liabilities and stockholders' equity   | \$ 347,490         | \$ 413,968 |

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



**ARLO TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | Year Ended December 31, |                     |                    |
|--|-------------------------|---------------------|--------------------|
|  | 2021                    | 2020                | 2019               |
| (In thousands, except per share data)                              |                         |                     |                    |
| <b>Revenue:</b>  |                         |                     |                    |
| Products   | \$ 331,620              | \$ 284,868          | \$ 323,242         |
| Services   | 103,517                 | 72,286              | 46,765             |
| Total revenue  | <u>435,137</u>          | <u>357,154</u>      | <u>370,007</u>     |
| <b>Cost of revenue:</b>  |                         |                     |                    |
| Products   | 285,334                 | 263,905             | 307,348            |
| Services   | 41,768                  | 37,860              | 26,855             |
| Total cost of revenue  | <u>327,102</u>          | <u>301,765</u>      | <u>334,203</u>     |
| Gross profit   | <u>108,035</u>          | <u>55,389</u>       | <u>35,804</u>      |
| <b>Operating expenses:</b>   |                         |                     |                    |
| Research and development   | 59,063                  | 60,137              | 69,384             |
| Sales and marketing  | 48,909                  | 49,064              | 56,985             |
| General and administrative   | 49,489                  | 51,096              | 47,624             |
| Impairment charges   | 9,116                   | —                   | —                  |
| Separation expense   | 1,596                   | 248                 | 1,913              |
| Gain on sale of business   | —                       | (292)               | (54,881)           |
| Total operating expenses   | <u>168,173</u>          | <u>160,253</u>      | <u>121,025</u>     |
| Loss from operations   | (60,138)                | (104,864)           | (85,221)           |
| Interest income  | 11                      | 802                 | 2,737              |
| Other income, net  | 4,775                   | 3,436               | 913                |
| Loss before income taxes   | <u>(55,352)</u>         | <u>(100,626)</u>    | <u>(81,571)</u>    |
| Provision for income taxes   | 677                     | 625                 | 4,380              |
| Net loss   | <u>\$ (56,029)</u>      | <u>\$ (101,251)</u> | <u>\$ (85,951)</u> |
| <b>Net loss per share:</b>   |                         |                     |                    |
| Basic  | <u>\$ (0.68)</u>        | <u>\$ (1.30)</u>    | <u>\$ (1.14)</u>   |
| Diluted  | <u>\$ (0.68)</u>        | <u>\$ (1.30)</u>    | <u>\$ (1.14)</u>   |
| <b>Weighted average shares used to compute net loss per share:</b> |                         |                     |                    |
| Basic  | <u>82,688</u>           | <u>78,084</u>       | <u>75,074</u>      |
| Diluted  | <u>82,688</u>           | <u>78,084</u>       | <u>75,074</u>      |

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, |              |             |
|--|-------------------------|--------------|-------------|
|  | 2021                    | 2020         | 2019        |
|  | (In thousands)          |              |             |
| Net loss   | \$ (56,029)             | \$ (101,251) | \$ (85,951) |
| Other comprehensive income (loss), before and after tax: |                         |              |             |
| Unrealized gain (loss) on derivative instruments         | (2)                     | 27           | (27)        |
| Unrealized gain (loss) on available-for-sale securities  | (1)                     | (22)         | 25          |
| Total other comprehensive income (loss), before tax      | (3)                     | 5            | (2)         |
| Total other comprehensive income (loss), net of tax      | (3)                     | 5            | (2)         |
| Comprehensive loss                                       | \$ (56,032)             | \$ (101,246) | \$ (85,953) |

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

**ARLO TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

|  | Common Stock   |        | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total      |
|--|----------------|--------|----------------------------|---|---------------------|------------|
|  | Shares         | Amount |                            |   |                     |            |
|  | (In thousands) |        |                            |   |                     |            |
| <b>Balance as of December 31, 2018</b>                                   | 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 on available-for-sale securities, net of tax  | —              | —      | —                          | 25  | —                   | 25         |
| Change in unrealized losses on derivatives, net of tax                   | —              | —      | —                          | (27)  | —                   | (27)       |
| <b>Balance as of December 31, 2019</b>                                   | 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 restricted stock unit                 | —              | —      | 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 losses on available-for-sale securities, net of tax | —              | —      | —                          | (22)  | —                   | (22)       |
| Change in unrealized gains on derivatives, net of tax                    | —              | —      | —                          | 27  | —                   | 27         |
| <b>Balance as of December 31, 2020</b>                                   | 79,336         | 79     | 366,455                    | 3   | (232,770)           | 133,767    |
| Net loss   | —              | —      | —                          | —   | (56,029)            | (56,029)   |
| Stock-based compensation expense   | —              | —      | 24,792                     | —   | —                   | 24,792     |
| Settlement of liability classified restricted stock unit                 | —              | —      | 15,095                     | —   | —                   | 15,095     |
| Issuance of common stock under stock-based compensation plans            | 6,538          | 8      | 5,261                      | —   | —                   | 5,269      |
| Issuance of common stock under Employee Stock Purchase Plan              | 602            | —      | 2,962                      | —   | —                   | 2,962      |
| Restricted stock unit withholdings                                       | (2,023)        | (3)    | (13,198)                   | —   | —                   | (13,201)   |
| Change in unrealized losses on available-for-sale securities, net of tax | —              | —      | —                          | (1)   | —                   | (1)        |
| Change in unrealized losses on derivatives, net of tax                   | —              | —      | —                          | (2)   | —                   | (2)        |
| <b>Balance as of December 31, 2021</b>                                   | 84,453         | \$ 84  | \$ 401,367                 | \$ —  | \$ (288,799)        | \$ 112,652 |

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

**ARLO TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | Year Ended December 31, |                   |                   |
|--|-------------------------|-------------------|-------------------|
|  | 2021                    | 2020              | 2019              |
| (In thousands)   |                         |                   |                   |
| <b>Cash flows from operating activities:</b>   |                         |                   |                   |
| Net loss   | \$ (56,029)             | \$ (101,251)      | \$ (85,951)       |
| Adjustments to reconcile net loss to net cash used in operating activities:              |                         |                   |                   |
| Depreciation and amortization  | 5,975                   | 10,206            | 10,681            |
| Stock-based compensation expense   | 38,030                  | 35,247            | 22,894            |
| Impairment charges   | 9,116                   | —                 | —                 |
| Allowance for credit losses and inventory reserves                                       | (3,125)                 | 964               | (2,921)           |
| Gain on sale of business   | —                       | (292)             | (54,881)          |
| Deferred income taxes  | (296)                   | 50                | (210)             |
| Premium amortization (discount accretion) on investments, net                            | (3)                     | 54                | (461)             |
| Changes in assets and liabilities:   |                         |                   |                   |
| Accounts receivable, net   | (1,739)                 | 49,765            | 38,247            |
| Inventories  | 29,258                  | 2,862             | 53,604            |
| Prepaid expenses and other assets  | (3,463)                 | 10,441            | 11,525            |
| Accounts payable   | 22,156                  | (49,282)          | 28,791            |
| Deferred revenue   | (38,919)                | 3,607             | 22,567            |
| Accrued liabilities  | (24,158)                | (8,901)           | (34,714)          |
| Net cash provided by (used in) operating activities                                      | <u>(23,197)</u>         | <u>(46,530)</u>   | <u>9,171</u>      |
| <b>Cash flows from investing activities:</b>   |                         |                   |                   |
| Purchases of property and equipment  | (2,268)                 | (3,892)           | (6,664)           |
| Proceeds from sale of business   | —                       | —                 | 52,694            |
| Purchases of short-term investments  | —                       | (50,083)          | (29,768)          |
| Proceeds from maturities of short-term investments                                       | 20,000                  | 50,000            | 60,000            |
| Net cash provided by (used in) investing activities                                      | <u>17,732</u>           | <u>(3,975)</u>    | <u>76,262</u>     |
| <b>Cash flows from financing activities:</b>   |                         |                   |                   |
| Restricted stock unit withholdings   | (13,201)                | (4,778)           | (1,875)           |
| Proceeds related to employee benefit plans   | 8,231                   | 4,755             | 1,837             |
| Net cash used in financing activities  | <u>(4,970)</u>          | <u>(23)</u>       | <u>(38)</u>       |
| Net increase (decrease) in cash and cash equivalents and restricted cash                 | <u>(10,435)</u>         | <u>(50,528)</u>   | <u>85,395</u>     |
| Cash and cash equivalents and restricted cash, at beginning of period                    | 190,291                 | 240,819           | 155,424           |
| Cash and cash equivalents and restricted cash, at end of period                          | <u>\$ 179,856</u>       | <u>\$ 190,291</u> | <u>\$ 240,819</u> |
| <b>Non-cash investing and financing activities:</b>                                      |                         |                   |                   |
| Purchases of property and equipment included in accounts payable and accrued liabilities | \$ 379                  | \$ 564            | \$ 1,086          |
| De-recognized fair value of build-to-suit lease  | \$ —                    | \$ —              | \$ (21,610)       |
| <b>Supplemental cash flow information:</b>   |                         |                   |                   |
| Cash paid for income taxes, net  | \$ 964                  | \$ 5,614          | \$ 960            |

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, its direct to consumer store and paid subscription services.

The Company's corporate headquarters is located in Carlsbad, California with other satellite offices across North America and various global locations.

***Basis of Presentation***

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").

***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, 2021 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**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 office space 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:

|   | <b>As of December 31,</b> |                   |                   |
|---|---------------------------|-------------------|-------------------|
|   | <b>2021</b>               | <b>2020</b>       | <b>2019</b>       |
|   | <b>(In thousands)</b>     |                   |                   |
| Cash and cash equivalents                                       | \$ 175,749                | \$ 186,127        | \$ 236,680        |
| Restricted cash   | 4,107                     | 4,164             | 4,139             |
| Total as presented on the consolidated statements of cash flows | <u>\$ 179,856</u>         | <u>\$ 190,291</u> | <u>\$ 240,819</u> |

**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

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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, cost 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, cost 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

***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, wholesale distributors and security solution providers 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, 2021, three customers accounted for 35.3%, 20.1% and 10.1% of the Company's total accounts receivable, net. As of December 31, 2020, three customers accounted for 32.7%, 18.5% and 15.3% of the Company's total accounts receivable, net. No other customers accounted for 10% or greater of the Company's total accounts receivable, net.



**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**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:

| <b>Asset Category:</b>  | <b>Range of Useful Lives</b>               |
|-------------------------|--|
| 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.

**Goodwill**

Goodwill pertains to the acquisitions of Avaak, Inc. and Placemeter, Inc. 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. 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

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

that reporting unit. The impairment charge, if any, would be recorded to earnings in the consolidated statements of operations.

***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 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 individual consumers through 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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*, 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 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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 revenue. 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 \$2.9 million, \$2.7 million and \$2.3 million for the years ended December 31, 2021, 2020 and 2019, 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, 2021 and 2020.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

*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* for detailed disclosures regarding changes in contract balances for the years ended December 31, 2021 and 2020.

***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 \$9.6 million, \$12.7 million and \$12.3 million for the years ended December 31, 2021, 2020 and 2019, respectively.

***Stock-based compensation***

The Company's employees have historically participated in NETGEAR's stock-based compensation plans. The Company's consolidated statements of operations reflect compensation expense for the stock-based plans associated with the portion of NETGEAR's plans in which Arlo employees participated. Equity awards granted by the Company under its own stock-based compensation plans are comprised of stock options, restricted stock units ("RSUs"), performance RSUs ("PSUs"), and market-based performance RSUs ("MPSUs"). The Company measures stock-based compensation costs at the grant date based on the fair value of the award. The fair value of stock options is estimated on the grant date using the Black-Scholes option pricing model. 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 Company recognizes this compensation expense generally on a straight-line basis over the requisite service period, usually the vesting period, which is generally four years for stock options and three to four years for RSUs. For 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 records forfeitures as they occur.

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 its 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

***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. Lease expense for fixed 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 is 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.

In addition, certain operating lease agreements contain tenant improvement allowances ("TIA") from the landlords. The Company records lessee-owned improvements as leasehold improvements within Property and equipment, net on its consolidated balance sheets and the TIA as a reduction to the ROU asset with the impact of the decrease recognized prospectively over the remaining lease term. The Company records lessor-owned improvements as a prepaid rent within Prepaid expenses and other current assets on its consolidated balance sheets and the TIA as a reduction to prepaid rent.

Sublease revenue from the Company's sublet office space in San Jose, California is recognized on a straight-line basis over the term of the sublease and is recorded as a reduction of rental expense.

***Net loss per share***

Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net 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, vesting of restricted stock awards and performance shares, and issuances of shares under the ESPP, which are reflected in diluted net loss per share by application of the treasury stock method. Potentially dilutive common shares are excluded from the computation of diluted net 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

***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***

The Company records its provision for income taxes in its consolidated financial statements using the asset and liability method. Under this method, the Company recognizes income tax liabilities or receivable for the current year. The Company also recognizes 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. The Company records a valuation allowance to reduce its deferred tax assets to the net amount that it believes is more likely than not to be realized. The Company's assessment considers the recognition of deferred tax assets on a jurisdictional basis. Accordingly, in assessing the Company's future taxable income on a jurisdictional basis, the Company considers the effect of its transfer pricing policies on that income. The Company has placed a valuation allowance against U.S. federal and state deferred tax assets and certain foreign tax attribute carryforwards since it does not anticipate to realize the benefits of deferred tax assets.

The Company recognizes tax benefits from uncertain tax positions only if it believes 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 the Company expands internationally, it will face increased complexity in determining the appropriate tax jurisdictions for revenue and expense items. The Company's 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 the Company's financial condition and operating results. The provision for income taxes includes the effects of any accruals that the Company believes 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 a U.S. company in excess of a deemed return on their tangible assets. The Company recognizes the tax on GILTI as a period cost when the tax is incurred.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

***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*

There were no accounting pronouncements adopted during the year ended December 31, 2021.

*Accounting Pronouncements Not Yet Effective*

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The ASU 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 is effective beginning on March 12, 2020, and the Company may elect to apply the amendments 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 standard 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* for a complete discussion of the Verisure transaction.



**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

***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, 2021:

|                         | 1 year         | 2 years  | Greater than 2<br>years | Total     |
|-------------------------|----------------|----------|-------------------------|-----------|
|                         | (In thousands) |          |                         |           |
| Performance obligations | \$ 36,028      | \$ 1,165 | \$ 191                  | \$ 37,384 |

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, 2021 and 2020:

|                                    | Balance Sheet Location       |                   |                   | 2021        | 2021     |
|------------------------------------|------------------------------|-------------------|-------------------|-------------|----------|
|                                    |                              | December 31, 2021 | December 31, 2020 | \$ change   | % change |
| (In thousands)                     |                              |                   |                   |             |          |
| Accounts receivable, net           | Accounts receivable, net     | \$ 79,564         | \$ 77,643         | \$ 1,921    | 2.5 %    |
| Contract liabilities - current     | Deferred revenue             | \$ 29,442         | \$ 53,142         | \$ (23,700) | (44.6)%  |
| Contract liabilities - non-current | Non-current deferred revenue | \$ 1,344          | \$ 16,563         | \$ (15,219) | (91.9)%  |

For the year ended December 31, 2021, compared to the previous year, Accounts receivable, net increased, primarily driven by an increase in revenue in the fourth quarter of 2021, current portion of deferred revenue decreased, primarily due to utilization of Verisure prepayment for product purchases and Verisure NRE installment payments and recognition of prepaid service revenue; and Non-current deferred revenue decreased due to recognition of prepaid service revenue and utilization of Verisure prepayment for product purchases.

For the years ended December 31, 2021 and 2020, \$88.7 million and \$90.9 million of revenue was deferred due to unsatisfied performance obligations, primarily relating to over time service revenue and Verisure prepayments for product purchases, and \$96.5 million and \$67.3 million of revenue was recognized for the satisfaction of performance obligations over time, respectively. \$22.9 million and \$26.2 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 14, *Segment and Geographic Information* for revenue by geography.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**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 12, *Employee Benefit Plans* 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.

Pursuant to the terms and subject to the conditions set forth in the Supply Agreement, Verisure is 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 product purchase commitment of \$500.0 million. As of December 31, 2021, \$160.1 million of the product 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 an Outdoor Custom Camera being developed under the Verisure Agreements. As of December 31, 2021, Verisure has paid \$13.5 million for this NRE service. For the years ended December 31, 2021 and 2020, the Company has recognized service revenue of \$5.9 million and \$7.9 million, respectively, for this NRE service.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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 years ended December 31, 2021 and 2020, the Company charged Verisure \$2.8 million and \$4.0 million, respectively, 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, 2021 |                  |                   |                      | As of December 31, 2020 |                  |                   |                      |
|-----------------|-------------------------|------------------|-------------------|----------------------|-------------------------|------------------|-------------------|----------------------|
|                 | 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            |

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 investments for the year ended December 31, 2019. During the years ended December 31, 2021 and 2020, the Company did not recognize any allowance for credit losses related to available-for-sale short-term investments.

*Accounts receivable, net*

|                                | As of December 31, |           |
|--------------------------------|--------------------|-----------|
|                                | 2021               | 2020      |
| (In thousands)                 |                    |           |
| Gross accounts receivable      | \$ 79,901          | \$ 78,162 |
| Allowance for credit losses    | (337)              | (519)     |
| Total accounts receivable, net | \$ 79,564          | \$ 77,643 |

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, |        |        |
|--|--------------------------|--------|--------|
|  | 2021                     | 2020   | 2019   |
| (In thousands)   |                          |        |        |
| Balance at the beginning of the period                                     | \$ 519                   | \$ 609 | \$ 127 |
| Adoption of ASU 2016-13, cumulative-effect adjustment to retained earnings | —                        | —      | —      |
| Provision for (release of) expected credit losses                          | (182)                    | 186    | 482    |
| Amount recovered due to collection   | —                        | (276)  | —      |
| Balance at the end of the period   | \$ 337                   | \$ 519 | \$ 609 |

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Property and equipment, net**

|  | As of December 31, |           |
|--|--------------------|-----------|
|  | 2021               | 2020      |
|  | (In thousands)     |           |
| Machinery and equipment                          | \$ 13,302          | \$ 14,397 |
| Software   | 13,928             | 13,192    |
| Computer equipment                               | 4,062              | 4,083     |
| Leasehold improvements                           | 4,922              | 8,023     |
| Furniture and fixtures                           | 2,404              | 4,048     |
| Total property and equipment, gross              | 38,618             | 43,743    |
| Accumulated depreciation                         | (29,023)           | (27,922)  |
| Total property and equipment, net <sup>(1)</sup> | \$ 9,595           | \$ 15,821 |

<sup>(1)</sup> \$2.4 million property and equipment, net was included in the sublease arrangement for the San Jose office building as of December 31, 2021. No property and equipment, net was included in the sublease arrangement for the San Jose office building as of December 31, 2020 as the sublease agreement became effective in the third quarter of 2021.

Depreciation expense pertaining to property and equipment was \$5.9 million, \$8.8 million and \$9.2 million for the years ended December 31, 2021, 2020 and 2019, respectively.

**Long-lived Assets and Right-of-use Assets Impairment**

During the second quarter of 2021, the Company evaluated its real estate lease portfolio in light of the COVID-19 pandemic and the changing nature of office space use by its workforce. This evaluation included the decision to sublease its office space in San Jose, California. This change in the use of the San Jose office space led management to test the recoverability of the carrying amount of the asset group related to the sublease. On May 25, 2021, the carrying amount of the asset group exceeded the Company's anticipated undiscounted value of the sublease income over the sublease term. Accordingly, the Company reviewed certain of its right-of-use assets and other lease related assets including leasehold improvements, furniture, fixtures and equipment under the sublease asset group for impairment in accordance with Accounting Standards Codification ("ASC") 360 "Property, Plant, and Equipment".

As a result of the evaluation, the Company recorded an impairment charge of \$9.1 million, which included \$6.8 million associated with the right-of-use assets and \$2.3 million associated with other lease related property and equipment, in the second quarter of 2021. The assets found to be impaired were written down to their fair value calculated using a discounted cash flow method (income approach). The fair value of the asset group was determined by utilizing projected cash flows from the sublease, discounted by a risk-adjusted discount rate that reflects the level of risk associated with receiving future cash flows. The inputs utilized in the analyses were classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement". Refer to Note 6, *Fair Value Measurements*, for additional information about the fair value measured on a non-recurring basis and Note 11, *Commitments and Contingencies*, for further information about the sublease.

**Goodwill**

There was no change in the carrying amount of goodwill during the year ended December 31, 2021, and the goodwill as of December 31, 2021 and December 31, 2020 was \$11.0 million.

**Goodwill Impairment**

On the first day of the fourth quarter of 2021, the Company performed an annual assessment of goodwill at the reporting unit level. The Company operates as one operating and reportable segment. A qualitative assessment was performed

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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 and therefore performing the next step of impairment test was unnecessary. No goodwill impairment was recognized in the years ended December 31, 2021, 2020 and 2019. 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, |          |
|--------------------------------|--------------------|----------|
|                                | 2021               | 2020     |
|                                | (In thousands)     |          |
| Net deferred taxes assets      | \$ 1,565           | \$ 1,269 |
| Sublease initial direct cost   | 1,471              | —        |
| Deposits                       | 122                | 122      |
| Other                          | 1,156              | 1,008    |
| Total other non-current assets | \$ 4,314           | \$ 2,399 |

***Accrued liabilities***

|                               | As of December 31, |            |
|-------------------------------|--------------------|------------|
|                               | 2021               | 2020       |
|                               | (In thousands)     |            |
| Sales and marketing           | \$ 31,417          | \$ 38,577  |
| Sales returns                 | 19,960             | 37,689     |
| Accrued employee compensation | 12,367             | 15,089     |
| Operating lease liabilities   | 4,609              | 4,400      |
| Freight                       | 8,086              | 3,558      |
| Warranty obligation           | 1,330              | 2,451      |
| Other                         | 19,608             | 20,002     |
| Total accrued liabilities     | \$ 97,377          | \$ 121,766 |

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Note 6. Fair Value Measurements**
***Fair Value Measurements - Recurring Basis***

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020:

|   | As of December 31, 2021 |  |   |
|---|-------------------------|--|---|
|   | Total                   | Quoted market prices in active markets (Level 1) | Significant other observable inputs (Level 2) |
|   | (In thousands)          |  |   |
| <b>Assets:</b>  |                         |  |   |
| Cash equivalents: money-market funds (<90 days)               | \$ 21,935               | \$ 21,935  | \$ —  |
| Available-for-sale securities: U.S. Treasuries <sup>(1)</sup> | —                       | —  | —   |
| Foreign currency forward contracts <sup>(2)</sup>             | 65                      | —  | 65  |
| Total assets measured at fair value                           | <u>\$ 22,000</u>        | <u>\$ 21,935</u>                                 | <u>\$ 65</u>                                  |
| <b>Liabilities:</b>   |                         |  |   |
| Foreign currency forward contracts <sup>(3)</sup>             | \$ 47                   | \$ —   | \$ 47   |
| Total liabilities measured at fair value                      | <u>\$ 47</u>            | <u>\$ —</u>                                      | <u>\$ 47</u>                                  |
|   | December 31, 2020       |  |   |
|   | Total                   | Quoted market prices in active markets (Level 1) | Significant other observable inputs (Level 2) |
|   | (In thousands)          |  |   |
| <b>Assets:</b>  |                         |  |   |
| Cash equivalents: U.S. Treasuries (<90 days)                  | \$ 1,934                | \$ 1,934   | \$ —  |
| Available-for-sale securities: U.S. Treasuries <sup>(1)</sup> | 19,997                  | 19,997   | —   |
| Foreign currency forward contracts <sup>(2)</sup>             | 24                      | —  | 24  |
| Total assets measured at fair value                           | <u>\$ 21,955</u>        | <u>\$ 21,931</u>                                 | <u>\$ 24</u>                                  |
| <b>Liabilities:</b>   |                         |  |   |
| Foreign currency forward contracts <sup>(3)</sup>             | \$ 199                  | \$ —   | \$ 199  |
| Total liabilities measured at fair value                      | <u>\$ 199</u>           | <u>\$ —</u>                                      | <u>\$ 199</u>                                 |

<sup>(1)</sup> Included in Short-term investments on the Company's consolidated balance sheets.

<sup>(2)</sup> Included in Prepaid expenses and other current assets on the Company's consolidated balance sheets.

<sup>(3)</sup> 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, 2021 and 2020 the adjustment for non-performance risk did not have a

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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, 2021 and 2020, the Company has no Level 3 fair value assets or liabilities measured on a recurring basis.

***Fair Value Measurements - Nonrecurring Basis***

The Company measures the fair value of certain assets on a nonrecurring basis when events or changes in circumstances indicate that the carrying amount the asset may not be recoverable. In the second quarter of 2021, in connection with the long-lived assets and right-of-use assets impairment analysis, certain lease related property and equipment assets and right-of-use asset were measured and written down to fair value on a nonrecurring basis as a result of impairment. The fair value measurements were determined using a discounted cash flow method with unobservable inputs and were classified within Level 3 of the fair value hierarchy. The fair value of the asset group was calculated by utilizing projected cash flows from the sublease, discounted by a market derived discount rate of 8.0%. As of May 25, 2021, the date of measurement, the fair value of the right-of-use asset and other lease related property and equipment were \$8.1 million and \$2.8 million, respectively. The Company recorded an impairment charge of \$9.1 million on the assets measured at fair value on a non-recurring basis, which includes \$6.8 million associated with the right-of-use assets and \$2.3 million associated with other lease related property and equipment assets, in the second quarter of 2021. Refer to Note 5, *Balance Sheet Components*, for further information about the impairment of the right-of-use assets and long-lived assets.

**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, 2021 and 2020 are summarized as follows:

| <b>Derivative Assets</b>                                | <b>Balance Sheet Location</b>             | <b>December 31,</b>   |              | <b>Balance Sheet Location</b> | <b>December 31,</b> |                       |  |
|---|---|-----------------------|--------------|-------------------------------|---------------------|-----------------------|--|
|   |   | <b>2021</b>           | <b>2020</b>  |                               | <b>2021</b>         | <b>2020</b>           |  |
|   |   | <b>(In thousands)</b> |              |                               |                     | <b>(In thousands)</b> |  |
| Derivative assets not designated as hedging instruments | Prepaid expenses and other current assets | \$ 65                 | \$ 22        | Other accrued liabilities     | \$ 47               | \$ 199                |  |
| Derivative assets designated as hedging instruments     | Prepaid expenses and other current assets | —                     | 2            | Other accrued liabilities     | —                   | —                     |  |
| <b>Total</b>  |   | <b>\$ 65</b>          | <b>\$ 24</b> |                               | <b>\$ 47</b>        | <b>\$ 199</b>         |  |

Refer to Note 6, *Fair Value Measurements* 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, 2021 and 2020:

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

| As of December 31, 2021 | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Consolidated Balance Sheets | Net Amounts of Assets Presented in the Consolidated Balance Sheets | Gross Amounts Not Offset in the Consolidated Balance Sheets |                         | Net Amount |
|-------------------------|------------------------------------|---|--|---|-------------------------|------------|
|                         |                                    |   |  | Financial Instruments                                       | Cash Collateral Pledged |            |
| (In thousands)          |                                    |   |  |   |                         |            |
| Wells Fargo Bank        | \$ 65                              | \$ —  | \$ 65  | \$ (47)   | \$ —                    | \$ 18      |

| As of December 31, 2021 | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Consolidated Balance Sheets | Net Amounts of Liabilities Presented in the Consolidated Balance Sheets | Gross Amounts Not Offset in the Consolidated Balance Sheets |                         | Net Amount |
|-------------------------|---|---|---|---|-------------------------|------------|
|                         |   |   |   | Financial Instruments                                       | Cash Collateral Pledged |            |
| (In thousands)          |   |   |   |   |                         |            |
| Wells Fargo Bank        | \$ 47                                   | \$ —  | \$ 47   | \$ (47)   | \$ —                    | \$ —       |

| 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 | Gross Amounts Not Offset in the Consolidated Balance Sheets |                         | Net Amount |
|-------------------------|------------------------------------|---|--|---|-------------------------|------------|
|                         |                                    |   |  | Financial Instruments                                       | Cash Collateral Pledged |            |
| (In thousands)          |                                    |   |  |   |                         |            |
| Wells Fargo Bank        | \$ 24                              | \$ —  | \$ 24  | \$ (24)   | \$ —                    | \$ —       |

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



**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**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 two forward contracts related to its cash flow hedging program for the year ended December 31, 2021 with an average size of \$2.2 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, 2021, 2020 and 2019 are summarized as follows:

| Year Ended December 31, 2021      | Location and Amount of Gains (Losses) Recognized in Income on Cash Flow Hedges |                 |                          |                     |                            |
|-----------------------------------|--|-----------------|--------------------------|---------------------|----------------------------|
|                                   | Revenue  | Cost of revenue | Research and development | Sales and marketing | General and administrative |
|                                   | (In thousands)   |                 |                          |                     |                            |
| Statements of operations          | \$ 435,137   | \$ 327,102      | \$ 59,063                | \$ 48,909           | \$ 49,489                  |
| Gains (losses) on cash flow hedge | \$ 134   | \$ (1)          | \$ —                     | \$ (8)              | \$ (1)                     |
|                                   | 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)                    |

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, *Accumulated Other Comprehensive Income (Loss)*.

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, 2021, 2020 and 2019.

**Non-designated hedges**

The Company adjusts its non-designated hedges monthly and enters into about six non-designated derivative per quarter with an average size of \$2.3 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, 2021, 2020 and 2019 are as follows:

| Derivatives Not Designated as Hedging Instruments | Location of Gains (Losses) Recognized in Income on Derivative | December 31,   |         |         |
|---|---|----------------|---------|---------|
|   |   | 2021           | 2020    | 2019    |
|   |   | (In thousands) |         |         |
| Foreign currency forward contracts                | Other income (expense), net                                   | \$ 116         | \$ (95) | \$ (24) |

**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, 2021, 2020 and 2019:

|   | Unrealized gains<br>(losses) on available-<br>for-sale securities | Unrealized gains<br>(losses) on derivatives | Estimated tax benefit<br>(provision) | Total |
|---|---|---|--------------------------------------|-------|
|   | (In thousands)  |   |                                      |       |
| Balance as of December 31, 2018                                       | \$ (2)  | \$ 2  | \$ —                                 | \$ —  |
| Other comprehensive income before reclassifications                   | 25  | 275   | —                                    | 300   |
| Less: Amount reclassified from accumulated other comprehensive income | —   | 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 loss   | —   | (23)  | —                                    | (23)  |
| Net current period other comprehensive income (loss)                  | (22)  | 27  | —                                    | 5     |
| Balance as of December 31, 2020                                       | 1   | 2   | —                                    | 3     |
| Other comprehensive income (loss) before reclassifications            | (1)   | 122   | —                                    | 121   |
| Less: Amount reclassified from accumulated other comprehensive income | —   | 124   | —                                    | 124   |
| Net current period other comprehensive loss                           | (1)   | (2)   | —                                    | (3)   |
| Balance as of December 31, 2021                                       | \$ —  | \$ —  | \$ —                                 | \$ —  |

The following tables provide details about significant amounts reclassified out of each component of AOCI for the years ended December 31, 2021, 2020 and 2019:

|                                    | Year Ended December 31, 2021                               |   | Year Ended December 31, 2020                               |   | Year Ended December 31, 2019                               |   | Affected Line Item in the Statements of<br>Operations |
|------------------------------------|--|---|--|---|--|---|---|
|                                    | Gains (Losses)<br>Recognized in OCI<br>- Effective Portion | Gains (Losses)<br>Reclassified from<br>OCI to Income -<br>Effective Portion | Gains (Losses)<br>Recognized in OCI -<br>Effective Portion | Gains (Losses)<br>Reclassified from<br>OCI to Income -<br>Effective Portion | Gains (Losses)<br>Recognized in OCI<br>- Effective Portion | Gains (Losses)<br>Reclassified from<br>OCI to Income -<br>Effective Portion |   |
|                                    | (In thousands)   |   |  |   |  |   |   |
| Gains (losses) on cash flow hedge: |  |   |  |   |  |   |   |
| Foreign currency contracts         | \$ 122   | \$ 134  | \$ 4   | \$ (32)   | \$ 275   | \$ 390  | Revenue   |
| Foreign currency contracts         | —  | (1)   | —  | —   | —  | (3)   | Cost of revenue                                       |
| Foreign currency contracts         | —  | —   | —  | 5   | —  | (28)  | Research and development                              |
| Foreign currency contracts         | —  | (8)   | —  | 4   | —  | (44)  | Sales and marketing                                   |
| Foreign currency contracts         | —  | (1)   | —  | —   | —  | (13)  | General and administrative                            |
|                                    | <u>\$ 122</u>  | <u>\$ 124</u>   | <u>\$ 4</u>  | <u>\$ (23)</u>  | <u>\$ 275</u>  | <u>\$ 302</u>   | 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Note 9. Income Taxes**

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

|               | Year Ended December 31, |                     |                    |
|---------------|-------------------------|---------------------|--------------------|
|               | 2021                    | 2020                | 2019               |
|               | (In thousands)          |                     |                    |
| United States | \$ (59,370)             | \$ (104,551)        | \$ (103,836)       |
| International | 4,018                   | 3,925               | 22,265             |
| Total         | <u>\$ (55,352)</u>      | <u>\$ (100,626)</u> | <u>\$ (81,571)</u> |

Provision for income taxes consisted of the following:

|                  | Year Ended December 31, |               |                 |
|------------------|-------------------------|---------------|-----------------|
|                  | 2021                    | 2020          | 2019            |
|                  | (In thousands)          |               |                 |
| <b>Current:</b>  |                         |               |                 |
| U.S. Federal     | \$ —                    | \$ —          | \$ —            |
| State            | 21                      | 84            | 58              |
| Foreign          | 989                     | 438           | 4,524           |
|                  | <u>1,010</u>            | <u>522</u>    | <u>4,582</u>    |
| <b>Deferred:</b> |                         |               |                 |
| U.S. Federal     | —                       | —             | —               |
| State            | —                       | —             | —               |
| Foreign          | (333)                   | 103           | (202)           |
|                  | <u>(333)</u>            | <u>103</u>    | <u>(202)</u>    |
| Total            | <u>\$ 677</u>           | <u>\$ 625</u> | <u>\$ 4,380</u> |

The effective tax rate differed from the U.S. federal income tax rate as follows:

|   | Year Ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2021                    | 2020          | 2019          |
| Tax benefit at U.S. federal income tax rate | 21.0 %                  | 21.0 %        | 21.0 %        |
| State tax benefit, net of federal benefit   | 2.9 %                   | 4.4 %         | 3.0 %         |
| Impact of international operations          | 1.3 %                   | 0.8 %         | 1.4 %         |
| U.S. taxes on foreign entities              | (3.9)%                  | 2.5 %         | (3.6)%        |
| Stock-based compensation                    | (3.0)%                  | (4.2)%        | (2.6)%        |
| U.S. federal tax credits                    | 1.6 %                   | 1.6 %         | 1.6 %         |
| Change in valuation allowance               | (20.3)%                 | (26.4)%       | (23.8)%       |
| Non-deductible transaction costs            | (0.6)%                  | (0.1)%        | (0.7)%        |
| Goodwill derecognition                      | — %                     | — %           | (1.2)%        |
| Other                                       | (0.2)%                  | (0.2)%        | (0.5)%        |
| Benefit (provision) for income taxes        | <u>(1.2)%</u>           | <u>(0.6)%</u> | <u>(5.4)%</u> |

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The significant components of net deferred tax assets consisted of the following:

|   | As of December 31, |                 |
|---|--------------------|-----------------|
|   | 2021               | 2020            |
| (In thousands)                                |                    |                 |
| <b>Deferred Tax Assets:</b>                   |                    |                 |
| Accruals and allowances                       | \$ 10,369          | \$ 14,389       |
| Net operating loss carryforwards              | 26,236             | 22,216          |
| Stock-based compensation                      | 3,956              | 3,731           |
| Lease liabilities                             | 6,170              | 7,063           |
| Deferred revenue                              | 1,763              | 3,673           |
| Tax credit carryforwards                      | 8,100              | 6,311           |
| Depreciation and amortization                 | 3,989              | 2,810           |
| Capitalized research and development expenses | 26,186             | 17,376          |
| Total deferred tax assets                     | <u>86,769</u>      | <u>77,569</u>   |
| <b>Deferred Tax Liabilities:</b>              |                    |                 |
| Right-of-use assets                           | (3,462)            | (5,804)         |
| Total deferred tax liabilities                | <u>(3,462)</u>     | <u>(5,804)</u>  |
| Valuation Allowance                           | (81,742)           | (70,496)        |
| Net deferred tax assets                       | <u>\$ 1,565</u>    | <u>\$ 1,269</u> |

Changes in valuation allowance for deferred tax assets were as follows:

|  | Year Ended December 31, |                  |                  |
|--|-------------------------|------------------|------------------|
|  | 2021                    | 2020             | 2019             |
| (In thousands)                         |                         |                  |                  |
| Balance at the beginning of the period | \$ 70,496               | \$ 43,917        | \$ 24,477        |
| Additions <sup>(1)</sup>               | 11,246                  | 26,579           | 19,440           |
| Deductions <sup>(2)</sup>              | —                       | —                | —                |
| Balance at the end of the period       | <u>\$ 81,742</u>        | <u>\$ 70,496</u> | <u>\$ 43,917</u> |

<sup>(1)</sup> The increases in valuation allowance were primarily due to the increases in tax attribute carryforwards and capitalized expenditures for income tax purposes.

<sup>(2)</sup> There were no deductions presented because there has not been a reduction in the valuation allowance.

The fiscal 2020 and 2019 additions and deductions to the deferred tax assets roll-forward have been recast to conform with the fiscal 2021 classification, which is based on each tax jurisdiction. Prior to the recast, the additions and deductions in the deferred tax assets roll-forward were based on the positive and negative movements within the individual components of deferred tax assets.

Realization of the Company's deferred tax assets is dependent upon future earnings, 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, 2021 and 2020, the valuation allowance was \$81.7 million and \$70.5 million, respectively.

The utilization of the Company's 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

As of December 31, 2021, net operating loss carryforwards consisted of the following:

|                                | <u>Amount</u>  | <u>Beginning Year of Expiration</u> |
|--------------------------------|----------------|-------------------------------------|
|                                | (in thousands) |                                     |
| U.S. federal <sup>(1)</sup>    | \$ 14,028      | 2031                                |
| U.S. federal <sup>(1)(2)</sup> | 95,243         | Indefinite                          |
| California                     | 18,655         | 2040                                |
| Other states                   | 43,804         | 2024                                |

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

<sup>(2)</sup> All of the losses are subject to usage limitation of 80% of taxable income in a year when the losses will be utilized.

As of December 31, 2021, tax credit carryforwards consisted of the following:

|              | <u>Amount</u>  | <u>Beginning Year of Expiration</u> |
|--------------|----------------|-------------------------------------|
|              | (in thousands) |                                     |
| U.S. federal | \$ 4,698       | 2040                                |
| California   | 3,848          | Indefinite                          |
| Foreign      | 1,839          | 2042                                |

As of December 31, 2021, 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 was as follows:

|  | <u>Year Ended December 31,</u> |                 |               |
|--|--------------------------------|-----------------|---------------|
|  | <u>2021</u>                    | <u>2020</u>     | <u>2019</u>   |
|  | (In thousands)                 |                 |               |
| Balance at the beginning of the period                                     | \$ 1,355                       | \$ 704          | \$ 22         |
| Additions for tax positions taken during the current year                  | 444                            | 503             | 674           |
| Additions (reductions) for tax positions taken during a prior year         | (58)                           | 148             | 8             |
| Reductions as a result of a lapse of the applicable statute of limitations | (5)                            | —               | —             |
| Balance at the end of the period   | <u>\$ 1,736</u>                | <u>\$ 1,355</u> | <u>\$ 704</u> |

The total amount of unrecognized tax benefits, including immaterial interest and penalties, was \$1.7 million and \$1.4 million as of December 31, 2021 and 2020, 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. In addition, 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

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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 October 27, 2021, the Company entered into a Loan and Security Agreement (the "Credit Agreement") with Bank of America, N.A., a national banking association, as lender (the "Lender").

The Credit Agreement provides for a three-year revolving credit facility (the "Credit Facility") that matures on October 27, 2024. 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 the sum of (i) 90% of investment grade eligible receivables and (ii) 85% of non-investment grade eligible accounts, less applicable reserves established by the Lender. The Credit Agreement also includes a \$5.0 million sublimit for the issuance by the Lender of letters of credit. In addition, the Credit Agreement includes an uncommitted accordion feature that allows the Company to from time to time request that the Lender increase the aggregate revolving loan commitments by up to an additional \$25.0 million in the aggregate, subject to the satisfaction of certain conditions, including obtaining the Lender's agreement to participate in each increase. 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 working capital assets, including accounts receivable, cash and cash equivalents, inventory, and other assets of the Company to the extent related to such working capital assets.

At the Company's option, borrowings under the Credit Agreement will bear interest at a floating rate equal to: (i) the Bloomberg Short-Term Bank Yield Index rate plus the applicable rate of 2.0% to 2.5% determined based on the Company's average daily availability for the prior fiscal quarter, or (ii) the base rate plus the applicable rate of 1.0% to 1.5% based on the Company's average daily availability for the prior fiscal quarter. Among other fees, the Company is required to pay a monthly unused fee of 0.2% per annum on the amount by which the Lender's aggregate commitment under the Credit Facility exceeds the average daily revolver usage during such month.

The Credit Agreement contains events of default, representations and warranties, and affirmative and negative covenants customary for credit facilities of this type. The Credit Agreement also contains financial covenants that require the Company to (a) until the Company achieves a fixed charge coverage ratio of at least 1.00 to 1.00 for two consecutive quarters, maintain minimum liquidity of not less than \$20.0 million at all times and (b) thereafter, maintain a fixed charge coverage ratio, tested quarterly on a trailing twelve month basis, of at least 1.00 to 1.00 at any time a Financial Covenant Trigger Period (as defined in the Credit Agreement) is in effect. As of December 31, 2021, the Company is in compliance with all the covenants of the Credit Agreement.

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 thirty 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.

No amounts had been drawn under the Credit Facility as of December 31, 2021.

On October 27, 2021, concurrent with completing the Credit Agreement with Bank of America, N.A., the credit agreement with Western Alliance Bank, an Arizona corporation, entered into on November 5, 2019, was terminated. There was no amount drawn under this credit agreement at termination.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**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. Gross lease expense was \$7.0 million for each of the years ended December 31, 2021, 2020 and 2019, respectively. The lease expense was recorded within Cost of revenue, Research and development, Sales and marketing, 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, |          |           |
|--|-------------------------|----------|-----------|
|  | 2021                    | 2020     | 2019      |
|  | (in thousands)          |          |           |
| Cash paid for amounts included in the measurement of lease liabilities |                         |          |           |
| Operating cash flows from operating leases                             | \$ 6,497                | \$ 5,991 | \$ 4,888  |
| Right-of-use assets obtained in exchange for lease liabilities         |                         |          |           |
| Operating leases   | \$ 1,646                | \$ 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, |           |
|---------------------------------------|--------------------|-----------|
|                                       | 2021               | 2020      |
| Weighted average remaining lease term | 6.1 years          | 6.9 years |
| Weighted average discount rate        | 5.77 %             | 5.69 %    |

The Company's future minimum undiscounted lease payments under operating leases and future non-cancelable rent payments from its subtenants for each of the next five years and thereafter as of December 31, 2021 were as follows:

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  | Operating Lease<br>Payments | Sublease<br>Payments | Net       |
|--|-----------------------------|----------------------|-----------|
|  | (In thousands)              |                      |           |
| 2022   | \$ 5,977                    | \$ (1,673)           | \$ 4,304  |
| 2023   | 5,552                       | (1,891)              | 3,661     |
| 2024   | 4,887                       | (1,947)              | 2,940     |
| 2025   | 3,178                       | (2,006)              | 1,172     |
| 2026   | 3,270                       | (2,066)              | 1,204     |
| Thereafter                                     | 8,217                       | (5,942)              | 2,275     |
| Total future lease payments                    | \$ 31,081                   | \$ (15,525)          | \$ 15,556 |
| Less: interest <sup>(1)</sup>                  | (5,002)                     |                      |           |
| Present value of future minimum lease payments | \$ 26,079                   |                      |           |
| Accrued liabilities                            | \$ 4,609                    |                      |           |
| Non-current operating lease liabilities        | 21,470                      |                      |           |
| Total lease liabilities                        | \$ 26,079                   |                      |           |

<sup>(1)</sup> 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 between November 5, 2019 and October 27, 2021 were calculated using the Company's borrowing rate defined in the credit agreement with Western Alliance Bank. Leases that commenced after October 27, 2021 were calculated using the Company's borrowing rate defined in the Credit Agreement with Bank of America, N.A.

During the second quarter of 2021, the Company reviewed certain of its right-of-use assets and other lease related assets in conjunction with the evaluation of its real estate lease portfolio and recorded an impairment charge of \$9.1 million, which included \$6.8 million associated with the right-of-use asset and \$2.3 million associated with other lease related property and equipment in the second quarter of 2021. Subsequent to the impairment, lease expense for the lease payments related to the impaired right-of-use asset is no longer recognized on a straight-line basis. The associated lease liability is amortized using the same effective interest method as before the impairment charge. The impaired right-of-use asset, however, is subsequently amortized on a straight-line basis. Refer to Note 5, *Balance Sheet Components* for further information about the impairment of the right-of-use asset and long-lived assets.

On June 29, 2021, the sublease agreement dated May 25, 2021 (the "Sublease"), by and between the Company and Vocera Communications, Inc. ("Subtenant") became effective whereby the Company agreed to sublease to Subtenant all of the approximately 78,000 rentable square feet of office space located at 3030 Orchard Parkway in San Jose, California. The Company's decision to enter into the Sublease is a continuance of its evaluation of its real estate lease portfolio in light of the COVID-19 pandemic and its impact on the changing nature of office space use by its workforce. The initial term of the Sublease will commence on February 1, 2022, and will expire on June 30, 2029, unless earlier terminated in accordance with the Sublease. The Subtenant will pay to the Company an escalating base rent over the life of the Sublease of approximately \$167,000 to \$206,000 per month. In addition, the Subtenant will pay its pro rata portion of property expenses and operating expenses for the Subleased Premises. The Company classifies the Sublease as an operating lease. The accounting of the Sublease commenced on October 1, 2021. Sublease income is recognized over the term of the sublease on a straight-line basis. The Company recorded sublease income as reduction of lease expense, in the amount of \$0.5 million for the year ended December 31, 2021.

***Letters of Credit***

In connection with the lease agreement for the Company's office space located in San Jose, California, the Company executed a letter of credit with the landlord as the beneficiary. As of December 31, 2021, 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.



**ARLO TECHNOLOGIES, INC.**  
**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, 2021, the Company had approximately \$32.9 million in non-cancelable purchase commitments with suppliers. As a result of the COVID-19 pandemic, the Company has experienced an elongation of the time from order placement to production primarily due to component shortages and supply chain disruptions. In order to reduce manufacturing lead-times and to ensure an adequate supply of inventories, the Company has worked with its suppliers to place longer lead-time purchase orders to ensure availability of components and materials from its supply chain. Under this circumstance, the Company may be obligated to purchase long lead-time component inventory procured in accordance with its forecasts. The Company may become liable for non-cancellable material components, such as chipsets purchased by the supplier to meet its purchase order, even if it is subsequently cancelled. 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, 2021, the loss liability from committed purchases was \$0.4 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:

|   | <b>Year Ended December 31,</b> |                 |                 |
|---|--------------------------------|-----------------|-----------------|
|   | <b>2021</b>                    | <b>2020</b>     | <b>2019</b>     |
|   | (In thousands)                 |                 |                 |
| Balance at the beginning of the period                                | \$ 2,451                       | \$ 3,169        | \$ 3,712        |
| Provision for (release of) warranty obligation made during the period | (655)                          | —               | 260             |
| Settlements made during the period                                    | (466)                          | (718)           | (803)           |
| Balance at the end of the period                                      | <u>\$ 1,330</u>                | <u>\$ 2,451</u> | <u>\$ 3,169</u> |

***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.

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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 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 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 "Securities Act"). 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.

In the Federal Action, the court appointed a shareholder named Matis Nayman as lead plaintiff. On June 7, 2019, plaintiff filed an amended complaint. Lead Plaintiff alleges violations of the Securities Act 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, lead 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. Lead 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. 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.

On February 5, 2021, lead plaintiff filed a motion for final approval of the settlement. In advance of the final approval hearing, three of the named plaintiffs in the State Action requested exclusion from the settlement. The court held a final approval hearing on March 11, 2021, and, on March 25, 2021, entered an order and final judgment approving the settlement and, among other things, dismissing with prejudice all claims of lead plaintiff and the Settlement Class (as defined in the settlement agreement). On April 19, 2021, the Court issued an amended order and corrected judgment to include defendant NETGEAR, who had been inadvertently omitted from the prior order and final judgment. The Federal Action is now closed.

In the State Action, on May 5, 2021, the court held a status conference. At that conference, the state court instructed plaintiffs Perros, Patel, and Pham ("Plaintiffs"), who were the only Arlo stockholders to opt out of the federal settlement, to file an amended complaint by June 4, 2021. Plaintiffs filed their second amended complaint on June 4, 2021, asserting their individual Securities Act claims, but also purporting to represent a new class of Arlo stockholders who purchased Arlo shares between December 3, 2018 and February 22, 2019 and fell outside the Settlement Class (as defined in the federal settlement). On June 21, 2021, the Arlo defendants filed a motion to dismiss the State Action (for forum non conveniens) based on the federal forum provision in Arlo's certificate of incorporation. Plaintiffs opposed on July 28, 2021, and the Arlo defendants

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

replied on August 13, 2021. On July 6, 2021, defendants filed multiple demurrers to the second amended complaint. Plaintiffs filed their oppositions on August 12, 2021, and defendants filed their replies on August 27, 2021. On September 9, 2021, the court issued an order granting the Arlo defendants' forum non conveniens motion, and on September 17, 2021, the court issued a final judgment dismissing the State Action in its entirety. On November 16, 2021, Plaintiffs filed a Notice of Appeal. The appeal is pending before the California Court of Appeal, Sixth Appellate District. The court has not yet set a date for oral argument.

*Leonard R. Pinto v. Arlo Technologies, Inc., et al.*

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 in the U.S. District Court for the Northern District of California, captioned *Pinto v. Arlo Technologies, Inc. et al.*, No. 19-CV-03354 (the "Derivative Action"). The Derivative 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. On April 8, 2021, because it had granted final approval of the settlement in the Federal Action, the court lifted the stay in the Derivative Action and asked the parties to file a joint status report by April 22, 2021. In their status report, the parties stipulated to a schedule for plaintiff to file an amended complaint and for the parties to brief a motion to dismiss. Plaintiff filed his amended complaint on May 24, 2021. Defendants moved to dismiss the amended complaint on July 9, 2021. On August 23, 2021, plaintiff filed a second amended complaint. Defendants' motion to dismiss the second amended complaint is due on December 17, 2021. Plaintiff's opposition is due January 31, 2022, and defendants' reply is due on March 2, 2022.

*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") (collectively "Respondents") 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") in violation of Section 337 of the Tariff Act of 1930. 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.

On September 15, 2021, the Administrative Law Judge ("ALJ") hearing the case at the ITC issued an Initial Determination ("ID") ruling that all the Asserted Patents are invalid. The ALJ agreed with Respondents' contention that there was an impermissible break in priority chains of the applications of the Asserted Patents during their prosecution – meaning that certain of Skybell's prior issued patents fully anticipated or invalidated all the Asserted Patents. Therefore, the ALJ ruled that there can be no patent infringement or violation of Section 337 of the Tariff Act of 1930 by the Respondents.

Skybell appealed the ID by submitting its Petition for Review to the ITC on September 27, 2021, and the Respondents submitted their Response to the Petition to Review on October 4, 2021. On November 10, 2021, The ITC affirmed the ALJ's ruling and did not grant any review of the ID, meaning that there is no trial on the ITC docket since there are no valid patents remaining, and the case is concluded at the ITC level. On January 9, 2022, Skybell filed its Notice of Appeal to the Federal Circuit to appeal the ITC's rulings invalidating the Asserted Patents.

As of December 31, 2021, the Company is unable to predict the outcome of this matter, and, at this time, cannot reasonably estimate the possible loss or range of loss with respect to the legal proceeding discussed herein.

***Indemnification of Directors and Officers***

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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, 2021 and 2020.

***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, 2021 and 2020. 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

***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, 2021.

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 \$500,000 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Note 12. Employee Benefit Plans****2018 Equity Incentive Plan**

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.

On July 28, 2021, the Compensation Committee of the Board of Directors (the "Committee") unanimously approved an amendment to the 2018 Plan to, among other things, reserve an additional 1,500,000 shares of the Company's common stock ("inducement pool") to be used exclusively for grants of awards to individuals who were not previously employees or non-employee directors of the Company (or following a bona fide period of non-employment with the Company), as an inducement material to the individual's entry into employment with the Company within the meaning of Rule 303A.08 of the New York Stock Exchange (the "NYSE") Listed Company Manual ("Rule 303A.08"). The 2018 Plan was amended by the Committee without stockholder approval pursuant to Rule 303A.08.

On March 3, 2021, the Company registered an aggregate of up to 3,966,472 shares of the Company's common stock on Registration Statement on Form S-8, including 3,173,178 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, 2021 pursuant to an "evergreen" provision contained in the 2018 Plan and 793,294 shares issuable pursuant to the ESPP that were automatically added to the shares authorized for issuance under the ESPP on January 1, 2021 pursuant to an "evergreen" provision contained in the ESPP.

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, 2021. 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, 2021:

|   | <b>Number of Shares</b> |
|---|-------------------------|
|   | <b>(In thousands)</b>   |
| Shares available for grants as of December 31, 2020 | 3,113                   |
| Additional authorized shares <sup>(1)</sup>         | 4,673                   |
| Granted <sup>(2)</sup>                              | (8,338)                 |
| Forfeited/ cancelled                                | 1,037                   |
| Shares traded for taxes                             | 2,024                   |
| Shares available for grants as of December 31, 2021 | <u>2,509</u>            |

<sup>(1)</sup> Includes approximately 3.2 million shares authorized for issuance pursuant to the "evergreen" provision and 1.5 million shares authorized for issuance under the inducement pool.

<sup>(2)</sup> Includes approximately 1.0 million shares granted under the inducement pool.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Employee Stock Purchase Plan**

The Company sponsors the 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, 2021, approximately 1.3 million shares were available for issuance under the ESPP.

**Option Activity**

The Company's stock option activity during the year ended of December 31, 2021 was as follows:

|   | Number of Shares<br>(In thousands) | Weighted Average<br>Exercise Price Per<br>Share<br>(In dollars) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(In years) | Aggregate<br>Intrinsic<br>Value <sup>(1)</sup><br>(In thousands) |
|---|------------------------------------|---|---|--|
| Outstanding as of December 31, 2020                 | 3,434                              | \$ 9.72   |   |  |
| Granted   | —                                  | —   |   |  |
| Exercised   | (782)                              | 6.73  |   |  |
| Forfeited/ Cancelled                                | (46)                               | 16.00   |   |  |
| Expired   | (32)                               | 7.18  |   |  |
| Outstanding as of December 31, 2021                 | <u>2,574</u>                       | \$ 10.55  | 4.29  | \$ 4,333   |
| Vested and expected to vest as of December 31, 2021 | <u>2,574</u>                       | \$ 10.55  | 4.29  | \$ 4,333   |
| Exercisable Options as of December 31, 2021         | <u>2,507</u>                       | \$ 10.44  | 4.23  | \$ 4,311   |

<sup>(1)</sup> Representing the total pre-tax intrinsic values (the difference between the Company's closing stock price on the last trading day of 2021 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, 2021. This amount changes based on the fair market value of the Company's stock.

|   | Year Ended December 31,              |         |         |
|---|--------------------------------------|---------|---------|
|   | 2021                                 | 2020    | 2019    |
|   | (In millions, except per share data) |         |         |
| Total intrinsic value of options exercised                          | \$ 2.20                              | \$ 0.20 | \$ —    |
| Total fair value of options vested                                  | \$ 2.60                              | \$ 1.00 | \$ 3.10 |
| Weighted-average grant date fair value per share of options granted | NA                                   | NA      | \$ 2.59 |

The following table summarizes significant ranges of outstanding the Company's stock options as of December 31, 2021.

| Range of Exercise Prices | Options Outstanding   |  |  | Options Exercisable   |  |
|--------------------------|-----------------------|--|--|-----------------------|--|
|                          | Shares<br>Outstanding | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life | Weighted-<br>Average<br>Exercise<br>Price Per<br>Share | Shares<br>Exercisable | Weighted-<br>Average<br>Exercise<br>Price Per<br>Share |
|                          | (In thousands)        | (In years)   | (In dollars)   | (In thousands)        | (In dollars)   |
| 3.90 - 6.68              | 577                   | 2.18   | \$ 6.59  | 574                   | \$ 6.60  |
| 6.90 - 8.76              | 967                   | 4.57   | 8.35   | 967                   | 8.35   |
| 10.09 - 13.23            | 100                   | 6.27   | 11.97  | 90                    | 11.83  |
| 14.39 - 14.39            | 496                   | 6.07   | 14.39  | 486                   | 14.39  |
| 16.00 - 16.00            | 434                   | 3.98   | 16.00  | 390                   | 16.00  |
| 3.90 - 16.00             | <u>2,574</u>          | 4.29   | 10.55  | <u>2,507</u>          | 10.44  |



**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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, 2021, 2020 and 2019 and purchase rights granted under the ESPP during the years ended December 31, 2021 and 2020:

|                          | Stock Options |      |        | ESPP   |         |        |
|--------------------------|---------------|------|--------|--------|---------|--------|
|                          | 2021          | 2020 | 2019   | 2021   | 2020    | 2019   |
| Expected life (in years) | NA            | NA   | 6.3    | 0.5    | 0.5     | 0.5    |
| Risk-free interest rate  | NA            | NA   | 2.28 % | 0.07 % | 0.84 %  | 2.49 % |
| Expected volatility      | NA            | NA   | 73.0 % | 63.8 % | 102.0 % | 97.6 % |
| Dividend yield           | NA            | 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.

The risk-free interest rate of the purchase rights granted under the 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 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, 2021 was as follows:

|   | Number of Shares | Weighted Average<br>Exercise Price Per<br>Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---|------------------|---|---|---------------------------------|
|   | (In thousands)   | (In dollars)                                    | (In years)  | (In thousands)                  |
| Outstanding as of December 31, 2020                 | 16               | \$ 22.49  |   |                                 |
| Exercised   | (5)              | 27.49   |   |                                 |
| Forfeited/cancelled                                 | —                | —   |   |                                 |
| Expired   | —                | —   |   |                                 |
| Outstanding as of December 31, 2021                 | 11               | \$ 20.11  | 0.69  | \$ 98                           |
| Vested and expected to vest as of December 31, 2021 | 11               | \$ 20.11  | 0.69  | \$ 98                           |
| Exercisable options as of December 31, 2021         | 11               | \$ 20.11  | 0.69  | \$ 98                           |

|  | Year Ended December 31,               |        |        |
|--|---------------------------------------|--------|--------|
|  | 2021                                  | 2020   | 2019   |
|  | (In thousands, except per share data) |        |        |
| Total intrinsic value of options exercised   | \$ 58                                 | \$ 634 | \$ 633 |
| Total fair value of options vested   | \$ 35                                 | \$ 42  | \$ 810 |
| Weighted-average grant date fair value per share of NETGEAR's stock options granted to employees specifically identifiable to Arlo | NA                                    | NA     | NA     |



**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The following table summarizes significant ranges of outstanding NETGEAR's stock options as of December 31, 2021.

| Range of Exercise Prices | Options Outstanding |   |   | Options Exercisable |   |  |
|--------------------------|---------------------|---|---|---------------------|---|--|
|                          | 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                   | 0.56  | \$ 19.19                                  | 7                   | \$ 19.19                                  |  |
| 20.10 - 20.10            | 1                   | 0.30  | 20.10                                     | 1                   | 20.10                                     |  |
| 21.86 - 21.86            | 3                   | 1.10  | 21.86                                     | 3                   | 21.86                                     |  |
| 19.19 - 23.77            | 11                  | 0.69  | 20.11                                     | 11                  | 20.11                                     |  |

**RSU Activity**

Arlo's RSU activity, excluding PSU activity and MPSU activity, during the year ended of December 31, 2021 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, 2020 | 9,427            | \$ 4.42  |   |                           |
| Granted                             | 7,151            | 7.32   |   |                           |
| Vested                              | (5,539)          | 5.64   |   |                           |
| Forfeited                           | (959)            | 5.21   |   |                           |
| Outstanding as of December 31, 2021 | 10,080           | \$ 5.73  | 1.38  | \$ 105,739                |

|  | Year Ended December 31,              |          |          |
|--|--------------------------------------|----------|----------|
|  | 2021                                 | 2020     | 2019     |
|  | (In millions, except per share data) |          |          |
| Total intrinsic value of RSUs vested (the release date fair value) | \$ 36.38                             | \$ 13.02 | \$ 5.51  |
| Total fair value of RSUs vested (the grant date fair value)        | \$ 31.25                             | \$ 22.15 | \$ 12.90 |
| RSU granted weighted-average fair value per share                  | \$ 7.32                              | \$ 3.03  | \$ 4.77  |

**PSU Activity**

The Company grants restricted stock units to its NEOs periodically that vested based on the Company's attainment of cash balance goals as of December 31, 2020 and December 31, 2021 and the NEO's continued employment through the vesting dates ("PSUs"). The vesting periods for the PSUs are three or four years. 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. 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.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The Company's PSU activity during the year ended of December 31, 2021 was as follows:

|  | Number of Shares | Weighted Average<br>Grant Date Fair<br>Value Per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--|------------------|--|---|---------------------------------|
|  | (In thousands)   | (In dollars)   | (In years)  | (In thousands)                  |
| Outstanding as of December 31, 2020                | 494              | \$ 2.74  |   |                                 |
| Granted  | 231              | 7.44   |   |                                 |
| Vested   | (198)            | 2.74   |   |                                 |
| Forfeited  | —                | —  |   |                                 |
| Outstanding as of December 31, 2021 <sup>(1)</sup> | <u>527</u>       | <u>\$ 4.80</u>   | 1.12  | \$ 5,528                        |

<sup>(1)</sup> Includes 329,178 shares of PSUs for the 2020 performance period, achieved at 120% of target, or 395,014 shares and vest over three years, and 197,823 shares of PSUs for the 2021 performance period, achieved at 120% of target, or 237,388 shares and vest over four years.

|  | Year Ended December 31,              |         |
|--|--------------------------------------|---------|
|  | 2021                                 | 2020    |
|  | (In millions, except per share data) |         |
| Total intrinsic value of RSUs vested (the release date fair value) | \$ 1.21                              | NA      |
| Total fair value of RSUs vested (the grant date fair value)        | \$ 0.54                              | NA      |
| RSU granted weighted-average fair value per share                  | \$ 7.44                              | \$ 2.74 |

**MPSU Activity**

The Company grants restricted stock units to its NEOs that vest based on the Company's stock price performance relative to a broad-market index over a performance period of three to four years and the NEO's continued employment through the vesting date ("TSR MPSUs"). The TSR MPSUs will vest at the end of the three or four-year periods that begin on the TSR MPSUs' grant date based on performance of the Company's common stock relative to the Benchmark during the three or four-year periods from the grant dates. 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.

The Company's TSR MPSU activity during the year ended of December 31, 2021 was as follows:

|                                     | Number of Shares | Weighted Average<br>Grant Date Fair<br>Value Per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|-------------------------------------|------------------|--|---|---------------------------------|
|                                     | (In thousands)   | (In dollars)   | (In years)  | (In thousands)                  |
| Outstanding as of December 31, 2020 | 643              | \$ 4.12  |   |                                 |
| Granted                             | 198              | 11.77  |   |                                 |
| Vested                              | —                | —  |   |                                 |
| Forfeited                           | —                | —  |   |                                 |
| Outstanding as of December 31, 2021 | <u>841</u>       | <u>\$ 5.92</u>   | 1.62  | \$ 8,817                        |

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  | Year Ended December 31,              |         |         |
|--|--------------------------------------|---------|---------|
|  | 2021                                 | 2020    | 2019    |
|  | (In millions, except per share data) |         |         |
| Total intrinsic value of RSUs vested (the release date fair value) | NA                                   | NA      | NA      |
| Total fair value of RSUs vested (the grant date fair value)        | NA                                   | NA      | NA      |
| RSU granted weighted-average fair value per share                  | \$ 11.77                             | \$ 4.11 | \$ 4.14 |

The Company also grants restricted stock units to its CEO that vest based on the Company's achievement of its stock price performance targets and the CEO's continued employment through the vesting dates ("CEO MPSUs"). The CEO MPSUs will vest over four years in substantially equal quarterly installments that begin on the CEO MPSUs' grant date in five equal tranches based on the Company's achievement of certain average daily closing prices per share of the Company's common stock, as reported on the NYSE, for any 30 consecutive trading days on or prior to July 28, 2025 (the "Performance Period End Date"), with the first tranche target at \$7.57 per share, with the second tranche target at \$8.69 per share, with the third tranche target at \$9.97 per share, with the fourth tranche target \$11.44 per share and with the fifth tranche target at \$13.20 per share. To the extent that the stock price of the tranche does not achieve its corresponding price target prior to the Performance Period End Date, the CEO MPSUs expire or cancel. On December 1 and 29, 2021, the stock price performance targets for the first and second tranches were achieved, respectively.

The Company's CEO MPSU activity during the year ended of December 31, 2021 was as follows:

|                                     | Number of Shares<br>(In thousands) | Weighted Average<br>Grant Date Fair<br>Value Per Share<br>(In dollars) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(In years) | Aggregate<br>Intrinsic<br>Value<br>(In thousands) |
|-------------------------------------|------------------------------------|--|---|---|
| Outstanding as of December 31, 2020 | —                                  | \$ —   |   |   |
| Granted                             | 758                                | 5.21   |   |   |
| Vested                              | (19)                               | 5.64   |   |   |
| Forfeited                           | —                                  | —  |   |   |
| Outstanding as of December 31, 2021 | <u>739</u>                         | \$ 5.20  | 1.82  | \$ 7,749  |

|  | Year Ended<br>December 31,<br>2021<br>(In millions, except<br>per share data) |
|--|---|
| Total intrinsic value of RSUs vested (the release date fair value) | \$ 0.18   |
| Total fair value of RSUs vested (the grant date fair value)        | \$ 0.11   |
| RSU granted weighted-average fair value per share                  | \$ 5.21   |

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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 weighted average assumptions used in this model to estimate fair value at the grant date are as follows:

|                         | Year Ended December 31, |        |        |
|-------------------------|-------------------------|--------|--------|
|                         | 2021                    | 2020   | 2019   |
| Expected life           | 4.0                     | 3.0    | 3.0    |
| Risk-free interest rate | 0.38 %                  | 0.24 % | 1.52 % |
| Expected volatility     | 69.5 %                  | 69.3 % | 65.1 % |
| Dividend yield          | —                       | —      | —      |
| Stock Beta              | 0.45                    | 0.48   | 0.30   |

NETGEAR's RSU activity for Company employees during the year ended December 31, 2021 was as follows:

|                                     | Number of Shares | Weighted Average<br>Grant Date Fair<br>Value Per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|-------------------------------------|------------------|--|---|---------------------------------|
|                                     | (In thousands)   | (In dollars)   | (In years)  | (In thousands)                  |
| Outstanding as of December 31, 2020 | 127              | \$ 37.81   |   |                                 |
| Vested                              | (76)             | 36.60  |   |                                 |
| Forfeited                           | (4)              | 38.83  |   |                                 |
| Outstanding as of December 31, 2021 | <u>47</u>        | <u>\$ 39.67</u>  | 0.20  | \$ 1,363                        |

|  | Year Ended December 31,              |        |        |
|--|--------------------------------------|--------|--------|
|  | 2021                                 | 2020   | 2019   |
|  | (In millions, except per share data) |        |        |
| Total intrinsic value of RSUs vested (the release date fair value) | \$ 2.9                               | \$ 3.2 | \$ 5.8 |
| Total fair value of RSUs vested (the grant date fair value)        | \$ 2.8                               | \$ 4.5 | \$ 5.6 |
| RSU granted weighted-average fair value per share                  | NA                                   | NA     | NA     |

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

***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 and the purchase rights under Company ESPP. 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, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2021                    | 2020             | 2019             |
|   | (In thousands)          |                  |                  |
| Cost of revenue                                       | \$ 3,917                | \$ 2,961         | \$ 2,013         |
| Research and development                              | 10,865                  | 9,055            | 6,868            |
| Sales and marketing                                   | 5,392                   | 4,106            | 3,859            |
| General and administrative                            | 17,856                  | 19,125           | 10,154           |
| Total stock-based compensation expense <sup>(1)</sup> | <u>\$ 38,030</u>        | <u>\$ 35,247</u> | <u>\$ 22,894</u> |

<sup>(1)</sup> 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 in the first fiscal quarter of 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, 2021, \$0.3 million of unrecognized compensation cost related to Arlo's stock options was expected to be recognized over a weighted-average period of 0.6 years. \$48.4 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, 2021, there was no unrecognized compensation cost related to NETGEAR's stock options for Arlo employees. \$0.4 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 0.2 years.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**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. The Company matched 50% of contributions for employees up to a maximum of \$4,000 before fiscal 2020 and \$2,000 starting fiscal 2020 in employee contributions per fiscal year. During the years ended December 31, 2021, 2020 and 2019, the Company recognized \$1.1 million, \$0.9 million and \$1.5 million in expenses for Arlo employees related to Arlo 401(k) Plan match, respectively.

**Note 13. Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Potentially dilutive common shares, such as common shares issuable upon exercise of stock options, vesting of restricted stock awards and performance shares, and issuance of shares under the ESPP, are typically reflected in the computation of diluted net 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.

Net loss per share for the years ended December 31, 2021, 2020 and 2019 were as follows:

|   | Year Ended December 31,                   |              |             |
|---|---|--------------|-------------|
|   | 2021                                      | 2020         | 2019        |
|   | (In thousands, except for per share data) |              |             |
| <b>Numerator:</b>                                   |   |              |             |
| Net loss  | \$ (56,029)                               | \$ (101,251) | \$ (85,951) |
| <b>Denominator:</b>                                 |   |              |             |
| Weighted average common shares - basic              | 82,688                                    | 78,084       | 75,074      |
| Potentially dilutive common shares                  | —   | —            | —           |
| Weighted average common shares - dilutive           | 82,688                                    | 78,084       | 75,074      |
| Basic net loss per share                            | \$ (0.68)                                 | \$ (1.30)    | \$ (1.14)   |
| Diluted net loss per share                          | \$ (0.68)                                 | \$ (1.30)    | \$ (1.14)   |
| Anti-dilutive employee stock-based awards, excluded | 5,041                                     | 5,623        | 9,692       |

**Note 14. Segment and Geographic Information****Segment Information**

The Company operates as one operating and reportable segment. The Company has identified its CEO as the 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 prepaid services, while based upon a paid account's location for paid service revenue.

**ARLO TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

|                           | Year Ended December 31, |                   |                   |
|---------------------------|-------------------------|-------------------|-------------------|
|                           | 2021                    | 2020              | 2019              |
|                           | (In thousands)          |                   |                   |
| Americas                  |                         |                   |                   |
| United States ("U.S.")    | \$ 265,844              | \$ 259,023        | \$ 274,592        |
| Americas (excluding U.S.) | 5,338                   | 10,372            | 14,568            |
| EMEA                      | 134,232                 | 61,832            | 57,232            |
| APAC                      | 29,723                  | 25,927            | 23,615            |
| Total revenue             | <u>\$ 435,137</u>       | <u>\$ 357,154</u> | <u>\$ 370,007</u> |

The fiscal 2020 and 2019 balances have been recast to conform with the fiscal 2021 classification of paid service revenue following the paid account's location. Prior to the recast, the paid service revenue was allocated and was reported based the ship-to location of the customer for device sales and prepaid services.

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

|                                   | As of December 31, |                  |
|-----------------------------------|--------------------|------------------|
|                                   | 2021               | 2020             |
|                                   | (In thousands)     |                  |
| Americas                          |                    |                  |
| United States ("U.S.")            | \$ 7,302           | \$ 12,644        |
| Americas (excluding U.S.)         | 520                | 629              |
| EMEA                              | 402                | 234              |
| APAC                              |                    |                  |
| China                             | 1,143              | 1,821            |
| APAC (excluding China)            | 228                | 493              |
| Total property and equipment, net | <u>\$ 9,595</u>    | <u>\$ 15,821</u> |

***Significant Customers***

Two customers accounted for 30.8%, and 13.0% of revenue for the year ended December 31, 2021. 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. No other customers accounted for 10% or greater of the Company's revenue.

**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, 2021. 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, 2021 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, 2021 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, 2021 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.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

### 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 2022 Annual Meeting of Stockholders (the “Proxy Statement”) to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2021, 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 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 Accountant 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. Exhibit 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*.

|  | <u>Page</u>        |
|--|--------------------|
| Report of Independent Registered Public Accounting Firm (PCAOB ID:238)                                     | <a href="#">71</a> |
| Consolidated Balance Sheets as of December 31, 2021 and 2020   | <a href="#">72</a> |
| Consolidated Statements of Operations for the three years ended December 31, 2021, 2020 and 2019           | <a href="#">73</a> |
| Consolidated Statements of Comprehensive Income for the three years ended December 31, 2021, 2020 and 2019 | <a href="#">74</a> |
| Consolidated Statements of Stockholders' Equity for the three years ended December 31, 2021, 2020 and 2019 | <a href="#">75</a> |
| Consolidated Statements of Cash Flows for the three years ended December 31, 2021, 2020 and 2019           | <a href="#">76</a> |
| Notes to Consolidated Financial Statements   | <a href="#">77</a> |

*(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

| Exhibit Number          | Exhibit Description  | Incorporated by Reference |           |        | Filed Herewith |
|-------------------------|--|---------------------------|-----------|--------|----------------|
|                         |  | Form                      | Date      | Number |                |
| <a href="#">3.1</a>     | <a href="#">Amended and Restated Certificate of Incorporation of Arlo Technologies, Inc.</a>   | 8-K                       | 8/7/2018  | 3.1    |                |
| <a href="#">3.2</a>     | <a href="#">Amended and Restated Bylaws of Arlo Technologies, Inc.</a>   | 8-K                       | 8/7/2018  | 3.2    |                |
| <a href="#">4.1</a>     | <a href="#">Common Stock Certificate of Arlo Technologies, Inc.</a>  | S-1/A                     | 7/23/2018 | 4.1    |                |
| <a href="#">4.2</a>     | <a href="#">Description of Common Stock of Arlo Technologies, Inc.</a>   | 10-K                      | 2/26/2021 | 4.2    |                |
| <a href="#">10.1</a>    | <a href="#">Master Separation Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018</a>   | 8-K                       | 8/7/2018  | 10.1   |                |
| <a href="#">10.2</a>    | <a href="#">Transition Services Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018</a>   | 8-K                       | 8/7/2018  | 10.2   |                |
| <a href="#">10.3</a>    | <a href="#">Tax Matters Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018</a>   | 8-K                       | 8/7/2018  | 10.3   |                |
| <a href="#">10.4</a>    | <a href="#">Employee Matters Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018</a>  | 8-K                       | 8/7/2018  | 10.4   |                |
| <a href="#">10.5</a>    | <a href="#">Intellectual Property Rights Cross-License Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018</a>  | 8-K                       | 8/7/2018  | 10.5   |                |
| <a href="#">10.6</a>    | <a href="#">Registration Rights Agreement, by and between NETGEAR, Inc. and Arlo Technologies, Inc. dated as of August 2, 2018</a>   | 8-K                       | 8/7/2018  | 10.6   |                |
| <a href="#">10.7</a>    | <a href="#">Office Lease, by and between LT Orchard Parkway, LLC and Arlo Technologies, Inc. dated as of June 28, 2018</a>   | S-1                       | 7/6/2018  | 10.7   |                |
| <a href="#">10.8</a> *  | <a href="#">Confirmatory Employment Letter with Matthew McRae</a>  | 8-K                       | 8/7/2018  | 10.7   |                |
| <a href="#">10.9</a> *  | <a href="#">Confirmatory Employment Letter with Christine Gorjanc</a>  | 8-K                       | 8/7/2018  | 10.8   |                |
| <a href="#">10.10</a> * | <a href="#">Confirmatory Employment Letter with Patrick Collins</a>  | 8-K                       | 8/7/2018  | 10.9   |                |
| <a href="#">10.11</a> * | <a href="#">Confirmatory Employment Letter with Brian Busse</a>  | 8-K                       | 8/7/2018  | 10.10  |                |
| <a href="#">10.12</a> * | <a href="#">Change in Control and Severance Agreement</a>  | 8-K                       | 8/7/2018  | 10.11  |                |
| <a href="#">10.13</a> * | <a href="#">2018 Equity Incentive Plan, as amended</a>   | 8-K                       | 8/3/2021  | 10.1   |                |
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| <a href="#">10.19</a> * | <a href="#">Form of Service and Stock Market Performance-Based Restricted Stock Unit Agreement for Executive Officers</a>  | 10-Q                      | 11/8/2019 | 10.1   |                |
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| <a href="#">10.23</a> † | <a href="#">Supply Agreement, by and between Arlo Technologies, Inc. and Verisure S.à.r.l. dated as of November 4, 2019, as amended on June 23, 2020, November 1, 2021, and December 1, 2021</a> |                           |           |        | X              |
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| <a href="#">10.29</a>   | <a href="#">Sublease, by and between Arlo Technologies, Inc. and Vocera Communications, Inc. dated as of May 25, 2021</a>  | 10-Q                      | 8/5/2021  | 10.1   |                |

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| <a href="#">10.31</a>  | <a href="#">Loan and Security Agreement, by and between Arlo Technologies, Inc. and Bank of America, N.A. dated as of October 27, 2021</a>  |      |            |      | X |
| <a href="#">21.1</a>   | <a href="#">List of subsidiaries and affiliates</a>   |      |            |      | X |
| <a href="#">23.1</a>   | <a href="#">Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm</a>  |      |            |      | X |
| <a href="#">24.1</a>   | <a href="#">Power of Attorney (included on the Signatures page)</a>   |      |            |      | X |
| <a href="#">31.1</a>   | <a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer</a>   |      |            |      | X |
| <a href="#">31.2</a>   | <a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer</a>   |      |            |      | X |
| <a href="#">32.1</a>   | <a href="#">Section 1350 Certification of Principal Executive Officer</a>   |      |            |      | X |
| <a href="#">32.2</a>   | <a href="#">Section 1350 Certification of Principal Financial Officer</a>   |      |            |      | X |
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| 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.  |      |            |      |   |
|                        | † Pursuant to Item 601(b)(10) of Regulation S-K, certain portions of this exhibit have been omitted by means of marking such portions with asterisks because the Registrant has determined that the information is both not material and is the type that the Registrant treats as private or confidential. |      |            |      |   |

**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, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**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: March 2, 2022

## 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, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| <b>Signature</b>  | <b>Title</b>   | <b>Date</b>   |
|---|--|---------------|
| <u>/s/ MATTHEW MCRAE</u><br>Matthew McRae                       | Chief Executive Officer<br><i>(Principal Executive Officer)</i>                | March 2, 2022 |
| <u>/s/ GORDON MATTINGLY</u><br>Gordon Mattingly                 | Chief Financial Officer<br><i>(Principal Financial and Accounting Officer)</i> | March 2, 2022 |
| <u>/s/ PRASHANT AGGARWAL</u><br>Prashant Aggarwal               | Director   | March 2, 2022 |
| <u>/s/ JOCELYN E. CARTER-MILLER</u><br>Jocelyn E. Carter-Miller | Director   | March 2, 2022 |
| <u>/s/ RALPH E. FAISON</u><br>Ralph E. Faison                   | Director   | March 2, 2022 |
| <u>/s/ CATRIONA FALLON</u><br>Catriona Fallon                   | Director   | March 2, 2022 |
| <u>/s/ AMY ROTHSTEIN</u><br>Amy Rothstein                       | Director   | March 2, 2022 |
| <u>/s/ GRADY K. SUMMERS</u><br>Grady K. Summers                 | Director   | March 2, 2022 |

**CERTAIN INFORMATION CONTAINED IN THIS EXHIBIT, MARKED BY [\*\*\*], HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE THE REGISTRANT HAS DETERMINED THAT IT IS BOTH NOT MATERIAL AND IS THE TYPE THAT THE REGISTRANT TREATS AS PRIVATE OR CONFIDENTIAL.**

**CONFIDENTIAL EXECUTION VERSION**

**SUPPLY AGREEMENT**

dated as of November 4, 2019

between

**ARLO TECHNOLOGIES, INC.**

and

**VERISURE SÀRL**

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<sup>1</sup> [\*\*\*] = Certain Confidential Information Omitted

## SUPPLY AGREEMENT

This Supply Agreement (this "Agreement") is entered into by and between Arlo Technologies, Inc., a Delaware corporation having its place of business at 3030 Orchard Parkway, San Jose, California ("Supplier") and Verisure Sàrl, a Swiss limited liability company having its principal place of business at Chemin Jean-Baptiste Vandelle 3, 1290 Versoix, Switzerland ("Customer"), on this November 4, 2019 (the "Effective Date"). Provisions designated to be effective as of the Effective Date will be in full force and effect as of the Effective Date; provisions that have a specific date of effectiveness shall be effective as of such specific date; all other provisions will be effective as of the Closing Date.

### RECITALS

WHEREAS, pursuant to that certain Asset Purchase Agreement (the "APA"), dated as of the date hereof, among Supplier and Customer, Customer has agreed to purchase Supplier's distribution and marketing business in the Territory (as defined below);

WHEREAS, the Parties desire to establish a partnership on which Supplier shall make available for supply to Customer and/or its designee all of Supplier's products made available from time to time in the United States or elsewhere where, in Supplier's reasonable determination with advice of counsel, such products may legally be offered by Customer (the "Arlo Catalog Products") and Associated Services (as defined below);

WHEREAS, the Parties also intend for Customer to (a) become the exclusive distributor of Arlo Catalog Products in the Territory for all channels; and (b) distribute Arlo Catalog Products through and in connection with the sale of products and services of the Customer's security business, including Customer's partners and alliances sales channels for such security business, in each case excluding any retail, retail distribution, and retail e-commerce channels (the "Verisure Security Business") anywhere legally in the world;

WHEREAS, the Parties wish for Supplier to develop, manufacture and supply products in accordance with mutually-agreed specifications that will be set forth in one or more Statements of Work (the "Verisure Developed Products", and together with the Arlo Catalog Products, the "Products");

WHEREAS, the Parties desire for Supplier to provide to Customer certain rights in the event of certain business continuity failures of Supplier including the continuation of the commercial arrangements contemplated herein notwithstanding the occurrence of any such business continuity failure and the agreement to provide all support necessary for Customer to negotiate backstop arrangements (the "Backstop Arrangements") with Supplier's original design manufacturers and certain of its other suppliers, it being understood that these arrangements are part and parcel to the agreement by Customer to enter into this Agreement;

WHEREAS, Customer's intent is to enter into a strategic partnership with Supplier to jointly grow and develop their respective businesses through the supply of cameras and camera-related products. The intent of Customer and Supplier is to build a highly successful future and portfolio together for the long-term, targeting explosive growth. Customer's intent is to use Supplier to ensure Customer is able to meet its customers' demand for cameras and camera-related products;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the Parties hereby agree as follows:

## Article I

### DEFINITIONS

#### Section 1.01 Certain Defined Terms.

- (a) Unless otherwise defined herein, all capitalized terms used herein shall have the same meaning as in the APA.
- (b) The following capitalized terms used in this Agreement shall have the meanings set forth below:

“Adverse Event” shall have the meaning set forth in Section 12.01(d).

“Adverse Liquidity Position” means (1) either (i) the ratio of Supplier’s Net Debt to Supplier’s LTM EBITDA is greater than or equal to [\*\*\*]<sup>2</sup> or (ii) the ratio of Net Debt to LTM Gross Margin is greater than or equal to [\*\*\*]; provided, that, if Supplier’s LTM Gross Margin is less than [\*\*\*] percent ([\*\*\*]%) of Supplier’s consolidated revenue as of the most recent financial statements, then clause (i) shall not apply and the foregoing ratio in this clause (ii) shall be [\*\*\*]; or (2) the Liquidity Ratio is less than [\*\*\*] and Supplier’s Unrestricted Cash and Short Term Investments plus undrawn available lines of credit are below \$[\*\*\*].

“Adverse Notification” shall have the meaning set forth in Section 12.01(d).

“Affiliate” of a Person means a Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, the first mentioned Person; provided, that in no event shall Customer or any of its Subsidiaries be considered an Affiliate of any “portfolio company” (as such term is customarily understood among institutional private equity investors) of any investment fund or investment holding company sponsored by or affiliated with Hellman & Friedman LLC, GIC Private Limited or Corporación Financiera Alba, S.A. (or of any other direct or indirect shareholder of Customer from time to time which is a professional financial investor), nor shall any portfolio company of any investment fund or investment holding company sponsored by or affiliated with Hellman & Friedman LLC, GIC Private Limited or Corporación Financiera Alba, S.A. (or of any other direct or indirect shareholder of Customer from time to time, which is a professional financial investor) be considered to be an Affiliate of Customer or any of its Subsidiaries.

“Agreement” shall have the meaning set forth in the Preamble.

“APA” shall have the meaning set forth in the Recitals.

“Applicable Term” shall have the meaning set forth in Section 11.02.

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<sup>2</sup> [\*\*\*] = Certain Confidential Information Omitted

“Arlo Brand” shall have the meaning set forth in Section 9.10.

“Arlo Catalog Products” shall have the meaning set forth in the Recitals.

“Arlo Catalog Products Markup” means, for Arlo Catalog Products (i) if Customer’s Hardware Contribution Margin is equal to or less than [\*\*\*]<sup>3</sup> percent ([\*\*\*]%) calculated with respect to the retail part of the European Business, a markup of [\*\*\*] percent ([\*\*\*]%); (ii) if Customer’s Hardware Contribution Margin is greater than [\*\*\*] percent ([\*\*\*]%) but equal to or less than [\*\*\*] percent ([\*\*\*]%) calculated with respect to the retail part of the European Business, a markup of [\*\*\*] percent ([\*\*\*]%); and if Customer’s Hardware Contribution Margin is greater than [\*\*\*] percent ([\*\*\*]%) calculated with respect to the retail part of the European Business, a markup of [\*\*\*] percent ([\*\*\*]%).

“Arlo Change of Control” shall have the meaning set forth in Section 11.03(a).

“Arlo IP” means any Intellectual Property owned, controlled, or developed by or on behalf of Supplier or its Affiliates as of the Effective Date and through the termination of the Termination Backstop Services (provided that, following an Arlo Change of Control, Arlo IP will not be deemed to include any Intellectual Property of the acquirer or any affiliate of such acquirer (outside of the Intellectual Property of the acquired group of companies)).

“Arlo Smart Services” shall have the meaning set forth in Section 5.01(c).

“Associated Services” shall have the meaning set forth in Section 5.01.

“Associated Services Personnel List” shall have the meaning set forth in Section 5.04.

“Audit Scope” shall have the meaning set forth in Section 6.02.

“Auditor” shall have the meaning set forth in Section 6.02.

“Background IP” means all Intellectual Property owned by a Party as of the Effective Date, any modifications thereto made by such Party that are separate from those created under the Development Services and all other Intellectual Property made by a Party that is separate from that created under the Development Services.

“Backstop Arrangements” shall have the meaning set forth in the Recitals.

“Backstop License” shall have the meaning set forth in Section 9.05.

“Backstop Services” means, collectively, the Termination Backstop Services, the Early Stability Backstop Services and the Late Stability Backstop Services.

“Bankruptcy Code” means title 11 of the United States Code, as now in effect or hereafter amended.

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<sup>3</sup> [\*\*\*] = Certain Confidential Information Omitted



“Batch” means a specific quantity of the Products that is intended to have uniform character and quality, within specified limits, and is produced according to a single Purchase Order during the same cycle of manufacture/production run.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banks in New York City or banks in Geneva, Switzerland and/or other parts of Switzerland are permitted or required by Law to close.

“Change of Control” means, with respect to Supplier: (a) any transaction or series of transactions (including by merger, consolidation, exchange or contribution of equity, or other form of entity reorganization of Supplier in one transaction or in a series of related transactions with or into another entity) pursuant to which any Person becomes the record owner or beneficial owner, directly or indirectly, of equity securities of Supplier representing fifty percent (50%) or more of the total voting power represented by Supplier’s then issued and outstanding voting securities; (b) the direct or indirect sale, transfer or other disposition (in one transaction or in a series of related transactions) of all or substantially all of the consolidated assets or business of Supplier; (c) any transaction or series of transactions pursuant to which any Person acquires all or substantially all of the consolidated assets or business of Supplier or (d) the occupation of a majority of the seats (other than vacant seats) on the board of directors of Supplier by Persons who were not (x) directors of Supplier as of the date of this Agreement (the directors of Supplier as of the date of this Agreement, the “Incumbent Directors”), (y) directors who were appointed to vacant seats by the Incumbent Directors, or (z) directors who were nominated for election by the stockholders of Supplier by the Incumbent Directors; provided that any director so appointed or nominated and then elected will become an Incumbent Director after such appointment or nomination and any Incumbent Director who resigns, fails to stand for re-election or fails to be re-elected shall be removed from the definition of Incumbent Director; provided, further, that, in no event shall an Incumbent Director include any member of the board of directors of Supplier originally proposed for election in opposition to the Incumbent Directors then in office in an actual or threatened election contest relating to the election of the directors and whose initial assumption of office resulted from such contest or the settlement thereof.

“Claim” shall have the meaning set forth in Section 15.01.

“Closing Date” shall have the meaning set forth in the APA.

“Collateral” shall have the meaning set forth in Section 8.01.

“Commitment Period” shall have the meaning set forth in Section 8.03.

“Confidential Information” shall have the meaning set forth in Section 14.01.

“Control” means, with respect to a Person, the power to direct or cause the direction of the management of policies of such Person, directly or indirectly, whether through ownership of voting securities or by contract or otherwise and the terms “controlling” and “controlled by” have meanings correlative to the foregoing.

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<sup>4</sup> [\*\*\*] = Certain Confidential Information Omitted

“Customer” shall have the meaning set forth in the Preamble.

“Customer Entities” means, collectively, Customer and its Affiliates.

“Customer Feedback IP” shall have the meaning set forth in Section 4.09.

“Customer Services Manager” shall have the meaning set forth in Section 7.02(b).

“Customer Specific Features” shall have the meaning set forth in Section 4.02(a)(ix).

“Debt Default” shall have the meaning set forth in Section 12.01(a)(ii).

“Defective Product” means any Product which does not meet the requirements set forth in Section 2.22(d) herein.

“Deliverable” means any work product and/or other results of Development Services in each case of the foregoing to be delivered by Supplier or its Subsidiaries to Customer, as specified in a Statement of Work.

“Delivery Date(s)” means the date(s) on which Products are to be delivered to, or made available for collection from, the Delivery Location, as set out in Supplier’s acceptance of the applicable Purchase Order.

“Delivery Location” means the location to which Products are to be delivered to, or made available for collection from in accordance with Section 2.07 as set out in the Purchase Order. For clarity, there will be only one Delivery Location per Purchase Order.

“Development and Quality Control Committee” shall have the meaning set forth in Section 7.03.

“Development Service” shall have the meaning set forth in Section 4.01.

“Development Services Personnel List” shall have the meaning set forth in Section 4.07.

“Dispute” shall have the meaning set forth in Section 16.01(a).

“Early Stability Backstop Services” shall have the meaning set forth in Section 12.03(b).

“Early Stability Step-In Right” shall have the meaning set forth in Section 12.02(b).

“Early Stability Triggering Event” shall have the meaning set forth in Section 12.01(a).

“Effective Date” shall have the meaning set forth in the Preamble.

“EOL Policy” shall have the meaning set forth in Section 2.20.

“EOL Product” shall have the meaning set forth in 0.

“EOL Support Period” shall have the meaning set forth in Section 2.20(a).

“Epidemic Defect” shall have the meaning set forth in Section 2.23.

“Epidemic Defect Notice” shall have the meaning set forth in Section 2.25.

“Escrow” shall have the meaning set forth in Section 9.13.

“Escrow Costs” shall have the meaning set forth in Section 9.13.

“Escrow Materials” shall have the meaning set forth in Section 9.13.

“European Business” shall mean the distribution, marketing and sales of Products and Associated Services in the Territory.

“Existing Territory” means the countries in which Supplier currently supplies the Arlo Catalog Products as at the Effective Date, as follows: the United States of America, Canada, Mexico, Australia, Hong Kong, Japan, Korea, New Zealand, Singapore, Taiwan, the United Kingdom (including, for clarity, its constituent parts), Ireland, Germany, Austria, France, Switzerland, Spain, Italy, Norway, Denmark, Finland, Netherlands, and Belgium.

“Expiration Date” shall have the meaning set forth in Section 11.02.

“Feedback” shall have the meaning set forth in Section 4.09.

“Fees” means the Product Payments, the Total Commitment, the Annual Commitment, the fees for Development Services set forth in Section 4.05 and the fees for Associated Services set forth in Section 5.02, together with any other payments required to be paid by Customer to Supplier under this Agreement.

“Force Majeure” means, with respect to a Party, an event beyond the control of such Party (or any Person acting on its behalf) and which by the exercise of reasonable diligence and prudence the Party affected was unable to prevent, including acts of God, storms, floods, riots, fires, sabotage, civil commotion or civil unrest, interference by civil or military authorities, acts of war (declared or undeclared) or armed hostilities or other national or international calamity or one or more acts of terrorism or failure of energy sources. For the avoidance of doubt, the following shall not be deemed Force Majeure events: general adverse changes or fluctuations in the markets in which Supplier operates; financial distress or insufficient financial capability of Supplier to perform the Purchase Order or Statement of Work; storms, floods and failures of energy sources the effects or extent of which would have been mitigated by reasonable diligence and prudence; or events involving a previous or existing condition known by the Party affected by the event at or before the acceptance of a Purchase Order or Statement of Work date.

“GDPR” shall have the meaning set forth in Section 2.18.

“Good Industry Practice” means the exercise of the degree of skill, care and diligence expected from an expert and experienced supplier of products and services the same as or similar to the Products, the Development Services and the Associated Services.

“Governance Committee” shall have the meaning set forth in Section 7.04.

“Governmental Authority” means any United States, supranational or foreign, federal, state, provincial, municipal or local government agency, court of competent jurisdiction, administrative agency or commission or other governmental or regulatory authority or instrumentality.

“Grace Period” shall have the meaning set forth in Section 2.13.

“Hardware Contribution Margin” means (i) Customer’s gross shipments less returns, multiplied by Customer’s standard margin, minus (ii) marketing expenses and minus (iii) sales and marketing operating expenses (in each case, calculated with respect to the European Business).

“Indebtedness” means: (a) any indebtedness for borrowed money; (b) any obligations evidenced by notes, bonds, debentures or similar contracts to any Person other than Supplier or any of its Subsidiaries; (c) any obligations in respect of letters of credit or bankers acceptances; and (d) any guaranty of any such obligations described in clauses “(a)” through “(c)” of any Person other than Supplier or any of its Subsidiaries (other than in any case, accounts payable to trade creditors, accrued liabilities, deferred revenue and operating leases incurred in the ordinary course of business and non-current liabilities).

“Indemnified Party” shall have the meaning set forth in Section 15.03.

“Indemnifying Party” shall have the meaning set forth in Section 15.03.

“Initial Term” shall have the meaning set forth in Section 11.01.

“Insolvency Event” means the occurrence of any of the following: (i) Supplier or any of its Material Subsidiaries (A) voluntarily commences any case or files any petition seeking bankruptcy, winding up, dissolution, liquidation, administration, moratorium, reorganization or other relief under any federal, state or foreign bankruptcy, insolvency, administrative receivership or similar law now or hereafter in effect, (B) consents to the institution of, or fails to contest in a timely and appropriate manner, any involuntary proceeding or petition described in clause (ii) below, (C) files an answer admitting the material allegations of a petition filed against it in any such proceeding, (D) applies for or consents to the appointment of a receiver, administrator, administrative receiver, trustee, custodian, sequestrator, conservator or similar official for Supplier or any of its Material Subsidiaries for a substantial part of its assets, (E) makes a general assignment or arrangement for the benefit of creditors or (F) takes any corporate action for the purpose of authorizing any of the foregoing; or (ii) upon the commencement of an involuntary case against Supplier or any of its Material Subsidiaries or the filing of an involuntary petition seeking bankruptcy, winding up, dissolution, liquidation, administration, moratorium, reorganization or other relief in respect of Supplier or any of its Material Subsidiaries or its or their debts, or of a substantial part of its or their assets, under any federal, state or foreign bankruptcy, insolvency, administrative, receivership or similar Law now or hereafter in effect, provided, that such involuntary proceeding in this clause (ii) is not dismissed within a period of thirty (30) days after the filing thereof, or if any court order grants the relief sought in such involuntary proceeding.

“Integration Services” shall have the meaning set forth in Section 5.01(a).

“Intellectual Property” means all rights associated with the following: (a) patents and applications therefor, utility models and applications therefor and statutory invention registrations (including any continuations, continuations-in-part, divisionals, reissues, renewals, foreign counterparts or modifications for any of the foregoing); (b) trade secret rights, rights in know-how and all other rights in or to confidential business or technical information; (c) copyrights in works of authorship of any type (including copyrights in Software), mask work rights and design rights, whether or not registered, and registrations and applications for registration thereof, and all rights therein provided by applicable international treaties or conventions, all moral and common law rights thereto; and (d) any similar, corresponding or

equivalent rights to any of the foregoing anywhere in the world. For clarity, “Intellectual Property” does not include any rights in Trademarks.

“Joint Roadmap” shall have the meaning set forth in Section 7.01.

“Late Stability Backstop Services” shall have the meaning set forth in Section 12.03(e).

“Late Stability Ramp Down Period” shall have the meaning set forth in Section 12.03(e)(ii).

“Late Stability Step-In Right” shall have the meaning set forth in Section 12.02(c).

“Late Stability Triggering Event” shall have the meaning set forth in Section 12.01(b).

“Law” means any law, treaty, statute, ordinance, rule, code or regulation of a Governmental Authority.

“Licensed Feedback” shall have the meaning set forth in Section 4.09.

“Liquidity Ratio” means the ratio of (i)(a) Unrestricted Cash and Short Term Investments plus (b) undrawn revolving credit facilities or lines of credit of Supplier, to (ii) (a) the sum of (1) the aggregate amount of projected capital expenditures and working capital requirements of Supplier for the next rolling twelve (12) month period, plus (2) the aggregate principal amount of cash payments with respect to interest and other required payments, in the form of amortization or otherwise, on all Indebtedness of Supplier for the next rolling twelve (12) month period, and without duplication, the aggregate principal amount of all Indebtedness of Supplier outstanding on the applicable date having a remaining term to maturity of one year or less, plus (3) the aggregate amount of actual and projected cash tax payments of Supplier for the next rolling twelve (12) month period minus (b) Supplier’s LTM EBITDA, in each case (other than with respect to LTM EBITDA) with such calculation of capital expenditure projections, working capital projections, debt service, tax payment and/or similar cashflow forecasts in this definition as prepared in good faith and consistent with similar capital expenditure projections, working capital projections, debt service, tax payment and similar cashflow forecasts presented to the board of directors or senior management of Supplier in the ordinary course of business.

“Losses” means any and all losses, damages, liabilities, costs (including reasonable out-of-pocket costs of investigation) and expenses, including interest, penalties, settlement costs, judgments, awards, fines, costs of mitigation, court costs and fees (including reasonable attorneys’ fees and expenses).

“LTM EBITDA” means, as of any date of determination, with respect to the four fiscal quarters most recently ended for which financial statements are available, the sum (for purposes of such calculation, not to be less than zero) for such four fiscal quarters of (1) net income as reflected on a statement of operations prepared on a consolidated basis in accordance with generally accepted accounting principles as ordinarily applied by Supplier plus (2) (i) provisions for taxes based on income, profits, losses or capital of Supplier and its Subsidiaries for such quarter, (ii) interest expense and (iii) depreciation and amortization (including, without limitation, amortization of intangibles), (iv) stock-based compensation, in each case (x) without duplication, (y) solely to the extent such amount was deducted in calculating such net income and (z) solely with respect to the applicable quarter. Solely for purposes of calculating EBITDA for periods containing fiscal quarters ended prior to the date hereof, EBITDA for the fiscal

quarters ended December 31, 2018, March 31, 2019 and June 30, 2019 shall be \$[\*\*\*]<sup>5</sup>, \$[\*\*\*] and \$[\*\*\*], respectively.

“LTM Gross Margin” means, as of any date of determination, with respect to the four fiscal quarters most recently ended for which financial statements are available, the sum (for purposes of such calculation, not to be less than zero) for such four fiscal quarters of (1) consolidated revenue less (2) cost of goods sold, in each case as reflected on the statement of operations prepared on a consolidated basis in accordance with generally accepted accounting principles as ordinarily applied by Supplier. Solely for purposes of calculating gross margin for periods containing fiscal quarters ended prior to the date hereof, gross margin for the fiscal quarters ended December 31, 2018, March 31, 2019 and June 30, 2019 shall be \$[\*\*\*], \$[\*\*\*] and \$[\*\*\*], respectively.

“Markup” means either the Verisure Developed Products Markup or the Arlo Catalog Products Markup.

“Material Adverse Effect” means (x) any effect, event, change, development, occurrence, circumstance or state of facts that, individually or in the aggregate, has had or would reasonably be expected to have, a material adverse effect on (i) the assets, business or financial condition of Supplier and its Subsidiaries, individually or taken as a whole, and/or (ii) the ability of Supplier or any of its Subsidiaries, as applicable, to perform their respective obligations under this Agreement in a timely manner or (y) the Liquidity Ratio is less than [\*\*\*] and Supplier’s

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<sup>5</sup> [\*\*\*] = **Certain Confidential Information Omitted**

Unrestricted Cash and Short Term Investments plus undrawn available lines of credit are below \$[\*\*\*]<sup>6</sup>.

“Material Subsidiary” means any Subsidiary of Supplier that (a) has any Indebtedness that is material in relation to Supplier and its Subsidiaries, taken as a whole, (b) guarantees any material Indebtedness of Supplier or any other Material Subsidiary, (c) is party to any contract, lease or license that is material in relation to Supplier and its Subsidiaries, taken as a whole, (d) is the employer to a material number of employees of Supplier and its Subsidiaries, taken as a whole, (e) is otherwise material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of Supplier and its Subsidiaries, taken as a whole, or (f) any Subsidiary which meets any of the following conditions: (A) the Supplier and its other Subsidiaries’ investments in and advances to the Subsidiary exceed ten percent (10%) of the total assets of the Supplier and its Subsidiaries consolidated as of the end of the most recently completed fiscal year (for a proposed combination between entities under common control, this condition is also met when the number of common shares exchanged or to be exchanged by the Supplier exceeds 10 percent of its total common shares outstanding at the date the combination is initiated); (B) the Supplier and its other Subsidiaries’ proportionate share of the total assets (after intercompany eliminations) of the Subsidiary exceeds ten percent (10%) of the total assets of the Supplier and its Subsidiaries consolidated as of the end of the most recently completed fiscal year; or (C) the Supplier’s and its other Subsidiaries’ equity in the income from continuing operations before income taxes of the Subsidiary exclusive of amounts attributable to any non-controlling interests ten percent (10%) of such income of the Supplier and its Subsidiaries consolidated for the most recently completed fiscal year.

“Minimum Annual Commitment” shall have the meaning set forth in Section 8.03.

“Net Debt” means, as of any date of determination, the aggregate principal amount of Indebtedness as reflected on a balance sheet prepared on a consolidated basis in accordance with generally accepted accounting principles as ordinarily applied by Supplier less the aggregate amount of Unrestricted Cash and Short Term Investments; provided that, for purposes of this definition, total liabilities will be calculated without giving effect to any election under FASB ASC Topic 825 (or any other Financial Accounting Standard or similar principle or guidance having a similar result or effect) to value any indebtedness or other liabilities at “fair value”.

“New Product” shall have the meaning set forth in Section 2.28.

“Non-Defective Product” shall have the meaning set forth in Section 2.22(e).

“ODMs and Original Suppliers” means all original design manufacturers of Supplier from time to time (including, without limitation, Foxconn and Pegatron).

“Open Source Software” means Software for which the Source Code is generally made publicly available, and that is licensed under the terms of various published open source Software license agreements or copyright notices accompanying such Software.

“Party” means Supplier and Customer individually, and “Parties” means Supplier and Customer collectively, and, in each case, their permitted successors and assigns.

“Person” means an individual, corporation, partnership, limited liability company, association, trust, incorporated organization or other single entity.

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<sup>6</sup> [\*\*\*] = Certain Confidential Information Omitted

“Personnel Lists” shall have the meaning set forth in Section 5.04.

“Prepayments” shall have the meaning set forth in Section 8.01.

“Product Addendum” shall have the meaning set forth in Section 2.01.

“Product Information” shall have the meaning set forth in Section 2.19(a).

“Product Invoice” shall have the meaning set forth in Section 8.06.

“Products” shall have the meaning set forth in the Recitals.

“Product Payments” shall have the meaning set forth in Section 8.02.

“Project Leader” shall have the meaning set forth in Section 4.02(a)(iv).

“Purchase Order” means a request for Products that has been made by a Customer Entity.

“Records” shall have the meaning set forth in Section 6.01.

“Relationship Manager” shall have the meaning set forth in Section 7.02(a).

“Representative” of a Person means any director, officer, employee, agent, consultant, accountant, auditor, attorney or other representative of such person.

“Services Invoice” shall have the meaning set forth in Section 5.03.

“Software” shall mean any firmware, end user software, driver software, interface (including graphical user interface) software, operating software or other software program.

“Source Code” shall mean the human-readable source code for the applicable Software, as appropriate, in the appropriate programming language, and which shall contain sufficient narrative so as to reasonably enable a Software programmer having average skill and ability in computer application programming to understand, maintain and modify the source code.

“Specification” means a Product and/or Development Services specification set out in the relevant Statement of Work and any other specifications and amendments agreed in writing between the Supplier and the Customer from time to time.

“Statement of Work” or “SOW” shall have the meaning set forth in Section 4.02.

“Step-In Rights” shall have the meaning set forth in Section 12.02(c).

“Subsidiary” or “Subsidiaries” of Customer, Supplier or any other Person means any corporation, partnership or other legal entity of which Customer, Supplier or such other Person, as the case may be (either alone or through or together with any other Subsidiary), owns, directly or indirectly, more than 50% of the stock or other equity interests the holder of which is generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

“Supplier” shall have the meaning set forth in the Preamble.



“Supplier Personnel” means the employees, agents, subcontractors, suppliers and invitees of the Supplier engaged, or due to be engaged, in carrying out, or required to carry out, the Supplier’s obligations under the Agreement.

“Supplier Services Manager” shall have the meaning set forth in Section 7.02(b).

“Supplier SOW Technology” shall have the meaning set forth in Section 4.02(a)(ix).

“Supply Ramp Down Period” shall have the meaning set forth in Section 12.03(a)(ii).

“Supply Triggering Event” means the termination of, or Supplier’s notification of its intent to terminate, the supply of the Verisure Developed Products by Supplier to Customer for any reason, unless (i) in accordance with the terms hereof or (ii) Customer has provided its prior written consent for such termination.

“Support Agreement” shall have the meaning set forth in Section 12.01(b)(iii).

“Technical Manufacturing Information” means the manufacturing information, process and technology used by Supplier or its sub-contractors to design, develop, test or manufacture the Product including, but not limited to: (i) specifications, Software, schematics, designs, patterns, drawings or other materials pertinent to the most current revision level of manufacturing and assembly of the Product, including any mask work and topography information and product release notes; (ii) detailed component information; (iii) copies of all inspection, manufacturing, test and quality control procedures and any other work processes; (iv) jig, fixture and tooling designs; (v) Supplier history files; (vi) support documentation; and (vii) any additional technical information or materials specified in a Product Addendum.

“Termination Backstop Services” shall have the meaning set forth in Section 12.03(a).

“Termination Event” shall have the meaning set forth in Section 11.03(a).

“Territory” shall mean all the countries and jurisdictions in the European continent, including, without limitation, Albania, Andorra, Armenia, Austria, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Italy, Kazakhstan, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Monaco, Montenegro, The Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, the United Kingdom (including, for clarity, its constituent parts) and Vatican City.

“Testing Materials” shall have the meaning set forth in Section 2.22(e).

“Total Commitment” shall have the meaning set forth in Section 8.03.

“Trademarks” means trademarks, trade names, service marks, service names, trade dress rights, domain names, social media identifiers, URLs, IP addresses, IP address ranges and websites and similar designation of origin, in each case whether registered or unregistered, and all goodwill symbolized thereby and associated therewith.

“Triggering Events” shall have the meaning set forth in Section 12.01(b).

“Unavailability” shall have the meaning set forth in Section 2.03.

“Unrestricted Cash and Short Term Investments” means cash, cash equivalents and short term investments, in each case as reflected on a balance sheet prepared as of such date on a consolidated basis in accordance with generally accepted accounting principles as ordinarily applied by Supplier.

“VDP License” shall have the meaning set forth in Section 9.04.

“Verisure Developed IP” shall have the meaning set forth in Section 9.02.

“Verisure Developed Products” shall have the meaning set forth in the Recitals.

“Verisure Developed Products Markup” means, for Verisure Developed Products, a markup of [\*\*\*]<sup>7</sup> percent ([\*\*\*]%).

“Verisure Security Business” shall have the meaning set forth in the Recitals.

“Volume Forecast” shall have the meaning set forth in Section 2.02.

“Warranty Period” shall have the meaning set forth in Section 2.22(d).

## Article II

### SUPPLY

Section 1.01 Arlo Catalog Products to be Provided. Subject to the terms and conditions of this Agreement, including that Supplier has reasonably determined that such products may be made available outside of the Existing Territory in accordance with Section 2.19, the Arlo Catalog Products supplied to the Customer Entities during the term of this Agreement shall include all products that Supplier provides to its partners, resellers, distributors,

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<sup>7</sup> [\*\*\*] = Certain Confidential Information Omitted

Section 1.01           retailers and other channels, but at a minimum, Supplier shall supply the products and services set forth in Schedule 2.01 herein (the “Product Addendum”).

Section 1.02           Volume Forecasts. Customer shall provide to Supplier, within the first [\*\*\*]<sup>8</sup> of the month, in an agreed format, a rolling forecast of the quantity of the Products it requires, by [\*\*\*], for the following [\*\*\*] and the approximate dates on which it will require the Products to be supplied (the “Volume Forecast”).

- (a) The Volume Forecast will only be binding in respect of those components that require more than [\*\*\*] to be delivered at the manufacturing facility, as certified by Supplier on a [\*\*\*] basis (the “Long Lead Time Components”);
- (b) Supplier shall not allocate any Long Lead Time Components to any customer other than Customer until Customer places the relevant Purchase Order;
- (c) In the event Customer places a Purchase Order that is below the Volume Forecast, Customer will be liable for the Long Lead Time Components applicable to such Purchase Order; provided that Supplier takes all commercially reasonable steps to mitigate the effects of such long lead times, including, without limitation (i) using the components that were purchased by Supplier for, but are no longer required by, Customer, in products for other customers of Supplier; (ii) reselling the Long Lead Time Components to its own suppliers and (iii) allocating such Long Lead Time Components to future orders by Customer;
- (d) Provided that Supplier has taken the mitigating steps set forth above and such Long Lead Time Components remain unused or unsold, Customer will pay such unused or unsold Long Lead Time Components at cost within [\*\*\*] of receiving the invoice from Supplier; and
- (e) Customer will be able to order up to [\*\*\*] percent ([\*\*\*]%) more of the Volume Forecast (“Increased Forecast”) and Supplier shall use commercially reasonable efforts to accommodate such increase.

Supplier will provide all information related to manufacturing component lead times promptly after it becomes available and the Parties will work together in good faith to optimize lead times.

Section 1.03           Supply of Products. Subject to the terms and conditions of the Agreement, the Supplier shall supply, for the benefit of the Customer and the Customer Entities, such quantities of the Products as set out in the Purchase Order. Supplier shall ensure that it maintains sufficient quantities of the Products to meet the Volume Forecasts provided by the Customer and will use commercially reasonable efforts to fulfil any Increased Forecasts. If at any time during the term of this Agreement the Supplier determines that it will not be able to meet purchase orders received from Customer or any of its other customers for a specific period of time (the “Unavailability”), Supplier shall immediately notify Customer thereof. In connection with the Unavailability, Supplier shall (i) through the third anniversary of the Initial Term, with respect to the fulfillment of products among all of its customers, give Customer the same priority

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<sup>8</sup> [\*\*\*] = Certain Confidential Information Omitted

Section 1.03 as it gives to its top two customers; and (ii) for the remainder of the term of this Agreement, give Customer a pro rata share of the available Products equivalent to the percentage of Customer's Product sales as a proportion of Supplier's total sales in the most recent calendar year.

For clarity, subject to Section 4.04, Supplier may subcontract to an Affiliate the performance of its obligations under this Article 2, including the acceptance, fulfilment and receipt of payment for each Purchase Order.

Section 1.04 Purchase Orders. Customer may, from time to time on its own behalf or on behalf of any Customer Entity, and any Customer Entity may from time to time on its own behalf, order Products from the Supplier by completing and issuing a Purchase Order and submitting it to the Supplier in accordance with the procedure detailed in this Section 2.04. Each Purchase Order shall:

- (a) be given in writing (whether air mail or electronic form);
- (b) where relevant specify:
  - (i) the type, price, currency and quantity of any Products ordered; and
  - (ii) the requested Delivery Date(s) and Delivery Location for such Products;
- (c) contain an order number; and
- (d) specify the registered name, tax identification number and address of the Customer Entity to be invoiced by the Supplier for the Fees.

Section 1.05 Acceptance. The Supplier shall notify the relevant Customer Entity promptly, and in any event within five Business Days of receiving a Purchase Order, whether or not it accepts the Purchase Order and, if it accepts the Purchase Order, the Delivery Date. Supplier will not reject a Purchase Order that: (i) is consistent with the Volume Forecast; and (ii) has a delivery date that is at least [\*\*\*]<sup>9</sup> (for sea freight to the Delivery Locations set forth on Section 2.07 herein) or [\*\*\*] (for air freight) from the date of the Purchase Order; provided that Supplier may reject Purchase Orders with a delivery date that cannot be met entirely because of exceptional or unforeseen circumstances, in each case, that are outside of Supplier's control. Failure to issue a written Purchase Order rejection within such period shall be deemed an acceptance of the Purchase Order on the terms set out therein. Supplier will use commercially reasonable efforts to accept Purchase Orders for Increased Forecasts. Upon acceptance or deemed acceptance of a Purchase Order in accordance with this Section 2.05, Supplier shall be bound to supply and perform, and the Customer (or, without limiting Section 8.07(c), the relevant Customer Entity) shall be bound to purchase, the relevant Products. Attached as Schedule 2.05 is a list, as of the Effective Date, of all Customer Entities that may be issuing Purchase Orders. Customer may amend Schedule 2.05 from time to time by written notice to Supplier.

Section 1.06 Purchase Order Cancellation. A Customer Entity which has placed a Purchase Order for Products which has been accepted by Supplier may not cancel such Purchase Order.

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<sup>9</sup> [\*\*\*] = Certain Confidential Information Omitted

Section 1.07 Purchase Order Product Fulfilment. Supplier shall deliver the Products to or make the Products available for collection from, the Delivery Location by or on the Delivery Date(s). The Delivery Locations as of the Effective Date are:

- (a) for all Products to be marketed and sold via the retail channel: Moerdijk, The Netherlands; and
- (b) for all Products to be marketed and sold via the Verisure Security Business: Guadalajara (Madrid area), Spain.

The Delivery Locations may change at Customer's sole discretion, provided: (i) the Delivery Location remains in the Territory; (ii) Customer has given Supplier advance written notice of such change; and (iii) for Purchase Orders accepted after such notice, Supplier has a ninety (90) day period to shift all deliveries to the new location. In the event a Party wants to add an additional Delivery Location, the Parties will discuss in good faith the possibility of the same.

Section 1.08 Packaging and Handling. Supplier shall properly pack, mark and ship Products as instructed by Customer and otherwise in accordance with applicable Law and industry standards, and shall provide Customer with shipment documentation showing the purchase order number, the quantity of pieces in shipment, the number of cartons or containers in shipment, the bill of lading number and the country of origin. Further, Supplier shall:

- (a) where reasonably required by the relevant Customer Entity, remove all packaging and leave the Delivery Location clear of waste;
- (b) label the Products, packaging, master boxes and pallets in accordance with the reasonable instructions of the relevant Customer Entity and any applicable regulations or requirements of any applicable carrier, and properly packed and secured so as to protect them from loss or damage in accordance with Good Industry Practice and to ensure they reach their destination in an undamaged condition. Supplier shall ensure that a packing note quoting the Purchase Order number accompanies each delivery or consignment of the Products and is displayed prominently on all packages; and
- (c) Supplier will promptly provide to the relevant Customer Entity all reasonable assistance to help facilitate the importation of the Products and take all reasonably necessary action to assist Customer in ensuring the Products are granted prompt customs clearance.

Section 1.09 Surplus. Unless otherwise agreed between the Parties in writing, no Customer Entity will have any liability to pay for, and any Customer Entity may refuse, any surplus Products delivered by the Supplier. Any surplus Products shall be collected by the Supplier at the Supplier's cost promptly following a request by the Customer Entity.

Section 1.10 Transfer of Title and Risk of Loss. Supplier shall be responsible for arranging and paying all shipping, insurance and export costs related to the freight of the Products under DDU (Incoterms 2010) to the Delivery Location, unless otherwise agreed upon by both Parties on a shipment by shipment basis. For the avoidance of doubt, Customer shall be responsible for performing customs clearance and paying all relevant customs and import duties and inspection costs associated with the delivery of the Products to the Delivery Location. Title to the Products will pass on to the Customer at the Delivery Location. Risk in any Products rejected by the Customer pursuant to Section 2.15 hereof shall pass back to the Supplier once the Supplier has collected the rejected Products pursuant to Section 2.15, and risk in any surplus Products shall pass back to the Supplier on the earlier of

(i) at the point of Supplier's collection of the same at the Delivery Location; and (ii) [\*\*\*] from the date Supplier receives Customer's notice to collect the Products from the Delivery Location.

Section 1.11 Price List. Supplier's price list will include DDU pricing, assuming sea freight and associated lead times; provided that Customer may request air shipments in the Purchase Order provided that Customer promptly pays any incremental cost as a result of the change from sea to air freight. Supplier shall, on a quarterly basis, request quotes from third party vendors on freight pricing and, where there has been a change in price, provide Customer with such quotes. The Parties will compare such quotes and discuss freight pricing on each meeting of the Governance Committee, and the Parties may revisit the use of DDU depending on the results of such discussion.

Section 1.12 Meeting Delivery Date. Supplier shall notify the relevant Customer Entity promptly after receipt of a Purchase Order if the requested Delivery Date(s) for the Products will not be met and shall propose an alternative Delivery Date. Further:

(a) Supplier shall use commercially reasonable efforts to meet the Delivery Date(s);

(b) Unless otherwise specified in the Purchase Order or otherwise agreed in writing by the Parties, no Customer Entity shall be required to accept delivery in instalments, outside its respective normal business hours as notified to the Supplier from time to time, or from or at a location different from the Delivery Location. The Customer Entity shall have no liability to the Supplier in respect of any Products delivered to or made available for collection at any location different from the Delivery Location and any such Products shall be collected by the Supplier at the Supplier's cost promptly following a request by the Customer Entity.

Section 1.13 Delayed Delivery. If the Supplier is unable for any reason to deliver the Products by the Delivery Date, the Customer Entity may, after the passage of [\*\*\*] after the Delivery Date ("Grace Period"), deduct from the Fees the following rate for each week of delay after the Grace Period until the actual delivery of all such Products:

**Amount payable per week of delay after the Grace Period**

[\*\*\*]% of the value of order.

Customer's ability to deduct from the Fees under this Section 2.13 shall be capped in relation to each order of Products at [\*\*\*]% of the value of that order, unless otherwise agreed by the Parties. The Fee reduction set out in this Section 2.13 is Customer's sole and exclusive remedy in the event of a delivery of the Products after the Delivery Date.

[\*\*\*] = **Certain Confidential Information Omitted**

Section 1.14

Section 1.15 Quality Standards; Inspections and Acceptance Testing. Supplier shall meet or exceed (i) Supplier's current quality standards for the Arlo Catalog Products, and (ii) the quality standards for the Verisure Developed Products to the extent set out in the relevant Statement of Work or as otherwise mutually agreed in writing. Supplier, or its designee, shall perform quality inspections of the Products before shipment and will certify inspection results in the manner reasonably requested by Customer or otherwise in accordance with industry standards. Further:

(a) subject to the provisions of Section 2.14(b), the Customer Entity may reject any Product which it reasonably considers does not conform to the Specifications or this Section 2.14.

(b) The Customer shall have the right to inspect the Products upon arrival at the Delivery Location.

(c) Any inspection, testing, checking, rejection or approval made, carried out or given by or on behalf of the Customer shall not relieve the Supplier from any obligation under this Agreement nor prejudice any of the powers or remedies of any Customer Entity.

(d) Without prejudice to the foregoing, if a Statement of Work specifies any additional acceptance tests and/or other acceptance procedures applicable to the Products, the Supplier shall comply with its obligations relating to such acceptance testing and/or other acceptance procedures as stated in the relevant Statement of Work.

(e) If, as a result of such inspection and/or review of samples under Section 2.14(a) and/or as a result of any additional acceptance testing and/or other acceptance procedures pursuant to Section 2.14(d), the Customer is not satisfied (acting reasonably) that the Products will conform in all respects with this Agreement and the Customer so informs the Supplier, the Supplier shall promptly take all steps necessary to ensure conformance.

(f) Supplier shall supply Customer in good time with any instructions or other information necessary for acceptance of Products.

Section 1.15 Products which are not Acceptable. Customer may at any time within [\*\*\*]<sup>10</sup> following the point of inspection reject any Products which, in the reasonable opinion of the Customer, do not conform to this Agreement. A failure by Customer to reject the Products within the [\*\*\*] shall be deemed an acceptance of such Products. Subject at all times to Supplier's right to dispute Customer's rejection in accordance with Section 2.15(e) below:

(a) the Customer Entity shall notify the Supplier in writing of any defect by reason of which the Customer Entity alleges that the Products delivered are not in accordance with the relevant Specification;

(b) if the Customer Entity rejects any Products which are "dead on arrival" or otherwise damaged or not in accordance with the relevant Specification, the Supplier shall at its sole cost and risk and if requested by the Customer Entity:

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<sup>10</sup> [\*\*\*] = Certain Confidential Information Omitted

(i) collect the rejected Products from the Customer Entity promptly (and in any event within [\*\*\*]<sup>11</sup> of receiving notice from the Customer or any other Customer Entity requiring it to do so); and

(ii) promptly, and in any event within [\*\*\*] of receiving a notice of rejection from the Customer Entity, supply replacement Products which are in accordance with the relevant Specification;

(c) If the Supplier fails to collect rejected Products in accordance with Section 2.15(b)(i) above, the Customer Entity shall be entitled to dispose of such Products or return them to the Supplier (and where Products are returned, the Supplier shall accept the return of such Products), and the Supplier shall promptly reimburse the Customer Entity's reasonable costs of doing so;

(d) If the Supplier fails to supply replacement Products in accordance with Section 2.15(b)(ii), the Supplier shall, at the Customer Entity's request, refund to the Customer that part of the Fees attributable to the Products concerned; and

(e) If there is any difference of opinion between the Parties as to whether any Products supplied by the Supplier are in accordance with the relevant Specification, the matter shall, at the request of either the Supplier or the Customer, be determined in accordance with Section 16.01.

Section 1.16 Tooling; Refurbished Products. Customer will have the right to purchase from Supplier relevant tooling and test equipment for Products to support reverse logistics processes and for Customer to perform testing within its own logistics centers. Customer will have the right to purchase plastics and packaging from Supplier at cost for purposes of refurbishing Products.

Section 1.17 Product Requirements. Supplier shall ensure that the Products (other than any Background IP provided by Customer) comply with applicable Law, including regulatory requirements, and with any standards, certification and marking requirements set out in the relevant Product Addendum or Statement of Work. Supplier shall have procedures in place as required to demonstrate that it takes all necessary precautions and exercises all due diligence to satisfy all standards and certifications relating to safety, legality and quality; and applicable Laws. To the extent it is within Supplier's control after commercially reasonable efforts, Supplier shall ensure that its own suppliers are subject to equivalent obligations to take all necessary precautions and exercise all due diligence to those set out in this Section 2.17.

Section 1.18 Security and Data Privacy.

(a) The Parties will establish collaborative processes to ensure compliance with applicable licenses and regulation, including in relation to the EU General Data Protection Regulation or (as the context permits) the General Data Protection Regulation as adopted in the United Kingdom pursuant to the European Union (Withdrawal Act) 2018 (collectively, "GDPR") and other data privacy regulation. This collaborative process will adhere to GDPR rules and other data privacy rules and be mutually agreed upon by the Parties to maximize data

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<sup>11</sup> [\*\*\*] = Certain Confidential Information Omitted



(a) protections, end user privacy, and data security while enabling the fulfilment of the end user features across the companies' infrastructure and products. This may include updates to end user licenses, privacy statements, and other agreements. The Parties will also collaborate on processes for data requests, "right to be forgotten" requests, and other related procedures. Moreover, the provisions of Schedule 2.18 shall apply and Supplier agrees to abide by the same.

(b) In furtherance of Supplier's obligation to comply with applicable Law, Supplier shall ensure that, in designing the Products, it takes into consideration the impact of privacy Laws and regulatory standards on the use of the Products within the Territory. Customer may submit to Supplier any privacy enhancing features for the Products, and Supplier agrees to consider such features in good faith.

Section 1.19 Production and Technical Manufacturing Information Records. Supplier shall provide Customer with all technical documentation on the Products and related testing required for Customer to comply with its own regulatory requirements where Supplier has agreed in its reasonable discretion to distribute a Product outside of the Existing Territory; provided that in each case requirements that are specific to the Verisure Developed Products shall be the Parties' joint responsibility. Customer shall provide advance notice of any new countries for which Supplier needs to obtain product certification, Supplier agrees to take commercially reasonable efforts to achieve such certifications, and any out-of-pocket costs required for such new certifications shall be assumed by Customer. Further, only to the extent necessary for Customer to comply with regulatory requirements:

(a) On or before each Delivery Date for any Product, the Supplier shall provide the Customer with all required Technical Manufacturing Information and other information relating to the Product ("Product Information"), as applicable, in English.

(b) On or before each Delivery Date for a new or modified Product, the Supplier shall provide the Customer with updates to the Technical Manufacturing Information and Product Information and all other information reasonably required, in English (or if required by Customer, in other languages), to the extent required for the preparation of user and technical materials to make available with the relevant Product.

(c) The Supplier shall keep the Technical Manufacturing Information and Product Information referred to in this Section 2.19 for a minimum period of ten years from the time it is first provided to the Customer. During this period the Supplier shall, at the request of the Customer, provide the Customer with further copies of such Technical Manufacturing Information and Product Information on request.

Section 1.20 End Of Life Arlo Catalog Products. Supplier is permitted to discontinue the supply of any Arlo Catalog Product during the term of this Agreement in accordance with its end-of-life policy (as updated by Supplier from time to time) ("EOL Policy"). Schedule 2.20 sets forth Supplier's EOL Policy as of the Effective Date. Supplier shall provide Customer with any updates to its EOL Policy throughout the term of this Agreement.

One-Time Buy. Supplier shall give Customer the opportunity to place an order for the remainder of its stock of any Arlo Catalog Product that Supplier has discontinued pursuant to its end-of-life policy for distribution in the Territory only ("EOL Product") upon terms and timing to be agreed.

(a) Support Period. Supplier shall continue to support any EOL Product until the later of (i) the end of the Warranty Period for the last such EOL product sold and (ii) the longest period for which Supplier supports any other EOL Product (the "EOL Support Period").

(b) Quality of Support. During the EOL Support Period, Supplier shall provide support for any EOL Product at a level of service and in a manner consistent with how Supplier provides or conducts such services (or similar services) as of the date of sale of the last such EOL Product.

(c) Security Patch. If a security issue arises with respect to any EOL Product, Supplier shall provide a security patch to Customer at Customer's reasonable request during the term of this Agreement or, if outside of the term of this Agreement, under the Backstop TSA.

Section 1.21 Product Recalls. In the event that the Supplier issues a Product withdrawal or recall, the Supplier acknowledges that Customer may have to re-inspect batches of the same Product previously supplied which may give rise to rejection notes in respect of Products in the distribution centers of the Customer Entities. Supplier shall provide all necessary assistance required by the Customer Entities for the purposes of identifying Products potentially affected by the withdrawal or recall notice, and the Supplier shall, subject to the liability cap set out in Section 15.04, reimburse Customer for (i) the costs incurred in respect of any visits to sites where the Products are installed; (ii) the costs of removing the Products from the installed sites; (iii) the costs of procuring and installing replacement products; (iv) transportation costs; and (v) costs of testing, shipment and any additional required inspections, provided that Customer can demonstrate it could not reasonably have avoided such costs by acting in accordance with established market practice or by taking all reasonable steps to monitor and mitigate such costs.

Section 1.22 Other Supply Chain Terms.

(a) Open Book Arrangement. With respect to the supply of Products and the provision of Associated Services to Customer, Supplier shall provide an open book arrangement, providing Customer with full transparency on costs to the same level of detail as managed internally within Supplier.

(b) Cost Reduction. Without limiting the Total Commitment and the Minimum Annual Commitment or Supplier's guaranteed margins, the Parties will use their reasonable best efforts to achieve a [\*\*\*]<sup>12</sup> percent ([\*\*\*]%) year-over-year landed cost reduction for each Product, taking into account total combined cost implications for both Parties.

(c) Working Capital Forecasts. Supplier shall provide [\*\*\*] rolling working capital forecasts to Customer.

(d) Warranty>Returns. Supplier's product warranty shall include that, for a period of [\*\*\*] (unless a longer time period is requested by Customer for specific models and/or channels in which case Customer will assume such additional costs) from the date that the Products arrive to the Delivery Location (the "Warranty Period"), the Products shall: (i) be free from defects in materials and workmanship; and (ii) conform to the relevant Product Addendum and the relevant Specification.

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<sup>12</sup> [\*\*\*] = Certain Confidential Information Omitted

(e) Testing Materials. Supplier will, promptly after the Effective Date, and as required during the term of this Agreement, deliver to Customer all tools, materials, supplies and documentation necessary or reasonably required for the inspection and testing of Products (“Testing Materials”), in each case to be sold to Customer at cost. Supplier shall also provide maintenance services in respect of the Testing Materials where reasonably required, at Supplier’s then-current standard services rates. Customer shall bear the responsibility to test and inspect Products to determine whether such Products fail to comply with the warranties in this Section. If Customer reasonably determines that any one or more of these warranties is not met during the Warranty Period, the Supplier or its agents shall have the right to inspect such allegedly Defective Product to verify that it is defective and/or to examine the root cause of any defect and, unless the Supplier has reasonably determined that the Product is not a Defective Product (the “Non-Defective Product”) (including providing evidence of such findings) within a reasonable time after receiving the Product, the Supplier shall, at the Customer’s option having regard to the applicable circumstances, either repair, replace or refund (for the sums paid by the Customer Entity for the relevant Product(s)) the Defective Products. The parties shall agree on a Return Merchandise Authorization (RMA) process which shall include, among others, the period of time within which the Supplier shall repair or replace the Defective Products. Supplier agrees to return to Customer any Non-Defective Products, at Customer’s cost, and the Parties will cooperate on the process for such return.

(f) User Relationship. Customer will be the primary contact for end users and all Parties for whom Customer assumes a direct contractual relationship worldwide in respect of all Level 1 and Level 2 technical support, warranty claims and returns on Products bought from Supplier, including without limitation, retail customers within the Territory. Supplier will be responsible for all support for Arlo Smart Services for incidents that are Level 3 or above as described in the Service Level Agreement.

(g) Marketing and Advertising Materials. From time to time, at its discretion, Customer may purchase from Supplier, at cost, available advertising, marketing, communication, merchandising and/or display materials, samples and testers related to the Products.

Section 1.23 Epidemic Product Defects. For purposes of this Agreement an “Epidemic Defect” shall be deemed to have occurred if during the relevant Warranty Period:

(a) more than [\*\*\*]<sup>13</sup>% of the Products in any one Batch on a rolling [\*\*\*] basis are Defective Products due to the same or substantially the same defect, in which case all Products in that Batch shall be regarded as being Defective Products; or

(b) more than [\*\*\*]% of the Products in any one or more Batches on a rolling [\*\*\*] basis are Defective Products due to the same or substantially the same defect, in which case all Products in that product revision shall be regarded as being Defective Products; or

(c) more than [\*\*\*]<sup>14</sup>% of the Products on a rolling [\*\*\*] basis are Defective Products for any reason, in which case all Products in that product revision shall be regarded as being Defective Products.

Section 1.24 Consequences of Epidemic Products. In the event that an Epidemic Defect has occurred, the Supplier shall, subject at all times to the liability cap set out

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<sup>13</sup> [\*\*\*] = Certain Confidential Information Omitted  
<sup>14</sup> [\*\*\*] = Certain Confidential Information Omitted

in Section 15.04, reimburse the Customer for all reasonable documented costs and expenses incurred by the Customer or any member of the Customer Entities:

- (a) the costs incurred in respect of any visits by any Customer Entity to sites where the Defective Products are installed;
- (b) the costs of removing the Defective Products from the installed sites and returning them to the Supplier for repair or replacement;
- (c) the costs of reinstalling the repaired or replaced Defective Products at their original locations;
- (d) transportation costs; and
- (e) costs of testing, shipment and any additional required inspections,

provided that Customer can demonstrate it could not reasonably have avoided such costs by acting in accordance with established market practice or by taking all reasonable steps to monitor and mitigate such costs.

Section 1.25 Notification and Recovery Plan. In the event that an Epidemic Defect has occurred, the Parties shall implement the following procedure:

- (a) within [\*\*\*] following the Customer delivering a notice of a suspected Epidemic Defect to the Supplier (an “Epidemic Defect Notice”), the Supplier shall give the Customer an initial response indicating its preliminary plan for diagnosing the Epidemic Defect; and
- (b) within [\*\*\*] following receipt of an Epidemic Defect Notice the Supplier and the Customer shall diagnose the Epidemic Defect and the Supplier shall propose a recovery plan to:
  - (i) correct any possible Epidemic Defects expected to materialize in other Products;
  - (ii) eliminate the Epidemic Defect in all continuing manufacture of Products; and
  - (iii) put in place an appropriate work-around, as an interim solution, if required to minimize the impact of the Epidemic Defect on the Customer Entities.

The Supplier’s proposed recovery plan shall be subject to the Customer’s prior written approval, which shall not be unreasonably withheld or delayed. If the Customer does not approve the Supplier’s proposed recovery plan the Customer shall propose the required changes, and the Parties shall work together in good faith in order to reach an agreed recovery plan as soon as is practical. Once agreed, the Supplier shall promptly implement the agreed recovery plan.

Section 1.26 Pass-Through Rights. To the extent Supplier or its Affiliates have, or during the term of this Agreement obtain, rights or benefits from any ODMs and Original Suppliers that are more favorable than those provided for in this Agreement, Supplier or the applicable Affiliate will pass on such rights to Customer.

Section 1.27 Provision of Information. The Supplier shall promptly provide the Customer with all information reasonably requested by the Customer relating to

the Products, relevant Batches and/or product revisions in order for the Customer to assess whether or not an Epidemic Defect has occurred.

Section 1.28 New Product Launches. In respect of any new Product that Supplier intends to market and sell outside the Territory (“New Product”):

(a) Supplier shall inform Customer as early as reasonably possible of the plan to launch the New Product as part of the Joint Roadmap sessions, so that Customer can plan and prepare for its launch in the Territory; and

(b) the Parties will work together to target a release date for the New Product within the Territory, and Supplier shall use commercially reasonable efforts to achieve a target release date within the Territory of [\*\*\*]<sup>15</sup> after the launch of the New Product in the United States, subject to Supplier determining whether the New Product may be legally made available in each relevant country in the Territory, the applicable certification processes and other factors outside the reasonable control of Supplier.

### **Article III**

#### **EXCLUSIVITY**

Section 1.01 Exclusivity in respect of Arlo Catalog Products. During the term of this Agreement and subject to the terms and conditions hereunder, Customer will have the exclusive (even as to Supplier) right to commercialize and distribute the Arlo Catalog Products in the Territory, for all channels.

Section 1.02 Exclusivity in respect of Verisure Developed Products. Supplier shall not supply (i) Verisure Developed Products or (ii) any products that incorporate any Verisure Developed IP not licensed to Supplier under a Statement of Work to any Person

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<sup>15</sup> [\*\*\*] = Certain Confidential Information Omitted

(including end users) anywhere in the world, during or after the term of this Agreement, and this provision shall expressly survive any termination of this Agreement without time limitation.

Section 1.03 Exclusivity in respect of all Products. Subject to the following sentence, Supplier shall not make, have made, supply or otherwise distribute, whether directly or indirectly, any camera-related products or accessories for sale within the Territory, other than through Customer. Customer acknowledges and agrees that the distribution or supply of Supplier's camera-related products or accessories by unauthorized third parties (including unauthorized sales or unauthorized resales of Supplier's camera-related products or accessories on e-commerce platforms) will not be a breach by Supplier of this Section, provided that (i) Supplier refrains from selling the camera-related products or accessories to Persons who Supplier knows or has reason to know are unauthorized; (ii) Supplier does not endorse, support or otherwise facilitate such unauthorized sales and (iii) Supplier takes commercially reasonable efforts to prevent such unauthorized sales; provided that nothing in this Section 3.03 shall require that Supplier insert a prohibition on grey goods sales in its contracts with its own customers if such customers do not accept such provision.

Section 1.04 Supply Exclusivity. During the term of this Agreement and subject to the terms and conditions hereunder, and subject to Supplier meeting its development, supply and material Escrow obligations, Customer will exclusively source Products from Supplier. Customer shall have the right to commercialize camera products, camera accessories and related services sourced from other suppliers, including Customer's own developed devices and services, anywhere in the world. Solely in respect of the Verisure Security Business, if Customer is planning on sourcing camera products, camera accessories or related services from a third party, Customer will, if reasonable under the circumstances, offer such sourcing opportunity to Supplier prior to offering it to a third party. Notwithstanding the foregoing, Customer shall have discretion on whether to choose Supplier as the vendor for such sourcing and provided, further, that Supplier will not be required to provide Associated Services (as defined below) in respect of any products sourced from a third party.

#### Article IV

#### DEVELOPMENT SERVICES

Section 1.01 Development Services. Effective as of the Effective Date, subject to the terms and conditions of this Agreement, Supplier shall provide to the Customer Entity the following development services (each, a "Development Service" and, collectively, the "Development Services"):

- (a) develop Verisure Developed Products in accordance with specifications agreed in a Statement of Work. [\*\*\*]<sup>16</sup>;

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<sup>16</sup> [\*\*\*] = Certain Confidential Information Omitted

(b) provide commercially reasonable ongoing development services and provide all levels of support to Customer for the ongoing maintenance and support of the Verisure Developed Products, including bug fixes, patches, updates, upgrades and similar items; and

(c)

- (d) provide quarterly updates on plans and key technical resources for Verisure Developed Products and for support of the same.

Section 1.02 Entering into Statements of Work.

(a) Any Customer Entity may from time to time submit requests for Development Services to be provided by Supplier to such Customer Entity in accordance with the terms and conditions of this Agreement and such other terms as agreed upon by the Parties and set forth in a statement of work (each, a “Statement of Work” or “SOW”). All Statements of Work must be in writing and signed by a duly authorized Representative of each of Supplier and the applicable Customer Entity prior to the commencement of any Development Services under such Statement of Work. Each Statement of Work shall be: (A) deemed to incorporate by reference the terms and conditions of this Agreement, and (B) numbered and dated. Statements of Work will be in the form set forth in Schedule 4.02(a), and will contain the following elements:

- (i) a statement of the scope and objective of the project;
- (ii) a detailed description of the Development Services to be performed;
- (iii) identification of the Deliverables and schedule for delivery;
- (iv) the name of the Person designated by each Party (each, a “Project Leader”) to serve on such Party’s behalf as the primary contact between the Parties for such Development Services;
- (v) the term of such Statement of Work, including any renewal options;
- (vi) the personnel, material or other resources that the Supplier shall provide to enable or support the services and any other of its obligations;
- (vii) the obligations of Customer and its necessary actions required for the development of the Deliverables;
- (viii) a statement of key project assumptions and dependencies;
- (ix) [\*\*\*]<sup>17</sup>;
- (x) provisions regarding Intellectual Property ownership, if different from Section 9.02 herein;
- (xi) identification of applicable export control and government security classifications for the Development Services;
- (xii) description of the features being specifically developed for Customer (the “Customer Specific Features”) under the Statement of Work, if applicable;
- (xiii) the technical specifications for any products resulting from the SOW, as well as standards and certifications applicable to the same, any notice or marking requirements and any other relevant technical information.

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<sup>17</sup> [\*\*\*] = Certain Confidential Information Omitted



(xiv) such other special provisions as are unique to a specific SOW.

Section 1.03 Replacement of Project Leaders. Except as otherwise mutually agreed to in writing in the applicable Statement of Work, each Party to a Statement of Work may, in its sole discretion, appoint an adequately and similarly qualified new or alternate Project Leader for each Statement of Work to manage its obligations hereunder; provided that any new Project Leader appointed by Supplier requires Customer's prior written consent, which shall not be unreasonably withheld or delayed. Subject to the foregoing, each Party to a Statement of Work agrees to provide the other Party with written notification if and when such Party appoints a new or alternate Project Leader.

Section 1.04 Subcontracting. Supplier may hire or engage one or more subcontractors to perform any or all of its obligations under this Agreement; provided that (a) any agreements with such subcontractors conform to the provisions set forth in this Agreement, including in connection with quality, confidentiality and intellectual property; (b) any subcontractor engaged to perform all or part of the manufacturing of the Products that is not currently engaged by Supplier or its Affiliates as of the Effective Date requires Customer's prior written approval, which shall not be unreasonably withheld or delayed; (c) Supplier shall use the same degree of care in selecting any such subcontractor as it would if such subcontractor was being retained to provide similar services to Supplier, and no less than a reasonable degree of care and diligence; and (d) Supplier shall in all cases remain primarily responsible for and liable for the performance of all of its obligations hereunder and the actions or omissions of its subcontractors.

Section 1.05 Development Services Pricing. The pricing for the Development Services is as follows:

(a) Customer will pay Supplier USD 10,000,000 as consideration for the Development Services set forth in [\*\*\*]<sup>18</sup>. These payments will be made as set forth in Schedule 4.01(a). When the relevant milestone has been achieved, an installment payment is fully vested and non-refundable.

(b) For Development Services other than set forth in Section 4.01(a) above, Customer will pay [\*\*\*].

Section 1.06 Dedicated Team. Supplier shall, during the process in which the Parties are agreeing on a Statement of Work, provide Customer with a dedicated core team at Supplier's premises. Effective as of the Effective Date, Supplier also shall, during the period in which Supplier is providing Development Services under a Statement of Work, provide Customer with a co-located team at Customer's premises to support integration work with the Customer base station where agreed by the parties in such Statement of Work.

Section 1.07 Key Personnel. Effective as of the Effective Date, Supplier shall maintain a list of key personnel in relation to the Development Services (the "Development Services Personnel List") and provide such list to Customer on the last Business Day of each quarter.

Section 1.08 EOL of Verisure Developed Products. Supplier shall not discontinue the manufacture of any Verisure Developed Product without Customer's prior written consent, except that, when the forecasted volumes of any Verisure Developed Product are no longer commercially feasible for Supplier based on Supplier's supply chain, the parties will discuss in good faith the appropriate resolution through the Governance Committee.

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<sup>18</sup> [\*\*\*] = Certain Confidential Information Omitted

Section 1.09 Feedback. Customer, in connection with the discussion of the Joint Roadmap or as part of its participation in the Development and Quality Control Committee, the Governance Committee or the performance of a Statement of Work, may provide to Supplier suggestions, improvements, feedback or comments regarding the functions, features, performance and other characteristics of the Arlo Catalog Products (collectively, the “Feedback”). [\*\*\*]<sup>19</sup> Unless the Feedback is designated in advance and in writing as “Customer Feedback IP”, it will be deemed “Licensed Feedback”. [\*\*\*]. All Feedback is provided AS-IS, without warranties of any kind, and Supplier expressly disclaims all warranties regarding Feedback. For clarity, no license is being granted herein in respect of the Customer Feedback IP.

## Article V

### ASSOCIATED SERVICES

Section 1.01 Associated Services. Supplier shall provide the following associated services in connection with the Products (together, the “Associated Services”), for as long as those Products remain installed and operational (whether during the term of this Agreement or thereafter, and this Section 5.01 shall survive any termination of this Agreement) in accordance with the Service Level Agreement set forth on Schedule 5.01 hereto:

(a) for Verisure Developed Products, work with Customer to integrate the camera experience within the Customer application, including installation and configuration (the

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<sup>19</sup> [\*\*\*] = Certain Confidential Information Omitted

“Integration Services”). Schedule 5.01(a) sets forth more detail on the Parties’ requirements in connection with the Integration Services.

(b) for Arlo Catalog Products, (i) enable certain functionality (to be agreed with Customer) within the Customer’s application and advanced functionality through the Supplier’s application (e.g., through direct linking between the two applications), and (ii) set up a partnership process to maintain integration going forward;

(c) [\*\*\*]<sup>20</sup>;

(d) for all Products, develop and tailor functionalities that are consistent with the Joint Roadmap, as reasonably requested by Customer;

(e) for all relevant Products, work with Customer to enable the viewing of images obtained from Products by the Customer monitoring centers at the triggering of alarm events;

(f) for all Products, provide other app, cloud, backend (including data management, R&D and other relevant support services) and related services at Customer’s reasonable request and in accordance with agreed quality and service performance management processes, including enhancing the backend services, in each case consistent with the Joint Roadmap, to better meet Customer’s business requirements;

(g) provide Customer with access and training on the functionalities and features of Supplier’s Software platform;  
and

(h) provide access to and deliver any marketing and sales expertise of Supplier and know-how, training, and merchandising materials developed by Supplier to support the Products, as well as other information, training and materials required for the integration of the Products into the Customer ecosystem.

For the avoidance of doubt, the Associated Services do not include providing technical support directly to Customer’s end users and does not include any services associated with the marketing and promotion of the Arlo IP or Products in the Territory. The Associated Services will generally incorporate Supplier’s global support policies for its own deployed Arlo Catalogue Products. Promptly after the Effective Date, but in any event within ninety (90) days thereof, the Parties will agree on an exhibit to this Agreement that sets forth specific requirements and standards for the Associated Services. The Supplier shall at all times in the performance of the Associated Services have regard to the Parties respective obligations under applicable data protection and privacy Laws and the requirements set forth in Section 2.18 herein.

The Parties agree that the obligations set forth in Sections 5.01(a), 5.01(g) and 5.01(h) will become effective as of the Effective Date

## Section 1.02

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<sup>20</sup> [\*\*\*] = Certain Confidential Information Omitted

Section 1.02 Associated Services Pricing. Effective as of the Closing Date, Customer will pay a fee for the Arlo Smart Services equal to an amount of the aggregate costs with respect to the cost categories listed in Schedule 5.02 hereof, [\*\*\*]. However, if such Legacy Customers become a subscriber to Arlo Smart Services after the Closing Date, the markups above will apply to such Legacy Customers from the date their subscription commences. For the avoidance of doubt, Customer will have no obligation to pay for any Associated Service other than those set forth in Section 5.01(c) above.

Section 1.03 Arlo Smart Services Invoicing. Supplier will issue services invoices (each a “Services Invoice”) in arrears to Customer on a monthly basis for any Arlo Smart Services caused during the prior month. Unless the subject of a genuine dispute, correctly issued Services Invoices will be payable by Customer within [\*\*\*] of receipt of the Services Invoice by Customer. All Service Invoices shall include the VAT registration number of the relevant Parties and the details of the bank account in which payment is to be made and must be sent to the address specified in the relevant Purchase Order, marked for the attention of the accounts department. Unless otherwise agreed in writing between the Parties, the Supplier shall issue all Services Invoices in USD. Any genuine dispute in relation to Services Invoices will be dealt with in accordance with the dispute resolution procedure set forth herein and if a genuine dispute exists in relation to only part of a Services Invoice, Customer shall pay the undisputed amount and the disputed element will be dealt with in accordance with such dispute resolution procedure.

Section 1.04 Key Personnel. Effective as of the Effective Date, Supplier will maintain a list of key personnel in relation to the Associated Services (the “Associated Services Personnel List” and, together with the Development Services Personnel List, the “Personnel Lists”) and provide such list to Customer on the last business day of each quarter.

Section 1.05 Arlo Smart. Customer shall include Arlo Smart Services within the relevant Arlo Catalog Products and, unless specified otherwise in the relevant Statement of Work, Verisure Developed Products. Both Parties will work together on developing and tailoring functionalities as agreed from time to time for the Arlo Smart Services.

Section 1.06 Access; Training. As of the Effective Date, Supplier shall provide Customer with training on the Products and Associated Services, including any business process or material to develop, make available and service the Products, and will share material information and expertise on the same, as more fully set forth in Schedule 5.06 herein, such schedule to be updated by the Parties within [\*\*\*] from the Effective Date.

## Article VI

## Article VI

### RECORD KEEPING AND AUDIT

Section 1.01 Record Keeping. Supplier shall, and shall procure that its subcontractors shall, at all times operate a system of accounting and maintain in accordance with Good Industry Practice complete and accurate records of all actions taken in connection with, and all supporting documentation in relation to, this Agreement and the open book arrangement detailed in Section 2.22(a) (the "Records"). The provisions of this Section 6.01 shall survive any termination of this Agreement for a period of [\*\*\*]<sup>21</sup>, except that, if requested by the Customer in writing, but at all times subject to applicable Law and the internal document retention policies of Supplier, the Supplier shall (a) delete the Records (and any version and copy of any Record) from all computer systems under its control as soon as reasonably practicable; and (b) ensure that Supplier Personnel delete the Records and such items from computers under their control as soon as reasonably practicable. All such destruction and disposal of Records under this Section 6.01 shall be carried out in a controlled and secure manner. Supplier will promptly respond to Customer's reasonable requests and questionnaires that Customer routinely requests from all of its other suppliers.

Section 1.02 Audit. The Customer and its authorized Representatives may procure an independent and reputable third party auditing firm ("Auditor") to audit the Supplier's compliance with the terms of this Agreement in respect of (i) the calculation and charging of the Fees and (ii) any repeated failures of the Supplier to materially comply with the Specifications ("Audit Scope"). The Auditor must maintain confidentiality at all times in connection with the audit consistent with the provisions of Article XIV. The Supplier may not be audited (whether by the Customer or its authorized Representatives) more than once in any [\*\*\*] period.

(a) Supplier shall provide the Auditor, on request, during the term of this Agreement and for [\*\*\*] thereafter, subject to the Customer giving Supplier at least [\*\*\*] notice and subject to Customer's reasonable security guidelines with (i) reasonable access to, and copies of, the Records held by it and its approved subcontractors that relate to the Audit Scope; (ii) to the extent it is in Supplier's reasonable control, reasonable access to all relevant information and premises from which obligations of the Supplier and its approved subcontractors are being or have been or should have been carried out and are necessary to conduct the audit within the Audit Scope.

(b) At the Customer's request, if the audit demonstrates a material failure or default from Supplier in complying with the Specifications, the Supplier shall make all reasonable changes required by, and take any other action necessitated by, any audit as soon as reasonably practicable. If the action comprises the correction of a defect in the manufacturing of the Products, the Supplier shall implement the change at no additional charge to the Customer.

(c) If any audit under this Section 6.02 reveals that the Customer has been materially overcharged, the Supplier shall reimburse to the Customer the amount of the overcharge, plus interest (at a rate of the lesser of [\*\*\*] percent ([\*\*\*]%) per month or

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<sup>21</sup> [\*\*\*] = Certain Confidential Information Omitted

the highest rate allowed by applicable Law) within [\*\*\*] of notification by the Customer of the overcharge.

(d) If and to the extent that any audit reveals that the Supplier has overcharged the Customer and/or any Customer Entity by [\*\*\*] percent ([\*\*\*]%) or more of the relevant Fees, the Supplier shall be liable for the costs incurred by the Customer in procuring the Auditor to carry out the audit.

(e) Any audit, or failure to audit, shall not in any way relieve the Supplier from its obligations under the Agreement.

## Article VII

### ROADMAP; GOVERNANCE

Section 1.01 Joint Roadmap. Upon or promptly after the Effective Date, but in any event no later than [\*\*\*] thereafter, the Parties shall jointly establish a [\*\*\*] product and technology roadmap (the “Joint Roadmap”), which shall be updated quarterly for new releases. The Joint Roadmap shall consider both new product introductions (both Verisure Developed Products and new Arlo Catalog Products), as well as changes to, or adaptations of, features of existing Products. The Parties will determine the Joint Roadmap taking into account priorities of Customer and the feedback of other stakeholders in the Territory (e.g., retail partners and others), as well as estimated timelines, projections of commercial viability and availability for future products and services. [\*\*\*] reviews of the Joint Roadmap shall be conducted via the governance process set forth herein, to ensure that the Parties continue to track to their highest priorities. For the avoidance of doubt, Supplier shall not be obligated to deviate from its standard release plans, as communicated in advance to Customer in writing, other than as specifically agreed at its discretion (a) through the Development and Quality Control Committee or (b) through a Statement of Work.

Section 1.02 Relationship Managers. Promptly after the Effective Date:

(a) Each Party shall appoint a relationship manager who shall act as the primary liaison between Supplier and Customer for all matters related to this Agreement and shall have overall responsibility for ensuring each Party’s performance of its responsibilities and obligations as set forth in this Agreement (each, a “Relationship Manager”). The Relationship Managers shall serve as co-chairs of the Governance Committee (as defined below), including being responsible for (i) calling and presiding over each Governance Committee meeting; (ii) preparing and circulating the agenda for each such meeting; and (iii) preparing minutes of each such meeting and providing a copy of the minutes to each Governance Committee member within a reasonable period of time after each such meeting.

(b) Supplier will, promptly after the Effective Date, appoint and designate the service manager, or managers as the case may be (the “Supplier Services Manager”). Customer will, promptly after the Effective Date, appoint and designate the service manager, or managers as the case may be (the “Customer Services Manager”).

(c) Each Party agrees to notify the other Party of the appointment of a different Supplier Services Manager or Customer Services Manager, as applicable, if necessary, in accordance with the governance procedure set forth in Section 7.04.

Section 1.03 Development and Quality Control Committee. Within thirty (30) days after the Effective Date, Supplier and Customer will establish a development and quality control committee (the “Development and Quality Control Committee”) that shall

be comprised of each of the Relationship Managers and three (3) executives or managers of each Party designated by that Party who have relevant experience in the following matters (i) product management; (ii) development and cloud operations; (iii) Software architecture; (iv) Development Services, implementation and delivery; (v) customer support and success; and (vi) partner management. The Development and Quality Control Committee will establish and monitor a development plan, the Joint Roadmap and developmental milestones. The Development and Quality Control Committee will meet at least monthly, either by telephone or in person, during the term of this Agreement and provide monthly reports to the management teams of each Party. The Development and Quality Control Committee shall also:

- Roadmap;
- (a) ensure open and frequent exchange of information between the Parties regarding the activities under the Joint Roadmap;
  - (b) discuss any material technical issues that arise under the Joint Roadmap;
  - (c) discuss inventory liabilities and improve customer service;
  - (d) review current forecast numbers;
  - (e) monitor forecast versus order fill;
  - (f) review the development of the Products, agree on upgrades and updates to the Products, review the performance of the Products in the field and agree on maintenance and bug fixes (including prioritization);
  - (g) [\*\*\*]<sup>22</sup>;
  - (h) [\*\*\*];
  - (i) discuss initiatives to be implemented in application of **Error! Reference source not found.**(iii) herein.
  - (j) review key performance indicators and service levels; and
  - (k) discuss an operational action improvement plan.

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<sup>22</sup> [\*\*\*] = Certain Confidential Information Omitted

Prior to each meeting of the Development and Quality Control Committee, the Supplier shall provide the Customer with all reasonable information the Customer requests in relation to the Supplier and the Supplier's performance of the Agreement.

Section 1.04 Governance Committee. Within [\*\*\*] after the Effective Date, Supplier and Customer shall establish a management team for the relationship (the "Governance Committee") that shall be comprised of each of the Relationship Managers and [\*\*\*] of each Party. The Governance Committee will oversee the commercial relationship between the Parties and resolve issues and mediate disputes that arise between the Parties during the course of the relationship. If the Governance Committee is unable to resolve an issue or dispute, it will escalate such issue or dispute to the Chief Executive Officer of each Party. The Governance Committee will meet at least quarterly during the term of this Agreement and provide quarterly reports to each Party's management teams.

Section 1.05 Replacements. Upon [\*\*\*]<sup>23</sup> prior written notice to the other Party, a Party may replace any of its respective members of the Development and Quality Control Committee or the Governance Committee with another individual of similar experience and seniority if it determines in its sole discretion that business reasons or ordinary employee turnover require such replacement. Furthermore, each Party may designate a substitute to attend and perform the functions of one of its members at any Development and Quality Control Committee or Governance Committee meeting, in which case such Party shall endeavor to notify the other Party thereof reasonably in advance of that meeting to the extent reasonably practicable. Each Party shall endeavor to minimize turnover with regard to its Development and Quality Control Committee or Governance Committee members to the extent reasonably practicable.

## Article VIII

### PAYMENTS

Section 1.01 Prepayments. Customer will pay Supplier USD 20,000,000 on the Closing Date and USD 40,000,000 on the first anniversary of the Closing Date (together, the "Prepayments"). The Prepayments will be secured by (i) a right of offset (or setoff, counterclaim, recoupment or similar right) by Customer accounts payables to Supplier (in the first instance), and (ii) all work-in-progress associated with Products intended for Customer and in transit to the Delivery Location (in the second instance), in each case now owned or at any time hereafter acquired by Customer or in which Customer now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"). Supplier hereby grants a security interest in all Collateral as collateral security for the delivery of the Products corresponding in value to the Prepayments. At such time as the Products corresponding in value to the Prepayments are delivered in full, the Collateral shall be automatically released from the security granted in connection herewith, without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to Supplier. At the request of Supplier following such release, Customer shall deliver to Supplier any Collateral held by Customer, and execute and deliver to Supplier such documents as Supplier shall reasonably request to evidence such release, if any.

Section 1.02

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<sup>23</sup> [\*\*\*] = Certain Confidential Information Omitted



Section 1.03 Product Payments. Effective as of the Closing Date, Customer will pay Supplier on the basis of the direct relevant production costs of the Products (the current production costs are as set forth in Schedule 8.02 hereof), plus the appropriate Markup (the “Product Payments”). For each year in respect of which Prepayments are made, Customer will pay [\*\*\*] percent ([\*\*\*]%) of the full value of each Product Invoice in 2020 and [\*\*\*] percent ([\*\*\*]%) of the full value of each Product Invoice in 2021, in each case until an amount equal to the amount of the relevant Prepayment has been reached.

Section 1.04 Minimum Annual Commitment. During the five (5) years commencing on January 1, 2020 (the “Commitment Period”), Customer commits to purchase in total up to USD 500,000,000 (the “Total Commitment”) of Products, with the expectation that such commitment is divided between the two businesses as follows: (i) USD [\*\*\*]<sup>24</sup> of Products for sale through the Verisure Security Business and (ii) USD [\*\*\*] of Arlo Catalog Products for sale through other channels in the Territory. By year, Customer commits to the following minimum annual commitment covering both businesses (the “Minimum Annual Commitment”):

Year Minimum Annual Commitment

2020 USD [\*\*\*]

2021 USD [\*\*\*]

2022 USD [\*\*\*]

2023 USD [\*\*\*]

2024 USD [\*\*\*]

The Prepayments, the Total Commitment and the Minimum Annual Commitment are each subject to Supplier (i) not undergoing any Late Stability Triggering Event (as defined below) and (ii) continuing to meet its development and supply obligations, provided that Customer’s obligations with respect to the Prepayments, the Total Commitment and the Minimum Annual Commitment will only be suspended for so long as Supplier fails to meet its development and supply obligations. For clarity, the Minimum Annual Commitments are a subset of, and not in addition to, the Total Commitment.

Section 1.05 Cure Right.

(a) In the event that Customer does not meet a requirement in relation to the Total Commitment or the Minimum Annual Commitment, it will have a cure right whereby it will pay Supplier [\*\*\*].

(b)

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<sup>24</sup> [\*\*\*] = Certain Confidential Information Omitted

(c) Within the first [\*\*\*] of each calendar year (starting on January 2021), Customer will: (i) calculate the number of Products that should have been acquired to reach the prior year's Minimum Annual Commitment but were not acquired; (ii) calculate the relevant Markup in respect of such Products; (iii) calculate the relevant payment that Customer should make pursuant to Section 8.04(a) above; and (iv) make such payment to Supplier in one payment by the end of February of such calendar year.

Section 1.05 Base Margin. Supplier shall be paid a base mark-up of [\*\*\*] percent ([\*\*\*]%) during the course of the financial year. To the extent that there is additional mark-up owed to Supplier under the terms of Section 8.02, then any such difference shall be paid to Customer within [\*\*\*]<sup>25</sup> of the end-of-year audited accounts being published for Customer.

Section 1.06 Invoicing. Supplier will issue product invoices (each a "Product Invoice") upon delivery of the Products to the Delivery Location (DDU (Incoterms 2010)). Unless the subject of a genuine dispute, correctly issued Product Invoices will be payable by Customer within [\*\*\*] of receipt of the Product Invoice by Customer. All Product Invoices submitted in relation to Purchase Orders must bear the relevant Purchase Order number and contain any other information required to be provided as set out in the relevant Product Addendum. All Product Invoices shall include the VAT registration number of the relevant Parties and the details of the bank account in which payment is to be made and must be sent to the address specified in the relevant Purchase Order, marked for the attention of the accounts department. Unless otherwise agreed in writing between the Parties, the Supplier shall issue all Product Invoices in USD. Any genuine dispute in relation to Product Invoices will be dealt with in accordance with the dispute resolution procedure set forth herein and if a genuine dispute exists in relation to only part of a Product Invoice, Customer shall pay the undisputed amount and the disputed element will be dealt with in accordance with such dispute resolution procedure.

Section 1.07 General. Unless otherwise specified in this Agreement or agreed by the Parties from time to time in writing:

(a) [\*\*\*];

(b) the Customer Entities shall only be obliged to make Product Payments which are supported by accurate Product Invoices including details of the Products and any other information required to be provided as set out in the relevant Statement of Work and Customer shall, or shall procure that the relevant Customer Entity shall, notify Supplier as soon as practicable in the event a Product Invoice is issued which does not comply with this Section; and

(c) Supplier hereby acknowledges and agrees that any payment made by any Customer Entity to the Supplier of any Fees, in whole or in part, from time to time in fulfilment of Customer's obligation to pay those Fees shall be deemed to be payment by the Customer to the Supplier and shall satisfy and discharge in full the Customer's obligations to pay the relevant Fees and the Supplier shall accept, or be deemed to have accepted, payment by the relevant Customer Entity on behalf of Customer. Customer hereby acknowledges and agrees that it

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<sup>25</sup> [\*\*\*] = Certain Confidential Information Omitted

(d) remains liable to pay the Fees in the event a Customer Entity fails to pay such Fees when due and payable to Supplier.

Section 1.08 Taxes.

(a) Sales Tax or Other Transfer Taxes. Fees are exclusive of, and Customer shall bear and timely pay, any and all sales, use, value-added, transaction and transfer taxes (and any related interest and penalties) imposed on, or payable with respect to, any Fees payable by Customer pursuant to this Agreement; provided that to the extent such taxes are required to be collected and remitted by Supplier and its Affiliates, Customer shall pay such taxes to Supplier or the applicable Affiliate within a reasonable time following receipt of an invoice from Supplier or such Affiliate. The Parties will cooperate with each other in good faith to obtain all available exemptions from and reductions to such taxes.

(b) Withholding Tax and Other Similar Taxes. If Customer determines in good faith that any amount is required under applicable Law to be withheld or deducted in respect of any tax from any payment by Customer under this Agreement, the Parties will take reasonable steps to cooperate with each other in good faith to obtain all available exemptions from and reductions to such taxes. In all cases where payments will be made to Supplier, Customer shall (i) make any such required withholding or deduction from the amount payable to Supplier, (ii) timely pay the withheld or deduct amount to the relevant Governmental Authority in accordance with applicable Law and (iii) if requested by Supplier, promptly forward to Supplier a withholding tax certificate evidencing such payment by Customer to the Governmental Authority.

**Article IX**

**INTELLECTUAL PROPERTY**

Section 1.01 Background IP. Each Party will retain all right, title and interest in any of its Background IP, subject to any licenses granted in this Agreement.

Section 1.02 Customer IP.

(a) Verisure Developed IP and Supplier SOW Technology. Customer will own all Intellectual Property rights created under a Statement of Work in relation to Customer Specific Features ("Verisure Developed IP"). Supplier will own all Intellectual Property rights in the Supplier SOW Technology. Supplier shall take all actions necessary to effect Customer's ownership of the Verisure Developed IP, including by executing such papers and performing such lawful acts as Customer deems to be necessary to allow Customer to perfect all right, title, and interest in all Verisure Developed IP, including executing, acknowledging, and delivering to Customer, upon request, applications for registration and assignments of Verisure Developed IP (and any Intellectual Property and Trademark rights therein). To the extent any Verisure Developed IP is not deemed to be the sole and exclusive property and Intellectual Property of Customer (whether as a "work made for hire" or by virtue of the foregoing agreement), Supplier hereby irrevocably transfers and assigns (and agrees to so transfer and assign) to Customer all rights to Verisure Developed IP. Customer shall have sole discretion to control worldwide

(a) prosecution and enforcement of the Verisure Developed IP. This Section 9.02(a) will become effective as of the Effective Date.

(b) Trademark Grant-Back License. Effective as of the Closing Date, and during the term of this Agreement, [\*\*\*]<sup>26</sup>.

Section 1.03 Customer License to Supplier. [\*\*\*]<sup>27</sup>. This Section 9.03 will become effective as of the Effective Date.

Section 1.04 VDP License. [\*\*\*]. The VDP License in this Section 9.04 is deemed granted on the Effective Date, but Customer covenants not to exercise its rights until (i) the termination of this Agreement (other than a termination under Section 11.03(d)), (ii) the occurrence of a Late Stability Triggering Event or (iii) the occurrence of a Supply Triggering Event. Customer's license to any Arlo IP in the Arlo Smart Services contained within the VDP License applies only in respect of the occurrence of a Late Stability Triggering Event. Customer will retain its rights under the license in this Section 9.04 in the event of bankruptcy or other insolvency of Supplier. The license in this Section 9.04 to Arlo IP will be subject to a royalty payment to Supplier equaling [\*\*\*] percent ([\*\*\*]%) of the finished good invoice price and be paid upon, and for so long as, Customer exercising its right to manufacture and have manufactured the Verisure Developed Products. From and after the initial exercise of such license, Supplier shall provide a quarterly royalty report, together with all relevant documentation demonstrating the royalty calculation, within 30 days of the end of each quarter showing the royalty payable by Customer for the VDP License; and Customer shall pay the associated royalty along with such report.

Section 1.05

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<sup>26</sup>  
<sup>27</sup> [\*\*\*] = Certain Confidential Information Omitted

Section 1.06 Backstop License. [\*\*\*]<sup>28</sup>. The Backstop License in this Section 9.05 is deemed granted on the Effective Date, but Customer covenants not to exercise its rights until the occurrence of a Late Stability Triggering Event (or Supplier providing an Adverse Notification with respect thereto). In case of a cure (where possible) of a Late Stability Triggering Event, either Party may request the other Party to enter into non-binding discussions in relation to the Backstop License as part of the non-binding discussions described in Section 12.03(d). Customer will retain its rights under the license in this Section 9.05 in the event of bankruptcy or other insolvency of Supplier. The above license to Arlo IP will be subject to a royalty payment to Supplier equaling [\*\*\*] percent ([\*\*\*]%) of the finished good invoice price and be paid upon the exercise, and for so long as the exercise continues, of the Backstop License. From and after the initial exercise of such license, Supplier shall provide a quarterly royalty report, together with all relevant documentation demonstrating the royalty calculation, within 30 days of the end of each quarter showing the royalty payable by Customer for the Arlo IP; and Customer shall pay the associated royalty along with such report.

Section 1.07 Additional Arlo Licenses. [\*\*\*]. To the extent any licenses are required for the support, refurbishment and maintenance of the Products in the ordinary course or Customer's exercise of its rights in the Development Services or the Associated Services, the Parties will cooperate in good faith to grant and establish the same. This Section 9.06 will become effective as of the Closing Date.

Section 1.08 Registration of License. Customer may register a short form version of any of the licenses set forth in this Article IX at the relevant Intellectual Property and Trademark registry, and Supplier shall provide all reasonable assistance (at its own cost) in respect of the same.

Section 1.09

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<sup>28</sup> [\*\*\*] = Certain Confidential Information Omitted

Section 1.010 Prosecution. Supplier shall file for patent and registered design protection in the Territory for its material patentable innovations and industrial designs of Products, and shall otherwise extend the patent and industrial design protection it has in the United States to the Territory. Supplier shall maintain any registrations (including by way of payment of renewal fees) in the Territory and shall use reasonable endeavors to prosecute any applications for the Arlo IP (including extending existing US patent applications, design applications and where possible design registrations to the Territory) in each case where deemed appropriate by Supplier in light of its global patent strategy and without limiting Supplier's rights to enter into patent-related cross-licenses, settlement agreements and substantially similar agreements, subject to the next sentence. To the extent Supplier decides in its reasonable business judgment to abandon a patent or design application in the Territory, Supplier will give Customer an opportunity to continue such application in Supplier's name at Customer's cost; provided that Supplier will still be able to abandon a patent application if (i) it is required to do so under a settlement agreement, or (ii) if Supplier concludes that a negative decision will be issued by the Intellectual Property office in response to Customer's proposed course of action and such negative decision is very likely to have an adverse effect in a corresponding United States patent application that is pending at the time. Supplier shall, promptly after the Effective Date and from time to time, share its global patent strategy with Customer, provide Customer an opportunity to provide feedback and input on such strategy in respect of the Territory and the overall geographical coverage of Supplier's patent and design filings, and consider such feedback and input in good faith. Supplier shall provide to Customer any reasonable assistance that Customer may require in order to file, prosecute and defend applications for Intellectual Property protection regarding Verisure Developed IP. This Section 9.08 will become effective as of the Effective Date.

Section 1.011 Enforcement. Supplier will control enforcement of its Intellectual Property rights in the Territory provided that the Parties will cooperate in good faith in connection with the same. Supplier agrees to send cease and desist letters and contact retailers, as appropriate, in the event that the Arlo IP is being misused or infringed by third parties. Supplier shall provide Customer with all reasonable cooperation and assistance as requested by Customer in order for Customer to enforce or defend its rights in the Verisure Developed IP. This Section 9.09 will become effective as of the Closing Date.

Section 1.10 Branding. Supplier acknowledges that, pursuant to the APA, Customer is acquiring all right title and interest in all of Supplier's trademarks and logos, whether registered or unregistered (and derivatives thereof) ("Arlo Brand") in the Territory, and Customer will have the sole right to use, protect and enforce the Arlo Brand in the Territory in its sole discretion. Customer and Supplier will cooperate on co-branding and in respect of the commercialization and marketing of the Products by Customer, including in respect of use on websites, domain names, social media identifiers and other online media. The guidelines for use of the Arlo Brand are set forth on Schedule 9.10 hereof, as such schedule is amended from time to time. The Parties agree that the Arlo Catalog Products will be branded with an Arlo Brand. Customer will have sole discretion on the branding for the Verisure Developed Products.

Section 1.11 Arlo Brand License Outside the Territory. [\*\*\*]<sup>29</sup>

[\*\*\*].

Section 1.12 Covenants. Effective as of the Effective Date, Supplier hereby covenants to Customer that:

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<sup>29</sup> [\*\*\*] = **Certain Confidential Information Omitted**

(a) Supplier shall provide assurances to Customer that the Arlo IP has not been and will not be licensed to any third parties in contravention of the licenses set forth in Sections 9.04, 9.05 and 9.06.

(b) Supplier shall not enter into any agreement that contradicts, modifies, terminates or supersedes any of its obligations under this Agreement.

(c) Other than to commercial lenders on arms-length terms, Supplier shall not grant any kind of encumbrance or lien on any of the Arlo IP or the Arlo Brand to a third party, unless such third party acknowledges the existence of this Agreement in writing and agrees not to restrict or challenge Supplier's ability to abide by the relevant terms.

(d) Other than the remedies granted to commercial lenders in the event of default of a commercial loan, Supplier shall not sell, transfer or dispose of any Arlo IP or Arlo Brand to any third party; unless such third party acknowledges the existence of this Agreement in writing and agrees to abide by the relevant terms.

Any lien, encumbrance or transfer in violation of the foregoing is null and void at the outset and of no effect.

Section 1.13 Escrow. Supplier shall, promptly after the Effective Date, deposit into escrow (the "Escrow") the Source Code for any Software embedded in, or used in connection with the development of, the Products (including the back-end), in each case owned by Supplier or its Subsidiaries, along with any related documentation and materials (including Technical Manufacturing Information and Product Information) and any Software comprised in the Arlo IP (collectively, the "Escrow Materials"). Supplier will, from time to time, provide Customer with a list of all third-party Software embedded in the Escrow Materials and required to use the Escrow Materials. Supplier agrees, during the term of this Agreement, to deposit into such Escrows (on a quarterly basis and for every major new release or similar item, in each case within ten (10) days thereof) any updates to the Escrow Materials. The agreed escrow agreement for any Escrow Materials in the Arlo Catalog Products is set forth on Schedule 9.13 hereof. The Parties agree that the Escrow agreement for any Escrow Materials in the Verisure Developed Products will be entered into upon the completion of the first SOW entered into by the Parties and will have terms substantially similar to the agreement on Schedule 9.13. The Escrow agreements will be deemed "supplementary to" this Agreement for purposes of bankruptcy law. The conditions for release of Escrow shall be limited to the occurrence of a Late Stability Triggering Event or, in respect of Verisure Developed Products, the occurrence of a Supply

[\*\*\*] = Certain Confidential Information Omitted

Triggering Event or the termination of this Agreement (other than a termination under Section 11.03(d); and provided, further, that Customer's access to any Arlo IP in the Arlo Smart Services applies only in respect of a Late Stability Triggering Event). Customer will pay for the reasonable and documented fees of the Escrow agent (reasonably acceptable to Customer) and for the expense of one employee solely dedicated to fulfilling Customer's obligations under this Section 9.13 (provided, Supplier shall have received Customer's prior written consent for any such fees and or expenses) (collectively, the "Escrow Costs"). During the period in which Supplier is in material breach of its obligations under this Section 9.13 or the separate escrow agreement, Supplier shall be liable for any Escrow Costs.

Section 1.14 Third Party IP. Supplier shall not incorporate any Open Source Software in the Verisure Developed Products without Customer's prior written consent. Supplier shall not incorporate any other third-party Intellectual Property in the Verisure Developed Products without Customer's consent if such incorporation requires consent from the third party. This Section 9.14 will become effective as of the Effective Date.

Section 1.15 Brexit. In the event that the effect of Brexit reduces the Arlo IP, Supplier shall use its reasonable endeavors to mitigate the impact (for example, by seeking UK applications and registrations for rights only registered at an EU level). In the event that, as an effect of Brexit, the UK does not adopt an international exhaustion doctrine, the Parties will consider what other licenses are required for Customer to exercise its rights under this Agreement in the UK.

Section 1.16 Reservation of Rights. All of the rights granted hereunder are explicitly stated herein and nothing in this Agreement shall be construed to transfer any proprietary ownership interest whatsoever in or to any Intellectual Property rights of Supplier or Customer, or to grant any implied rights whatsoever or any right, title or interest in or to any of the Intellectual Property rights of Customer or Supplier, except the rights explicitly granted pursuant to this Agreement.

## **Article X**

### **ADDITIONAL AGREEMENTS**

Section 1.01 End User Relationship. Customer will control the relationship with the end users of the Arlo Catalog Products sold in the Territory and with the end users of the Products sold through the Verisure Security Business worldwide. Customer has sole and exclusive responsibility to perform any and all Level 1 and Level 2 technical support for end users of its Products worldwide. Supplier is responsible for all support for Arlo Smart Services for incidents that are Level 3 or above as described in the Service Level Agreement.

Section 1.02 Other Reporting Obligations. Upon Customer's request, to be made no more than twice per calendar year, Supplier shall deliver to Customer a report, certified by a Supplier employee ranking manager or senior, setting forth for such calendar quarter a description of Supplier's finances and financial stability for such calendar quarter; provided that this obligation shall be deemed satisfied, and no separate report is required to be



Section 1.03 given to Customer, to the extent Supplier is reporting the same on the Securities Exchange Commission's EDGAR systems.

Section 1.04 User Experience Updates. For relevant Arlo Catalog Products, Supplier shall (A) update the Supplier application and other Supplier platform user experience to include information on Customer service options, benefits and features as allowed by Apple and Google policies and (B) work with Customer to advertise and promote the Verisure Security Business where operated; in each of clause (A) and (B), (i) in the Territory and (ii) outside the Territory, in respect of the unique part numbers sold through the Verisure Security Business.

Section 1.05 Compliance with Law. Effective as of the Effective Date, each Party will be responsible for complying with all applicable Laws and regulations, including, but not limited to export control laws, in performing its obligations under this Agreement and each Party shall reasonably cooperate with the other and provide any information reasonably requested by the other Party in connection with such compliance obligations. Neither Supplier nor its Affiliates shall be obligated to provide any Products which, if provided, would (in Supplier's determination, with advice of counsel) violate any Law.

## Article XI

### TERM; TERMINATION

Section 1.01 Initial Term. The initial term of this Agreement will be five (5) years (the "Initial Term") starting on the Effective Date.

Section 1.02 Renewal. This Agreement will automatically renew for additional five (5) year terms on the expiration date of the applicable term (the "Expiration Date") with its currently applicable terms, excluding any prepayments or volume commitment terms (including the Prepayments, Minimum Annual Commitment and Total Commitment) (the "Applicable Terms"), unless either party provides written notice to the other of its intent to renegotiate this Agreement at least twelve (12) months prior to the Expiration Date. If a Party provides written notice of its intent to renegotiate, the Parties will negotiate any revised terms in good faith. If the Parties fail to reach an agreement on new terms by the date which is six (6) months prior to the Expiration Date, Customer will have the right to terminate this Agreement or elect to renew this Agreement for a five (5) year term with its Applicable Terms by providing written notice at least six (6) months prior to the Expiration Date. If no action is taken by Customer, this Agreement will automatically renew for additional five (5) year terms.

Section 1.03 Termination.

(a) Customer will have the right to terminate this Agreement at any time after the Effective Date and immediately by providing written notice if Supplier (i) experiences a Change of Control without Customer's prior written consent (an "Arlo Change of Control"), subject to the next sentences; (ii) assigns this Agreement to a third party other than an Affiliate without Customer's prior written consent; (iii) materially breaches this Agreement and fails to

(a) cure such breach within forty five (45) days' notice; or (iv) ceases to operate in the ordinary course or undergoes an Insolvency Event; (each a "Termination Event").

(i) Supplier shall provide notice to Customer as soon as reasonably practicable and in any event within ten (10) business days of the execution of the definitive agreement with respect to such Arlo Change of Control, and Customer must provide notice of termination on such basis within sixty (60) days of the consummation of the Arlo Change of Control.

(ii) In the event of a termination pursuant to an Arlo Change of Control, if such termination occurs: (A) between the Effective Date and the Closing Date, Customer shall not be liable for any termination fee, (B) in the first year following the Closing Date, Customer shall not be liable for any termination fee, (C) in the second year following the Closing Date, Customer shall pay a termination fee equal to [\*\*\*]<sup>30</sup> percent ([\*\*\*]%) of the Markup on the Minimum Annual Commitment for 2021, (D) in the third year following the Closing Date, Customer shall pay a termination fee equal to [\*\*\*] percent ([\*\*\*]%) of the Markup on the Minimum Annual Commitment for 2022, (E) in the fourth year following the Closing Date, Customer shall pay a termination fee equal to [\*\*\*] percent ([\*\*\*]%) of the Markup on the Minimum Annual Commitment for 2023 and (F) in the fifth year following the Closing Date, Customer shall pay a termination fee equal to [\*\*\*] percent ([\*\*\*]%) of the Markup on the Minimum Annual Commitment for 2024.

(iii) In the event that Customer waives its right to terminate upon an Arlo Change of Control or does not exercise such right within the sixty (60) day period set forth above, this Agreement will continue in full force and effect and any licenses set forth herein may be exercised at the time set forth herein.

(b) Supplier will have a right to terminate this Agreement at any time after the Effective Date (i) for Customer's material breach which has not been cured within forty-five (45) days or (ii) if Customer ceases to operate in the ordinary course or undergoes an Insolvency Event.

(c) If at any time after the Effective Date, Supplier is in material breach of the delivery or development obligations under this Agreement and fails to cure such breach within forty-five (45) days, or otherwise fails to meet certain milestones set by the Development and Quality Control Committee, Customer will no longer be obligated to pay the Minimum Annual Commitment, the Total Commitment or the remaining Prepayment until such breach is cured or such milestone is reached.

(d) If the APA terminates prior to Closing (as defined in the APA), then this Agreement will be suspended and (i) Supplier will assign, transfer, deliver and convey to Customer, in a mutually agreed format, all deliverables, information and materials developed for Customer during the term of this Agreement; (ii) Supplier will not be required to refund to Customer any payments made prior to such termination (including under any Statement of Work entered prior to such date); and (iii) the Parties will, for a seven (7) week period, enter into good faith discussions on the terms of a supply agreement for the Arlo Catalog Products and the

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<sup>30</sup> [\*\*\*] = Certain Confidential Information Omitted

(e) Verisure Developed Products. Upon the expiration of the above seven week period without the Parties entering into a new supply agreement, this Agreement will automatically terminate.

Section 1.04 Survival. The following provisions will survive the termination or expiration of this Agreement:

(i) Section 3.02,

(ii) Section 5.01, (except that notwithstanding any contrary provisions in Section 5.01, Section 5.01 will not survive a termination of this Agreement that occurs pursuant to Section 11.03(d));

(iii) Section 6.01,

(iv) Section 9.10, (provided that Section 9.10 will not survive a termination of this Agreement that occurs pursuant to Section 11.03(d));

(v) Sections 12.01(b), 12.02(a), 12.02(c), 12.03(a) (other than where termination occurs for Customer breach pursuant to Section 11.02(b)), 12.03(d), 12.03(e), 12.04 (other than where termination occurs for Customer breach pursuant to Section 11.02(b)), and 12.05, in each case provided that (I) the right to exercise the VDP License or the Backstop License will survive only if the relevant triggering event has occurred prior to termination of the Agreement and (II) the foregoing rights under Article XII will not survive a termination of this Agreement that occurs pursuant to Section 11.03(d));

(vi) Article XIV,

(vii) Article XV,

(viii) Article XVI, and

(ix) any other provision of this Agreement that by its nature is meant to survive (provided that, the survival rights of the provisions specifically addressed in this Section 11.03 will survive as and to the extent set forth in this Section 11.03).

## **Article XII BUSINESS CONTINUITY**

Section 1.01 Triggering Events.

(a) Early Stability Triggering Event. Any of the following from and after the Effective Date shall constitute an early stability triggering event (an “Early Stability Triggering Event”) unless Supplier provides prior notice to Customer and Customer provides prior written consent (not to be unreasonably withheld (in Customer’s reasonable discretion)) provided that, clauses (i), (iii), (iv) and (vi) below shall only be applicable to the extent Supplier is, at the time of such event or at any time thereafter while such events are continuing, in an Adverse Liquidity Position:

(i)

(i) Supplier or any of its Material Subsidiaries fails to pay within seven (7) Business Days after the same becomes due (without giving effect to any cure period contemplated thereunder or thereby) (x) any of its material payment obligations, that is not in connection with an outstanding bona fide dispute, to third parties in any material respect or (y) any payment obligations owed to Customer hereunder or to any lenders under or to any holders of any material Indebtedness of Supplier or any of its Subsidiaries;

(ii) Supplier or any of its Material Subsidiaries fails to perform or observe any covenant, agreement or condition contained in any of the documentation in respect of any material Indebtedness of Supplier or any of its Subsidiaries on its part to be performed or observed, or any other event occurs, the effect of which default or other event is to cause, or to permit the lender(s) or holder(s) of such Indebtedness (or a trustee or agent on behalf of such lender(s) or holder(s) or beneficiary or beneficiaries) to cause such Indebtedness to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity (each, a “Debt Default”), and such Debt Default continues uncured for thirty (30) days (without giving effect to any cure period contemplated thereunder or thereby);

(iii) Supplier or any of its Material Subsidiaries fails to perform or observe any covenant or agreement or condition contained in any of its material contracts, leases or licenses or any documentation in connection therewith to which Supplier or such Subsidiary is a party on its part to be performed or observed, and such failure continues for [\*\*\*]<sup>31</sup> (without giving effect to any cure period contemplated thereunder or thereby);

(iv) Supplier or any of its Material Subsidiaries fails to pay within [\*\*\*] after the same becomes due (without giving effect to any cure period contemplated thereunder or thereby) the salary of a material number of its employees;

(v) The occurrence of a Material Adverse Effect;

(vi) Supplier fails to timely file its quarterly or annual reports with the Securities Exchange Commission (provided that filings pursuant to Form 12b-25 shall be considered timely filings for purposes of the foregoing) or the delisting or suspension of trading for more than one trading day of Supplier’s common stock from the New York Stock Exchange (other than in connection with a going-private transaction);

(vii) Supplier or any of its Material Subsidiaries enters into any discussions to restructure a material portion of its Indebtedness or the creation by Supplier of any restructuring committee or similar committee; or

(viii) Supplier or any of its Material Subsidiaries admits in writing to any of the foregoing, as applicable.

(b)

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<sup>31</sup> [\*\*\*] = Certain Confidential Information Omitted

(b) Late Stability Triggering Event. Any of the following from and after the Effective Date shall constitute a late stability triggering event (a “Late Stability Triggering Event” and, collectively with an Early Stability Triggering Event, the “Triggering Events”):

(i) (A) if a Debt Default continues for [\*\*\*] (without giving effect to any cure period contemplated under or by such debt document) or (B) if an Early Stability Triggering Event arising under Section 12.01(a)(v) continues for thirty (30) days;

(ii) The occurrence of an Insolvency Event;

(iii) Supplier or any of its Material Subsidiaries enters into a restructuring support agreement, plan support agreement or any other similar agreement (a “Support Agreement”) with holders of debt of Supplier or any of its Material Subsidiaries or Supplier or any of its Material Subsidiaries takes any corporate action authorizing the execution of such agreement; provided that the foregoing shall not constitute a Late Stability Triggering Event if (A) Supplier is not in breach of any of its obligations hereunder and (B) the effectiveness of such Support Agreement is conditioned (which condition may not be waived by any party to such Support Agreement without the prior written consent of Customer) on the agreement by the Parties thereto that (1) this Agreement shall not be terminated, canceled, rejected, amended, supplemented or otherwise modified pursuant to the transactions contemplated by such Support Agreement without Customer’s prior written consent, (2) Supplier, or any successor in interest, shall continue to perform hereunder after giving effect both to such Support Agreement and to the transactions contemplated thereby, and (3) any modifications, amendments, supplements to and any waiver of any of the conditions and covenants in respect of clauses (1) and (2) above, shall be satisfactory to Customer; or

(iv) Supplier or any of its Material Subsidiaries admits in writing to any of the foregoing, as applicable.

(c) Officer’s Certificate. On the last Business Day of each quarter starting on the Effective Date, Supplier will deliver a certificate to Customer, signed on behalf of Supplier by an executive officer of Supplier, stating that no Triggering Event has occurred and that there is no reasonable expectation that any such event might occur.

(d) Prompt Reporting. If, at any time after the Effective Date, Supplier becomes aware of any event, change, circumstance, occurrence, effect or state of facts (each an “Adverse Event”) that, individually, or in the aggregate, has resulted in, or would reasonably be expected to result in, a Triggering Event, Supplier will provide Customer with prompt written notice of such Adverse Event (any such notice or any failure to provide the officer’s certificate referenced above, an “Adverse Notification”) and any additional information related to such Adverse Event reasonably requested by Customer.

#### Section 1.02 Step-In Rights.

(a) Supply Step-In Right. Notwithstanding any termination of this Agreement, upon, and following, the occurrence of a Supply Triggering Event:

(i)

[\*\*\*] = **Certain Confidential Information Omitted**

- (i) Customer may exercise the VDP License and, for the avoidance of doubt, Customer will pay the associated royalties;
- (ii) Customer may access the Escrow for the Verisure Developed Products and release the Escrow Materials for the Verisure Developed Products (but not any Escrow Materials for Arlo IP in the Arlo Smart Services); and
- (iii) Supplier will respond promptly to Customer's reasonable requests for information and facilitate the transition of manufacturing, supply, distribution, and logistics related to the Verisure Developed Products.

(b) Early Stability Step-In Right. Upon, and following, the occurrence of an Early Stability Triggering Event, Customer in its sole discretion may, immediately upon providing written notice by Customer to Supplier, cause the Early Stability Backstop Services to become effective (the "Early Stability Step-In Right"). For the avoidance of doubt, Customer may not exercise its Early Stability Step-In Right if Supplier has cured any Adverse Event that would have been an Early Stability Triggering Event within the requisite time periods.

(c) Late Stability Step-In Right. Upon, and following, the occurrence of a Late Stability Triggering Event, Customer (1) will exercise the VDP License and the Backstop License and, for the avoidance of doubt, Customer will pay the associated royalties and (2) may, in its sole discretion, take one or more of the following enforcement actions (each of the enforcement actions set forth in clauses (1) and (2), a "Late Stability Step-In Right" and, together with the Early Stability Step-In Rights, the "Step-In Rights") immediately upon providing written notice by Customer to Supplier:

- (i) cause the Late Stability Backstop Services (as defined below) to become effective;
- (ii) access the Escrow and release the Escrow Materials for the Arlo Catalog Products and the Verisure Developed Products; and
- (iii) access all other information, technology, and Supplier Personnel necessary to allow Customer to continue to (i) support end-users to which it has sold Products; and (ii) commercialize, support, develop, manufacture, have made and otherwise use the Products.

Section 1.03      Backstop Services.

(a) Termination Backstop Services. Upon the termination of this Agreement, Customer may exercise the VDP License and Supplier shall provide the following services (the "Termination Backstop Services") for up to a [\*\*\*]<sup>32</sup> term after termination, (a) at a level of service and in a manner, quantity and quality that Supplier provides or conducts such services (or similar services) as of the date of such termination (but in any event, in a professional and competent manner) and (b) on such other terms to be mutually agreed:

- (i) respond promptly to Customer's reasonable requests for information;
- (ii)

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<sup>32</sup> [\*\*\*] = Certain Confidential Information Omitted

(iii) continue, pursuant to the terms of this Agreement, to provide Customer with (a) Products and (b) Development Services for a period of [\*\*\*] (the “Supply Ramp Down Period”);

(iv) facilitate the transition of the Associated Services to Customer or its designee (excluding Arlo Smart Services and its associated Intellectual Property owned by Supplier) on a direct incurred cost basis;

(v) facilitate the transition of manufacturing, supply, distribution, and logistics related to the Verisure Developed Products on a direct incurred cost basis and, for the avoidance of doubt, Customer shall pay the associated royalties;

(vi) provide Associated Services with respect to the Products; and

(vii) other services to be mutually agreed.

(b) Early Stability Backstop Services. If Customer exercises its Early Stability Step-In Right, Supplier shall provide the following services (the “Early Stability Backstop Services”) for up to a [\*\*\*]<sup>33</sup> term after the exercise of an Early Stability Step-In Right (x) at a level of service and in a manner, quantity and quality that Supplier provides or conducts such services (or similar services) as of the date of Customer’s exercise of the Early Stability Step-In Right (but in any event, in a professional and competent manner) and (y) on such other terms to be mutually agreed:

(i) respond promptly to Customer’s reasonable requests for information;

(ii) make available Supplier’s key personnel related to the Associated Services and Development Services including those identified on the Personnel Lists on a direct incurred cost basis;

(iii) provide training to Customer personnel in order to enable Customer to continue to manufacture, maintain, service, develop and make use of (a) the Products, (b) Associated Services and (c) Development Services independently of Supplier on a direct incurred cost basis;

(iv) provide Associated Services with respect to the Products; and

(v) other services to be mutually agreed.

(c) Suspension of the Early Stability Backstop Services. The Early Stability Backstop Services will be suspended after Supplier provides written evidence, to the reasonable satisfaction of Customer, that Supplier has cured the Early Stability Step-In Right, provided that such suspension will not take effect within [\*\*\*] of the Early Stability Triggering Event.

(d) Discussions following a Late Stability Triggering Event. When a Late Stability Triggering Event that is capable of being cured, is in fact cured, then the Parties will

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<sup>33</sup> [\*\*\*] = Certain Confidential Information Omitted

(e) enter into non-binding discussions regarding the potential cessation of any applicable Late Stability Step-In Rights on terms to be agreed between the Parties at such time.

(f) Late Stability Backstop Services. If Customer exercises its Late Stability Step-In Right, Supplier shall provide the following services (the "Late Stability Backstop Services") for a period of up to [\*\*\*] after the exercise of such Late Stability Step-In Right (a) at a level of service and in a manner, quantity and quality that Supplier provides or conducts such services (or similar services) as of the date of Customer's exercise of a Late Stability Step-In Right (but in any event, in a professional and competent manner) and (b) on such other terms to be mutually agreed:

(i) respond promptly to Customer's reasonable requests for information;

(ii) continue, pursuant to the terms of this Agreement applicable on the date of Customer's exercise of the Late Stability Step-In Right, to provide Customer with (a) Products and (b) Development Services for a period of two years after the exercise of such Late Stability Step-In Right (the "Late Stability Ramp Down Period");

(iii) grant Customer any necessary additional licenses required to manufacture, maintain, service, develop and make use of (a) the Products, (b) Associated Services and (c) Development Services;

(iv) facilitate the transition of the Associated Services and Development Services to Customer to enable Customer's continued manufacturing, maintenance, servicing, development and use of the Products with Associated Services or Development Services on a direct incurred cost basis;

(v) facilitate the transition of manufacturing, supply, distribution, and logistics related to the Products (in the case of Customer's exercise of the Stability Step-In Right) on a direct incurred cost basis;

(vi) make available Supplier's key personnel related to the Associated Services and Development Services including those identified on the Personnel Lists on a direct incurred cost basis;

(vii) provide training to Customer personnel in order to enable Customer to continue to manufacture, maintain, service, develop and make use of (a) the Products, (b) Associated Services and (c) Development Services independently of Supplier on a direct incurred cost basis; and

(viii) provide Associated Services with respect to the Products, provided that Customer pays a reasonable royalty fee with respect thereto after migration; and

(ix) other services to be mutually agreed.

(f) Termination of the Backstop Services. Customer may terminate any or all of the Backstop Services at any time in its sole discretion.

[\*\*\*] = **Certain Confidential Information Omitted**

Section 1.04



Section 1.04 Backstop Arrangements. Supplier shall provide all support necessary or desirable for Customer to negotiate the Backstop Arrangements with ODMs and Original Suppliers through step-in contracts, pass-through rights or otherwise with the aim of having all Backstop Arrangements executed no later than [\*\*\*]<sup>34</sup> after the Effective Date. Such Backstop Arrangements must, at a minimum, permit Customer to continue to manufacture (i) the Products independently of Supplier in the event of a Late Stability Triggering Event or (ii) the Verisure Developed Products independently of Supplier in the event of a Supply Triggering Event or Late Stability Triggering Event. As part of the negotiation of the Backstop Arrangements, Customer shall be entitled, including through its Representatives, to have such reasonable access to the properties, businesses, operations, personnel and books and records, in each case, pertaining to the ODMs and Original Suppliers (and Supplier's relationships therewith) as it reasonably requests in connection with Customer's efforts to negotiate the Backstop Arrangements to the extent that Supplier is permitted to share such information. Any such access and examination shall be conducted on reasonable advance written notice, during regular business hours and under reasonable circumstances and shall be subject to restrictions under applicable Law. Supplier shall use its commercially reasonable efforts to cause the Representatives of Supplier and its Subsidiaries to reasonably cooperate with Customer and its Representatives in connection with such access and examination, and Customer and its Representatives shall reasonably cooperate with Supplier and its Subsidiaries and their respective Representatives and shall use their commercially reasonable efforts to minimize any disruption to Supplier's businesses and operations.

Section 1.05 Insolvency Event.

(a) Contract Assumption and Assignment. In the event of an Insolvency Event that is not dismissed within thirty (30) days of commencement, Supplier shall (a) file within thirty (30) days of the commencement of such Insolvency Event a motion in form and substance satisfactory to Customer seeking to assume each of the contracts with the relevant manufacturers and suppliers in relation to the Products in accordance with section 365 of the Bankruptcy Code or corresponding applicable bankruptcy Law, (b) seek to have an order with respect to such assumption reasonably satisfactory to Customer entered into promptly and no later than sixty (60) days after the commencement of such Insolvency Event and (c) assume and assign such contracts to Customer promptly upon entry of an order approving such assumptions. It is each Party's intent that each such contract shall remain in full force and effect for the benefit of Customer in accordance with its terms notwithstanding any provision in such contract to the contrary and be fully enforceable by Customer in accordance with its terms, except as modified by any order of a court authorizing and providing for its assumption, or applicable Law. Any monetary defaults under each such contract to be assumed will be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, by payment by Supplier on or prior to such assumption of such amounts necessary to cure all defaults under such contract. If the assumption or assumption and assignment of any such contract for any reason is held to be invalid, illegal or unenforceable in any respect, that contract shall not affect the obligations of Supplier to assume and assign to Customer each of the other contracts contemplated under and in accordance with this Section 12.05.

(b)

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<sup>34</sup> [\*\*\*] = Certain Confidential Information Omitted

(c) Exclusivity Preservation. In the event of an Insolvency Event that is not dismissed within thirty (30) days of commencement, Supplier shall seek to preserve the exclusivity arrangements described in Article III of this Agreement.

(d) It is understood and agreed by each of the Parties that any failure to comply with this Section 12.05 would give rise to irreparable harm for which money damages would not be an adequate remedy and accordingly each of the Parties agrees that, in addition to any other remedies, Customer shall be entitled to seek specific performance and injunctive or other equitable relief for any such failure to comply with this Section 12.05.

### Article XIII

#### REPRESENTATIONS AND WARRANTIES

Section 1.01 Representations of Both Parties. Each Party represents and warrants, effective as of the Effective Date and as of the Closing Date, that it has the power and authority to enter into and perform this Agreement, which constitutes valid and binding obligations on it in accordance with its terms. Supplier represents and warrants, effective as of the Effective Date and as of the Closing Date, that the execution and delivery of this Agreement and the performance by Supplier of its respective obligations hereunder do not and will not (i) violate or conflict with any provision of the respective certificate of incorporation or by-laws or similar organizational documents of Supplier, (ii) result in any violation or breach of, or constitute any default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or a loss of a benefit under, any Transferred Business Contract (as defined in the APA), (iii) result in the creation of any Lien (as defined in the APA)(except for Permitted Liens) upon, or (iv) violate, conflict with or result in any breach under any provision of any Law applicable to Supplier, except, in the case of clauses (ii), (iii) and (iv), to the extent that any such breach, default, termination, cancellation, acceleration, loss, Lien, violation, conflict, breach or loss would not be material to the Supplier, taken as a whole.

Section 1.02 Supplier Representations. The Supplier represents and warrants, effective as of the Effective Date, that: (i) the Products shall be supplied with full title guarantee; (ii) the Products shall comply with all applicable Laws in those jurisdictions in which Supplier has obtained certification or has determined the Products may be sold in accordance with Section 2.19; (iii) the Development Services and Associated Services shall comply with all applicable Laws; (iv) all information and materials included with the Products under a Purchase Order will be accurate in all material respects and (v) it shall perform the Development Services and the Associated Services and its other obligations under the Agreement with all reasonable skill and care using Supplier Personnel of appropriate expertise and experience.

Section 1.03 Warranty Disclaimer. THE EXPRESS WARRANTIES IN THIS SECTION 13 OR IN THE PRODUCT WARRANTY DESCRIBED IN SECTION 2.22(D) ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS, IMPLIED, OR STATUTORY, REGARDING THE PRODUCTS, THE DEVELOPMENT SERVICES, THE ASSOCIATED SERVICES OR THE BACKSTOP SERVICES, INCLUDING ANY WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE,

Section 1.04 TITLE, AND NON-INFRINGEMENT OF THIRD PARTY RIGHTS. CUSTOMER ACKNOWLEDGES THAT IT HAS RELIED ON NO WARRANTIES OTHER THAN THE EXPRESS WARRANTIES PROVIDED HEREIN OR IN THE PRODUCT WARRANTY IN SECTION 2.22(D) AND THAT NO WARRANTIES ARE MADE HEREIN BY ANY OF SUPPLIER'S AFFILIATES, ODM AND ORIGINAL SUPPLIERS.

#### Article XIV

#### CONFIDENTIALITY

Section 1.01 Definition of Confidential Information. "Confidential Information" means any business or technical information of Supplier or Customer including, without limitation, any information relating to product plans, designs, costs, product prices and names, finances, marketing plans, business opportunities, personnel, research, development or know-how that is designated in writing by the disclosing party as "confidential" or "proprietary" at the time of disclosure or, if orally disclosed, is reduced to writing by the disclosing party within thirty (30) days of such disclosure, or that a reasonable person under the circumstances would understand to be confidential.

Section 1.02 Exclusions. Confidential Information does not include information that: (a) is or becomes generally known to the public through no fault of or breach of this Agreement by the receiving Party; (b) is rightfully known by the receiving Party at the time of disclosure without an obligation of confidentiality; (c) is independently developed by the receiving Party without use of the disclosing party's Confidential Information; or (d) the receiving Party rightfully obtains from a third party without restriction on use or disclosure. This Section does not limit or intend to limit either Party's rights to exploit the Arlo Catalog Products and Verisure Developed Products as permitted by this Agreement (even though such products embody Confidential Information of both Parties) or either Party's rights of assignment under Section 16.12.

Section 1.03 Use and Disclosure Restrictions. Neither Party will (i) use the other Party's Confidential Information except as necessary for the performance of this Agreement or (ii) disclose such Confidential Information to any Person except to those of its and its Affiliates' Representatives that need to know such Confidential Information for the purpose of performing this Agreement, provided that each such Representative is subject to a written agreement that includes binding use and disclosure restrictions that are at least as protective as those set forth herein. Each Party will use all reasonable efforts to maintain the confidentiality of all such Confidential Information in its possession or control, but in no event less than the efforts that such Party ordinarily uses with respect to its own proprietary information of similar nature and importance. The foregoing obligations will not restrict either Party from disclosing Confidential Information of the other Party: (a) pursuant to the law, order or requirement of a court, administrative agency, or other governmental or administrative body, provided that the Party required to make such disclosure gives reasonable notice to the other party to contest such order or requirement; (b) on a confidential basis to its and its Affiliates' accountants, lawyers and other similar professional advisors, (c) on a confidential basis to actual and potential acquirers, lenders, investors and other similar transaction counterparties (and their counsel and similar professional advisors) as part of customary due diligence; and (d) other parties with the

Section 1.04 disclosing party's prior written consent. Notwithstanding the foregoing sentence, the receiving Party and its Affiliates shall not disclose Source Code of the other Party to any Person other than its employees and contractors who have a need to know. Prior to any disclosure by a recipient under this Section 14.03, such recipient must have an appropriate agreement with any such person sufficient to require such Person to treat such information as confidential and abide by the terms herein. In addition, each Party may disclose the terms and conditions of this Agreement as required under applicable securities laws or regulations; provided that the Parties will mutually agree on any necessary redactions. This Section 14.03 will become effective as of the Effective Date.

## Article XV

### INDEMNITY

Section 1.01 Indemnification by Supplier. Effective as of the Effective Date, Supplier shall indemnify, defend and hold harmless the Customer and its Affiliates and each of its and their respective Representatives, from and against amounts paid to third parties as a result of any and all claims, demands, causes of action, actions, suits or proceedings whatsoever ("Claim(s)"), and any and all Losses, arising out of or relating to any such Claim, in all cases to the extent arising out of or related to (a) any Product Recall or any Epidemic Defect in the manufacturing, design or operation of any Product manufactured, modified, altered or sold by Supplier; (b) any breach of its privacy and data security obligations under Section 2.18 (including Schedule 2.18); and (c) any Arlo Catalog Product or a Verisure Developed Product infringing any third party's Intellectual Property or Trademark rights (except to the extent covered by Customer's indemnity below).

Section 1.02 Indemnification by Customer. Customer shall indemnify, defend and hold harmless Supplier and its Affiliates and each of its and their respective Representatives, from and against amounts paid to third parties as a result of any and all Claims and any and all Losses, arising out of or relating to any such Claim, in all cases to the extent arising out of or related to (a) an infringement of any third party's Intellectual Property or Trademark rights caused solely and directly by Supplier's compliance with Customer's requirements and instructions on the Customer Specific Features as defined in a Statement of Work; and (b) a data breach or failure of Supplier to comply with its privacy and data security obligations under this Agreement or applicable Law that is caused solely and directly by Customer.

Section 1.03 Indemnification Procedure.

(a) General Procedure. Each Party indemnified hereunder (an "Indemnified Party") must notify the other Party (the "Indemnifying Party") promptly of the applicable Claim in writing, tender to the Indemnifying Party sole control and authority over the defense or settlement of such Claim, and reasonably cooperate with the Indemnifying Party, at the Indemnifying Party's expense, and provide the Indemnifying Party with available information in the investigation and defense of such Claim. The Parties shall, reasonably promptly after receiving the Claim, enter into a joint defense agreement or a community of interest agreement whereby each participant agrees to cooperate and provide reasonable assistance in the defense

(a) and any settlement of any indemnified Claim. Any effort by the Indemnified Party to settle a Claim without the Indemnifying Party's involvement and written approval shall void any indemnification obligation hereunder.

(b) IP Indemnity Procedure. Supplier shall, in the event of a Claim under Section 15.01(c): (i) procure for the Customer such licenses to cover Customer's use of the alleged infringing Product; or (ii) replace or modify the Product to make it non-infringing with a replacement or modified Product that is substantially equivalent to the original Product; or (iii) if Supplier has been unable to procure on commercially reasonable terms a license that enables the Customer and its Affiliates to use the enjoined Products pursuant to the terms of this Agreement and Supplier is unable, using commercially reasonable efforts, to modify the affected Product to make it non-infringing; then, Supplier, shall:

(A) discuss any potential remedies with Customer, including the option of having Customer contribute to a portion of any license fee or accepting reduced functionality;

(B) If the Parties cannot agree on a remedy, Supplier shall use commercially efforts to provide Customer within a commercially reasonable time, acting expeditiously, with a version of the relevant Product, where the infringing feature or functionality is removed;

(C) To the extent such remedy is not technically feasible, Supplier may terminate further sales of the infringing Product and allow cancellation of such Products then under open Purchase Orders, but only in respect of those jurisdictions (the "Enjoined Jurisdictions"), and only during the term, in which a Governmental Authority has prohibited the sale of such Product. In such event under this Section 15.03(b)(C), Supplier will notify Customer of such termination and cancellation, and Customer will use reasonable efforts to cease such sales as soon as reasonably practicable. For clarity, Supplier will continue to supply Products to Customer in any jurisdiction that is not an Enjoined Jurisdiction;

(D) In respect of jurisdictions in which a Claim has been made but it is not an Enjoined Jurisdiction: (i) the Parties will discuss in good faith and with the advice of counsel on the risks involved in marketing and selling the Products, including taking into account whether a patent of the same scope has been granted to the same claimant in the Enjoined Jurisdiction; and (ii) Supplier will have right to terminate further sales of the Product in such jurisdiction only if, under the circumstances, outside counsel has recommended that is a normal and reasonable commercial course of action. Supplier will notify Customer of such termination and cancellation, and Customer will remain fully liable for any sales of Products that Customer makes after such notice.

The indemnification processes set out in this Article XV are the Indemnifying Party's sole obligation and the Indemnified Party's sole remedy in the event of a Claim covered by such indemnification obligation.

This Section 15.03 will become effective as of the Effective Date.

Section 1.04 Limitations of Liability. NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, TO THE EXTENT PERMITTED BY APPLICABLE LAW: (I) EXCEPT FOR CLAIMS ARISING FROM (A) BREACH OF CONFIDENTIALITY, (B) AMOUNTS PAID TO THIRD PARTIES UNDER AN INDEMNIFICATION OBLIGATION, (C) FRAUD OR WILLFUL MISCONDUCT, OR (D) BREACH OF LICENSES GRANTED HEREIN, NEITHER PARTY, INCLUDING ITS AFFILIATES AND LICENSORS, SHALL BE LIABLE HEREUNDER FOR ANY INDIRECT, INCIDENTAL, PUNITIVE, EXEMPLARY, SPECIAL, OR CONSEQUENTIAL DAMAGES, OR FOR ANY LOSS OF PROFITS OR REVENUE, USE, GOODWILL, OR COSTS OF SUBSTITUTE GOODS OR SERVICES, REGARDLESS OF THE THEORY OF LIABILITY (INCLUDING NEGLIGENCE); AND (II) EXCLUDING THE OBLIGATION TO PAY FEES AND ROYALTIES, BREACH OF CONFIDENTIALITY, FRAUD, WILLFUL MISCONDUCT OR BREACH OF LICENSES GRANTED HEREIN, EACH PARTY'S LIABILITY ARISING UNDER THIS AGREEMENT:

(A) FOR SUPPLIER'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 15.01(A), SHALL NOT EXCEED ONE AND ONE HALF TIMES THE TOTAL FEES PAID WITH RESPECT TO THE RELEVANT PRODUCT OR SERVICE UNIT(S) THAT ARE THE SUBJECT OF THE PRODUCT RECALL OR EPIDEMIC FAILURE;

(B) FOR SUPPLIER'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 15.01(B), AND CUSTOMER'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 15.02(B), THE GREATER OF (I) ONE AND ONE HALF TIMES THE TOTAL FEES PAID WITH RESPECT TO THE RELEVANT PRODUCT IN THE ONE YEAR PERIOD PRECEDING THE EVENT GIVING RISE TO THE CLAIM OR (II) [\*\*\*]<sup>35</sup>;

(C) FOR SUPPLIER'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 15.01(C) AND CUSTOMER'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 15.02(A):

(i) IF ANY VERISURE DEVELOPED PRODUCTS ARE THE SUBJECT OF THE CLAIM, SUCH INDEMNITY HEREUNDER SHALL BE (X) DURING THE FIRST TWO YEARS AFTER THE APPLICABLE VERISURE DEVELOPED PRODUCT WAS FIRST SOLD IN THE TERRITORY, UNCAPPED AND (Y) DURING THE REMAINDER OF THE TERM OF THIS AGREEMENT, NOT EXCEEDING ONE AND ONE HALF TIMES THE TOTAL FEES PAID WITH RESPECT TO THE RELEVANT PRODUCT IN THE ONE YEAR PERIOD PRECEDING THE EVENT GIVING RISE TO THE CLAIM;

(ii) IF ANY ARLO CATALOG PRODUCTS ARE THE SUBJECT OF THE CLAIM, SUPPLIER'S INDEMNITY HEREUNDER SHALL BE (X) FOR ARLO CATALOG PRODUCTS THAT HAVE BEEN SOLD IN THE TERRITORY FOR LESS THAN TWO YEARS PRIOR TO THE DATE OF THE CLAIM, UNCAPPED AND (Y) FOR ARLO CATALOG PRODUCTS THAT HAVE BEEN SOLD IN THE

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<sup>35</sup> [\*\*\*] = Certain Confidential Information Omitted

TERRITORY FOR MORE THAN TWO YEARS PRIOR TO THE DATE OF THE CLAIM, NOT EXCEEDING ONE AND ONE HALF TIMES THE TOTAL FEES PAID WITH RESPECT TO THE RELEVANT PRODUCT IN THE ONE YEAR PERIOD PRECEDING THE EVENT GIVING RISE TO THE CLAIM.

(iii) IF ANY ARLO SMART SERVICES ARE THE SUBJECT OF THE CLAIM, SUPPLIER'S INDEMNITY HEREUNDER SHALL NOT EXCEED ONE AND ONE HALF TIMES THE TOTAL FEES PAID WITH RESPECT TO THE RELEVANT SERVICE.

(D) IN ALL OTHER CASES, THE AGGREGATE FEES PAID BY CUSTOMER TO SUPPLIER FOR ANY PRODUCTS OR SERVICES IN THE ONE YEAR PERIOD PRECEDING THE EVENT GIVING RISE TO THE CLAIM.

THESE LIMITATIONS APPLY WHETHER THE LIABILITY IS BASED ON CONTRACT, TORT, STRICT LIABILITY OR ANY OTHER THEORY.

FOR CLARITY, WHERE THE LIABILITY CAP IS EXPRESSED AS BASED ON THE TOTAL FEES PAID IN THE ONE YEAR PRECEDING THE EVENT GIVING RISE TO THE CLAIM, SUCH ONE YEAR IS ON A ROLLING ONE YEAR BASIS. WHERE THERE IS MORE THAN ONE CLAIM IN A ROLLING ONE YEAR PERIOD WITH RESPECT TO A PARTICULAR PRODUCT OR SERVICE, THE EARLIER CLAIM WILL REDUCE THE LIABILITY CAP FOR THE SUBSEQUENT CLAIM(S) ONLY TO THE EXTENT THAT THERE IS OVERLAP IN THE PRODUCT OR SERVICE DURING THE ONE YEAR PERIOD OF THE EARLIER CLAIM AND THE SUBSEQUENT CLAIM(S).

Section 1.05      Indemnity Survival. The provisions of this Article XV shall survive any termination of this Agreement.

## Article XVI

### GENERAL PROVISIONS

All of the provisions of this Article XVI will become effective on the Effective Date.

Section 1.01      Dispute Resolution.

(a) Any dispute arising out of or in connection with this Agreement ("Dispute") shall be resolved as rapidly as possible by discussion between the Relationship Managers. If a Dispute cannot be resolved between the Relationship Manager of the Supplier and the Relationship Manager of the Customer within [\*\*\*]<sup>36</sup> of the Dispute arising, the Relationship Managers shall escalate the dispute to the Chief Executive Officer of Supplier and the Chief Executive Officer of Customer to negotiate in good faith for an additional [\*\*\*] (or such longer period as the Parties may agree). If at the end of such time such Persons are unable to resolve such Dispute amicably, then such Dispute shall be resolved in accordance with the dispute resolution process referred to in Section 16.01(b), provided that such dispute resolution process shall not modify or add to the remedies available to the Parties under this Agreement.

(b)

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<sup>36</sup> [\*\*\*] = Certain Confidential Information Omitted

(b) If the Parties are unable to resolve a Dispute in accordance with Section 16.01(a), the Dispute shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by three arbitrators. The claimant(s) shall nominate one arbitrator in the Request for Arbitration. The respondent(s) shall nominate one arbitrator in the Answer to the Request. The two party-nominated arbitrators will then attempt to agree for a period of thirty (30) days, in consultation with the parties to the arbitration, upon the nomination of a third arbitrator to act as president of the tribunal, barring which the ICC Court shall select the third arbitrator (or any arbitrator that claimant(s) or respondent(s) shall fail to nominate in accordance with the foregoing). The place of arbitration shall be New York, New York. The language of the arbitration shall be English and the decision of the arbitrators shall be binding on the Parties.

Section 1.02      Specific Performance.

(a) The Parties acknowledge and agree that irreparable damage would occur and that the Parties would not have any adequate remedy at Law in the event that Article XIV, Section 12.05 and Section 2.18 were not performed in accordance with their specific terms or were otherwise breached, and that money damages or other legal remedies would not be an adequate remedy for any such failure to perform or any such breach. Accordingly, the Parties hereto acknowledge and hereby agree that in the event of any breach or threatened breach by Supplier or Customer of any of their respective covenants or obligations set forth in Article XIV, Section 12.05 and Section 2.18, each of Customer and Supplier, respectively, shall be entitled to make an application for an injunction or injunctions to prevent or restrain breaches or threatened breaches of this Agreement by such other Party (as applicable), and to specifically enforce the terms and provisions of Article XIV, Section 12.05 and Section 2.18 to prevent breaches or threatened breaches of, or to enforce compliance with, the covenants and obligations of the other (as applicable) under Article XIV, Section 12.05 and Section 2.18, without proof of actual damages or inadequacy of legal remedy and without bond or other security being required. The pursuit of specific enforcement or other equitable remedies by any Party will not be deemed an election of remedies or waiver of the right to pursue any other right or remedy (whether at Law or in equity) to which such Party may be entitled at any time.

(b) Any and all remedies herein expressly conferred upon a Party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by Law or equity upon such Party, and the exercise by a Party of any one remedy will not preclude the exercise at any time of any other remedy.

(c) Each of Supplier and Customer hereby agrees not to raise any objections to the availability of the equitable remedy of specific performance to prevent or restrain breaches or threatened breaches of Article XIV, Section 12.05 and Section 2.18 by Supplier or Customer, as applicable, and to specifically enforce the terms and provisions of Article XIV, Section 12.05 and Section 2.18 to prevent breaches or threatened breaches of, or to enforce compliance with, the covenants and obligations of Supplier or Customer, as applicable, under such provisions. The Parties hereto further acknowledge and agree that (i) by seeking the remedies provided for in this Section 16.02, a Party shall not in any respect waive its right to seek at any time any other form or amount of relief that may be available to a Party under this Agreement (including monetary damages) and (ii) nothing set forth in this Section 16.02 shall require any Party to institute any proceeding for (or limit any Party's right to institute any proceeding for) specific performance



(d) under this Section 16.02 prior or as a condition to exercising any termination right under Section 11.03 (and pursuing damages after such termination (subject to the terms of this Agreement)), nor shall the commencement of any proceeding pursuant to this Section 16.02 or anything set forth in this Section 16.02 restrict or limit any Party's right to terminate this Agreement in accordance with the terms of Section 11.03 or pursue any other remedies under this Agreement or otherwise that may be available then or thereafter.

Section 1.03 No Joint Venture. Nothing in this Agreement creates a joint venture or partnership between the Parties. This Agreement does not authorize any Party (i) to bind or commit, or to act as an agent, employee or legal Representative of, another Party, except as may be specifically set forth in other provisions of this Agreement or (ii) to have the power to control the activities and operations of another Party. The Parties are independent contractors with respect to each other under this Agreement. Each Party agrees not to hold itself out as having any authority or relationship contrary to this Section 16.03.

Section 1.04 Force Majeure. No Party hereto (or any Person acting on its behalf) shall have any liability or responsibility for failure to fulfill any obligation (other than a payment obligation) under this Agreement so long as and to the extent to which the fulfillment of such obligation is prevented, frustrated, hindered or delayed as a consequence of circumstances of Force Majeure. Each Party (or such Person) shall exercise its reasonable efforts in good faith to minimize the effect of Force Majeure on its obligations.

Section 1.05 Further Assurances. Subject to the terms and conditions hereof, each of the Parties agrees to use commercially reasonable efforts to execute and deliver, or cause to be executed and delivered, all documents and to take, or cause to be taken, all actions that may be reasonably necessary or appropriate, in the reasonable opinion of counsel for Supplier and Customer, to effectuate the provisions of this Agreement, provided that all such actions are in accordance with applicable Law.

Section 1.06 Notices. All notices and other communications under this Agreement shall be in writing and shall be deemed given (a) when delivered personally by hand (with written confirmation of receipt, by other than automatic means, whether electronic or otherwise), (b) when sent by e-mail (with written confirmation of transmission) or (c) one (1) Business Day following the day sent by an internationally recognized overnight courier (with written confirmation of receipt), in each case, at the following addresses (or to such other address as a Party may have specified by notice given to the other Party pursuant to this provision).

(a) If to Supplier: 3030 Orchard Parkway, San Jose, California

Attention: General Counsel

(b) If to Customer: [\*\*\*]<sup>37</sup>

Attention: [\*\*\*]

Copy to: [\*\*\*]

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<sup>37</sup> [\*\*\*] = Certain Confidential Information Omitted

Section 1.07 Entire Agreement. This Agreement and the Schedules hereto set forth the entire understanding of the Parties with respect to the subject matter hereof and there are no agreements, understandings, representations or warranties between the Parties or their respective Subsidiaries other than those set forth or referred to herein or therein.

Section 1.08 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the Parties and their permitted successors and assigns and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person, including any union or any employee or former employee of Supplier or Customer, or entity any legal or equitable right, benefit or remedy of any nature whatsoever, including any rights of employment for any specified period, under or by reason of this Agreement.

Section 1.09 Amendment; Waiver. No provision of this Agreement, including any Exhibits, Annexes or Schedules thereto, may be amended, supplemented, waived or modified except by a written instrument making specific reference hereto or thereto signed by all the Parties. No waiver of any breach of or non-compliance with this Agreement shall be deemed to be a waiver of any other or subsequent breach or non-compliance.

Section 1.10 Governing Law. This Agreement, and all claims or causes of action (whether in contract, tort or otherwise) that may be based upon, arise out of or relate to this Agreement or the negotiation, execution or performance of this Agreement (including any claim or cause of action based upon, arising out of or related to any representation or warranty made in or in connection with this Agreement) shall be governed by and construed in accordance with the law of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws.

Section 1.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. Copies of executed counterparts transmitted by telecopy, telefax or other electronic transmission service (including by means of e-mail in .pdf format) shall be considered original executed counterparts for purposes of this Section 16.11.

Section 1.12 Assignment. This Agreement and all of the provisions hereto shall be binding upon and inure to the benefit of, and be enforceable by, the Parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations set forth herein shall be assigned by a Party hereto without the prior written consent of the other Party and any purported assignment without such consent shall be void and null at the outset; provided, however, that (i) Supplier may assign its rights to an Affiliate, provided that any assignee of this Agreement must be the owner of the Arlo IP, such that the Customer Entities must always receive the licenses herein directly from the owner of the Arlo IP, and not from an Affiliate or intermediate licensor; and (ii) Customer may assign its rights and obligations under this Agreement in the following circumstances (provided that, in each case, Customer remains liable for the performance of Customer's obligations in this

[\*\*\*] = Certain Confidential Information Omitted

Agreement by such assignee): (x) in whole or in part, to an Affiliate; or (y) in whole, in connection with a reorganization or a sale or disposition of any assets or lines of business of Customer.

Section 1.13 Rules of Construction. Interpretation of this Agreement shall be governed by the following rules of construction: (a) words in the singular shall be held to include the plural and vice versa, and words of one gender shall be held to include the other gender as the context requires; (b) references to the terms Article, Section, paragraph, Exhibit and Schedule are references to the Articles, Sections, paragraphs, Exhibits, Annexes and Schedules of this Agreement unless otherwise specified; (c) the terms “hereof”, “herein”, “hereby”, “hereto”, and derivative or similar words refer to this entire Agreement, including the Schedules, Annexes and Exhibits hereto; (d) references to “\$” means U.S. dollars; (e) the word “including” and words of similar import when used in this Agreement means “including without limitation,” unless otherwise specified; (f) the word “or” shall not be exclusive; (g) references to “written” or “in writing” include in electronic form; (h) provisions shall apply, when appropriate, to successive events and transactions; (i) the headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement; (j) Supplier and Customer have each participated in the negotiation and drafting of this Agreement and if an ambiguity or question of interpretation should arise, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or burdening either Party by virtue of the authorship of any of the provisions in any of this Agreement; (k) a reference to any Person includes such Person’s successors and permitted assigns; (l) any reference to “days” means calendar days unless Business Days are expressly specified; and (m) when calculating the period of time before which, within which or following which any act is to be done or step taken pursuant to this Agreement, the date that is the reference date in calculating such period shall be excluded, if the last day of such period is not a Business Day, the period shall end on the next succeeding Business Day.

Section 1.14 Non-Recourse. No past, present or future director, officer, employee, incorporator, member, partner, stockholder, Affiliate, agent, attorney or Representative of Supplier or Customer shall have any liability for any obligations or liabilities of such Party under this Agreement of or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby.

Section 1.15 Export Law Compliance. Each Party shall be responsible for their compliance with applicable export laws, rules and regulations as related to their performance under this Agreement.

Section 1.16 No Conflict. In the event of any conflict or inconsistency between the terms and conditions of this Agreement and the terms and conditions of a Statement of Work or a Purchase Order, the terms and conditions of this Agreement shall prevail, unless with respect to a Statement of Work only, such Statement of Work specifically references the provisions of this Agreement that are inconsistent therewith (or it is reasonably apparent from the face of the Statement of Work that such provisions were meant to be specifically referenced and were inadvertently not so referenced), in which case the terms and conditions of such Statement of Work shall prevail. The Parties shall modify any provisions of this Agreement to the extent

Section 1.17 necessary to comply with the local Laws of the jurisdiction in which such Statement of Work is executed.  
*[Signature page follows.]*

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed on the date first written above by their respective duly authorized officers.

**ARLO TECHNOLOGIES, INC.**

By: /s/ Matthew McRae  
Name: Matthew McRae  
Title: Chief Executive Officer

**VERISURE SÀRL**

By: /s/ Austin Lally  
Name: Austin Lally  
Title: Chief Executive Officer

By: /s/ Marta Panzano Barbero  
Name: Marta Panzano Barbero  
Title: Chief Human Resources Officer

## **ADDENDUM 1 TO SCHEDULE 4.01(a) OF SUPPLY AGREEMENT**

This Addendum 1 is entered into June 23, 2020 and amends Schedule 4.01(a) of the Supply Agreement dated November 4, 2019 (“Agreement”) by and between Arlo Technologies, Inc., a Delaware corporation having its place of business at 3030 Orchard Parkway, San Jose, California (“Supplier”) and Verisure Sàrl, a Swiss limited liability company having its principal place of business at Chemin Jean-Baptiste Vandelle 3, 1290 Versoix, Switzerland (“Customer”).

### **RECITALS**

**WHEREAS**, Supplier and Customer previously entered into that certain Supply Agreement dated November 4, 2019 (“Agreement”); and

**WHEREAS**, the parties now desire to modify and amend the terms of Schedule 4.01(a) of the Agreement as more particularly set forth below.

**NOW THEREFORE**, in consideration of the mutual covenants set out herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree for themselves, their successors and permitted assigns as follows:

[\*\*\*]

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**\*\*\*] = Certain Confidential Information Omitted**

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IN WITNESS WHEREOF, the Parties have caused this Addendum 1 to be executed on the date first written above by their respective duly authorized officers.

**ARLO TECHNOLOGIES, INC.**

By: /s/ Brian Busse  
Name: Brian Busse  
Title: General Counsel

**VERISURE SÀRL**

By: /s/ Vincent Litrico  
Name: Vincent Litrico  
Title: CFO

By: /s/ Mariano Andreu  
Name: Mariano Andreu  
Title: Procurement & Supply Chain

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**AMENDMENT 2**  
**TO**  
**SUPPLY AGREEMENT**

This Amendment to Supply Agreement (this "Amendment") is entered into by and between Arlo Technologies, Inc., a Delaware corporation having its place of business at 3030 Orchard Parkway, San Jose, California ("Supplier") and Verisure Sàrl, a Swiss limited liability company having its principal place of business at Chemin Jean-Baptiste Vandelle 3, 1290 Versoix, Switzerland ("Customer"), on this 1st day of November, 2021 (the "Amendment Effective Date") and amends that certain Supply Agreement dated November 4, 2019 between Supplier and Customer (the "Agreement"). Numeric Section references used herein, and defined terms used herein shall be deemed to refer to those used in the Agreement, unless defined in this Amendment.

**RECITALS**

WHEREAS, Supplier and Customer wish to change the delivery terms applicable to Product sales under the Agreement, and to make certain conforming changes to the Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the Parties hereby agree as follows:

1. The definitions of "Delivery Date" and "Delivery Location" are hereby deleted in their entirety and are replaced with:

*"Delivery Date(s)" means the date(s) on which Products are delivered pursuant to the applicable Incoterm listed in Section 2.10, which shall be "Delivery" for all purposes of this Agreement."*

*"Delivery Location" means the location(s) to which Customer intends for its carrier to ship Products under a Purchase Order. For clarity, there will be only one Delivery Location per Purchase Order."*

2. Clause (ii) of the second sentence of Section 2.05 is hereby deleted in its entirety and is replaced with:

*"(ii) has a Delivery Date that is at least [\*\*\*] from the date of the Purchase Order for Purchase Orders delivered according to CIP or FCA Incoterms and at least [\*\*\*] (for sea freight to the Delivery Locations set forth on Section 2.07 herein) or [\*\*\*] (for air freight) from the date of the Purchase Order for Purchase Orders delivered according to DDU Incoterm".*

3. In Schedule 2.05 of the Agreement, [\*\*\*].

4. The first sentence of Section 2.07 is hereby deleted in its entirety, and is replaced with the following (such amendment shall not apply to Purchase Orders accepted prior to the Amendment Effective Date):

*"2.07. Purchase Order Product Fulfilment. For each Purchase Order, Supplier shall package the Products for shipment to the Delivery Location and deliver them (i) onto trucks at the facility of Supplier's*

**[\*\*\*] = Certain Confidential Information Omitted**

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*ODMs by or on the Delivery Date for the Products shipped according to FCA or CIP Incoterm and (ii) to the Delivery Location in Moerdijk, The Netherlands for Products shipped according to DDU Incoterm.”*

4. Section 2.08(a) is hereby deleted in its entirety, and the Agreement is renumbered accordingly.

5. Section 2.10 is hereby deleted in its entirety and is replaced with the following:

*“2.10 Transfer of Title and Risk of Loss.*

*2.10.1 For all Products to the exclusion of the Products to be purchased by Verisure Arlo Europe DAC: Up to December 31, 2021 at the soonest or any other later date resulting from the section below, transfer of risks, shipping, insurance and export costs related to the freight of the Products shall be regulated between the Parties according to CIP (Incoterms 2020) to the first carrier in the EU, unless otherwise agreed upon in writing by both Parties on a shipment by shipment basis.*

*Verisure reserves the right, at its entire discretion, to extend the arrangement above from January 1, 2022 (i.e. CIP Incoterms 2020) on a quarterly basis, by a written notification to the Supplier no later than ten (10) Business Days before the end of the quarter.*

*From January 1, 2022 onwards or any later date resulting from the section above, transfer of risks, shipping, insurance and export costs related to the freight of the Products shall be regulated between the Parties according to FCA (Incoterms 2020) onto trucks at the facility of Supplier's ODM, unless otherwise agreed upon in writing by both Parties on a shipment by shipment basis.*

*2.10.2 For the Products to be purchased by Verisure Arlo Europe DAC: Until a date to be notified by Verisure as per the paragraph immediately below, Supplier shall be responsible for arranging and paying all shipping, insurance and export costs related to the freight of the Products under DDU (Incoterms 2010) to the Delivery Location, unless otherwise agreed upon by both Parties on a shipment by shipment basis. For the avoidance of doubt, Customer shall be responsible for performing customs clearance and paying all relevant customs and import duties and inspection costs associated with the delivery of the Products to the Delivery Location. Title to the Products will pass on to the Customer at the Delivery Location. Risk in any Products rejected by the Customer pursuant to Section 2.15 hereof shall pass back to the Supplier once the Supplier has collected the rejected Products pursuant to Section 2.15, and risk in any surplus Products shall pass back to the Supplier on the earlier of (i) at the point of Supplier's collection of the same at the Delivery Location; and (ii) five (5) Business Days from the date Supplier receives Customer's notice to collect the Products from the Delivery Location.*

*Verisure reserves the right, at its entire discretion, to request by a written notification to the Supplier no later than three (3) Business Days the change of the Incoterm to FCA or CIP. The Parties shall make reasonable efforts to work internally and get prepared for such a change of Incoterm as soon as possible.*

*From the change of Incoterm according to the above, transfer of risks, shipping, insurance and export costs related to the freight of the Products shall be regulated between the Parties according to CIP or FCA (Incoterms 2020) onto trucks at the facility of Supplier's ODM, unless otherwise agreed upon in writing by both Parties on a shipment by shipment basis.*

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10.2.3 For Purchase Orders shipped according to CIP or FCA Incoterms, title to the Products will pass to the Customer upon the loading of such Products onto trucks at the facility of Supplier's ODM and for Purchase Orders shipped according to DDU Incoterm, title to the Products will pass on to the Customer at the Delivery Location.

10.2.4 Risk in any Products rejected by the Customer pursuant to Section 2.15 hereof shall pass back to the Supplier once the Supplier has collected the rejected Products pursuant to Section 2.15, and risk in any surplus Products shall pass back to the Supplier on the earlier of (i) at the point of Supplier's collection of the same at the Delivery Location; and (ii) [\*\*\*] from the date Supplier receives Customer's written notice to collect the Products from the Delivery Location."

6. Section 2.11 is hereby deleted in its entirety and is replaced with the following:

"2.11 Price List. Supplier's price list will include prices based on the applicable Incoterm according to Section 2.10."

7. The first sentence of the Section 2.12 (b) is hereby deleted in its entirety and replaced with the following:

"(b) Unless otherwise specified in the Purchase Order or otherwise agreed in writing by the Parties, no Customer Entity shall be required to accept Delivery in instalments."

8. The first two sentences of Section 8.06 are hereby deleted in their entirety and are replaced with the following:

"Supplier will issue product invoices (each a "Product Invoice") upon Delivery. Unless the subject of a genuine dispute, correctly issued Product Invoices will be payable by Customer or the Customer Entity which issued the relevant Purchase Order within [\*\*\*] of date of the Product Invoice related to Purchase Orders referring to CIP or FCA Incoterms and [\*\*\*] of date of the Product Invoice related to Purchase Orders referring to DDU Incoterm."

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed by their respective duly authorized officers, effective as of the Amendment Effective Date.

**ARLO TECHNOLOGIES, INC.**

By: /s/ Brian Busse  
Name: Brian Busse  
Title: General Counsel

**VERISURE SÀRL**

By: /s/ Vincent Litrico  
Name: Vincent Litrico  
Title: CFO

By: /s/ Austin Lally  
Name: Austin Lally  
Title: CEO

[\*\*\*] = Certain Confidential Information Omitted

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**ADDENDUM 3**  
**AMENDMENT OF SCHEDULE 4.01(a) OF SUPPLY AGREEMENT**

This Addendum 3 is entered into December 1, 2021 and amends Schedule 4.01(a) of the Supply Agreement dated November 4, 2019 (“Agreement”) by and between Arlo Technologies, Inc., a Delaware corporation having its place of business at 2200 Faraday Ave STE 150, Carlsbad, California (“**Supplier**”) and Verisure Sàrl, a Swiss limited liability company having its principal place of business at Chemin Jean-Baptiste Vandelle 3, 1290 Versoix, Switzerland (“**Customer**”).

**RECITALS**

**WHEREAS**, Supplier and Customer previously entered into that certain Supply Agreement dated November 4, 2019 as further amended from time to time (“Agreement”); and

**WHEREAS**, the parties now desire to modify and amend the terms of Schedule 4.01(a) of the Agreement as more particularly set forth below.

**NOW THEREFORE**, in consideration of the mutual covenants set out herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree for themselves, their successors and permitted assigns as follows:

This Addendum 3 supplements the Statement of Work for Custom Camera (Schedule 4.01(a)) and Agreement. In the event of a conflict between the terms and conditions of this Addendum 3 and the terms and conditions of Schedule 4.01(a) of the Agreement, this Addendum 3 will govern and control.

The Agreement shall continue in full force and effect in accordance with the provisions thereof, and no change or modification in any of the terms thereof except as specifically set forth herein has been affected. In particular, this Addendum 1 does not intend to introduce and change or modification with regard to the Custom Camera named “Certified Security” or “CS”.

Any further amendment to the Schedule 4.01(a) of the Agreement, as amended and supplemented by the Addenda 1 and 3, shall be agreed in writing between the parties.

[\*\*\*]

[\*\*\*] = Certain Confidential Information Omitted

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[\*\*\*]

No other change to Schedule 4.01(a) shall be given effect by this Addendum and, in particular, no change in Supplier's obligations to complete the development activities within Schedule 4.01(a) are intended.

IN WITNESS WHEREOF, the Parties have caused this Addendum 3 to be executed on the date first written above by their respective duly authorized officers.

**ARLO TECHNOLOGIES, INC.**

By:     /s/ Brian Busse      
Name: Brian Busse  
Title: General Counsel

**VERISURE SÀRL**

By:     /s/ Mariano Andreu      
Name: Mariano Andreu  
Title: Procurement Director

By:     /s/ Nina Cronstedt      
Name: Nina Cronstedt  
Title: CLO

[\*\*\*] = Certain Confidential Information Omitted

**LOAN AND SECURITY AGREEMENT**

Dated as of October 27, 2021

**ARLO TECHNOLOGIES, INC.,**

and

**CERTAIN OF ITS SUBSIDIARIES PARTY HERETO FROM TIME TO TIME,**

as Borrowers

**BANK OF AMERICA, N.A.,**

as Lender

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## LOAN AND SECURITY AGREEMENT

**THIS LOAN AND SECURITY AGREEMENT** is dated as of October 27, 2021, by and among **ARLO TECHNOLOGIES, INC.**, a Delaware corporation ("Arlo"; together with any other entity joined hereto as a borrower hereunder, each, a "Borrower" and collectively, the "Borrowers") and **BANK OF AMERICA, N.A.**, a national banking association (including any Lending Office, "Lender").

### RECITALS:

**WHEREAS**, Borrowers have requested that Lender provide a credit facility to Borrowers to finance their mutual and collective business enterprise.

**WHEREAS**, Lender is willing to provide the credit facility on the terms and conditions set forth in this Agreement.

**NOW, THEREFORE**, for valuable consideration hereby acknowledged, the parties agree as follows:

#### **Section 1. DEFINITIONS; RULES OF CONSTRUCTION**

**1.1. Definitions.** As used herein, the following terms have the meanings set forth below:

Accounts Formula Amount: the sum of:

- (a) the Investment Grade Accounts Formula Amount; plus
- (b) the Non-Investment Grade Accounts Formula Amount.

Acquisition: a transaction or series of transactions resulting in (a) acquisition of a business, division or substantially all assets of a Person; (b) record or beneficial ownership of 50% or more of the Equity Interests of a Person; or (c) merger, consolidation or combination of a Borrower or Subsidiary with another Person.

Affiliate: with respect to a specified Person, any other Person that directly, or indirectly through intermediaries, Controls, is Controlled by or is under common Control with the specified Person.

Allocable Amount: as defined in **Section 5.8.3**.

Anti-Corruption Law: any law relating to bribery or corruption, including the U.S. Foreign Corrupt Practices Act of 1977, UK Bribery Act 2010 and Patriot Act.

Anti-Terrorism Law: any law relating to terrorism or money laundering, including the Patriot Act.

Applicable Law: all laws, rules, regulations and governmental guidelines applicable to the Person or matter in question, including statutory law, common law and equitable principles, as well as provisions of constitutions, treaties, statutes, rules, regulations, orders and decrees of Governmental Authorities.

Applicable Margin: the margin set forth below, as determined by the average daily Availability for the last Fiscal Quarter:

| <u>Level</u> | <u>Average Daily Availability<br/>(as a percentage of the Borrowing<br/>Base)</u> | <u>Base Rate Loans</u> | <u>BSBY Loans</u> |
|--------------|---|------------------------|-------------------|
| I            | ≥ 50%   | 1.00%                  | 2.00%             |
| II           | ≥ 25% < 50%   | 1.25%                  | 2.25%             |
| III          | < 25%   | 1.50%                  | 2.50%             |

Until April 30, 2022, margins shall be determined as if Level II were applicable. Thereafter, margins shall be subject to increase or decrease by Lender on the first day of the calendar month following each Fiscal Quarter end. If Lender is unable to calculate average daily Availability for a Fiscal Quarter due to Borrowers' failure to deliver any Borrowing Base Report when required hereunder, then, at the option of Lender, margins shall be determined as if Level III were applicable until the first day of the calendar month following its receipt.

Availability: the Borrowing Base minus Revolver Usage.

Availability Reserve: the sum (without duplication) of (a) [reserved]; (b) the Rent and Charges Reserve; (c) the Bank Product Reserve; (d) liabilities secured by Liens (other than Permitted Liens) upon Collateral that are or may be senior to Lender's Liens (but imposition of any such reserve shall not waive an Event of Default arising therefrom); (e) the Dilution Reserve; and (f) additional reserves, in such amounts and with respect to such matters, as Lender in its Permitted Discretion may elect to impose from time to time.

Bank Product: any of the following products or services extended to an Obligor or Affiliate of an Obligor by Lender or any of its Affiliates: (a) Cash Management Services; (b) Swaps; (c) commercial credit card and merchant card services; and (d) supply chain finance, credit insurance, leases and other banking products or services, other than Letters of Credit.

Bank Product Debt: Debt, obligations and other liabilities of an Obligor or Affiliate of an Obligor with respect to Bank Products.

Bank Product Reserve: the aggregate amount of reserves established by Lender from time to time in its Permitted Discretion with respect to Bank Product Debt.

Bankruptcy Code: Title 11 of the United States Code.

Base Rate: for any day, a per annum rate equal to the greater of (a) the Prime Rate for such day; (b) the Federal Funds Rate for such day, plus 0.50%; or (c) the BSBY Rate for a one month interest period as of such day, plus 1.00%; provided, that in no event shall the Base Rate be less than zero (0).

Base Rate Loan: any Loan that bears interest based on the Base Rate.

Beneficial Ownership Certification: a certification regarding beneficial ownership as required by the Beneficial Ownership Regulation, in form and substance satisfactory to Lender.

Beneficial Ownership Regulation: 31 C.F.R. §1010.230.

Benefit Plan: any (a) employee benefit plan (as defined in ERISA) subject to Title I of ERISA, (b) plan (as defined in and subject to Section 4975 of the Code), or (c) Person whose assets include (for purposes of ERISA Section 3(42) or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) the assets of any such employee benefit plan or plan.

Bloomberg: Bloomberg Index Services Limited.

**Borrowed Money:** with respect to any Obligor, without duplication, its (a) Debt that (i) arises from the lending of money by any Person to such Obligor, (ii) is evidenced by notes, drafts, bonds, debentures, credit documents or similar instruments, (iii) accrues interest or is a type upon which interest charges are customarily paid (excluding trade payables owing in the Ordinary Course of Business), or (iv) was issued or assumed as full or partial payment for Property; (b) Capital Leases; (c) letter of credit reimbursement obligations; and (d) guaranties of any of the foregoing owing by another Person.

**Borrower Agent:** as defined in **Section 4.3**.

**Borrower Materials:** Borrowing Base Reports, Compliance Certificates, Notices of Borrowing, Notices of Conversion/Continuation, and other information, reports, financial statements and materials delivered by Obligors under the Loan Documents.

**Borrowing:** Loans made or converted together on the same day, with the same interest option and, if applicable, Interest Period.

**Borrowing Base:** on any date of determination, an amount equal to the lesser of (a) the Commitment; or (b) the Accounts Formula Amount minus the Availability Reserve.

**Borrowing Base Report:** a report of the Borrowing Base, in form and substance satisfactory to Lender.

**BSBY Rate:** (a) for any Interest Period for a BSBY Loan, a per annum rate equal to the BSBY Screen Rate two Business Days prior to such Interest Period, with a term equivalent to such period (or if such rate is not published on such determination date, the applicable BSBY Screen Rate on the Business Day immediately preceding such date); and (b) for any interest calculation relating to a Base Rate Loan on any day, a per annum rate equal to the BSBY Screen Rate with a term of one month commencing that day; provided, that in no event shall the BSBY Rate be less than zero (0).

**BSBY Loan:** a Loan that bears interest based on BSBY Rate.

**BSBY Screen Rate:** the Bloomberg Short-Term Bank Yield Index rate administered by Bloomberg and published on the applicable Reuters screen page (or such other commercially available source providing such quotations as may be designated by Lender from time to time).

**Business Day:** any day except a Saturday, Sunday or other day on which commercial banks are authorized to close under the laws of, or are in fact closed in, North Carolina or New York City.

**Capital Expenditures:** all liabilities incurred or expenditures made by a Borrower or Subsidiary for the acquisition of fixed assets, or any improvements, replacements, substitutions or additions thereto with a useful life of more than one year.

**Capital Lease:** any lease required to be capitalized for financial reporting purposes in accordance with GAAP, provided that any obligations of a Person that are or would have been treated as operating leases for purposes of GAAP prior to the issuance by the Financial Accounting Standards Board on February 25, 2016, of an Accounting Standards Updated (the "ASU") shall continue to be accounted for as operating leases for all purposes relevant to this Agreement (whether or not such operating lease obligations were in effect on such date).

**Cash Collateral:** cash delivered to Lender to Cash Collateralize any Obligations, and all interest, dividends, earnings and other proceeds relating thereto.

**Cash Collateralize:** the delivery of cash to Lender, as security for the payment of Obligations, in an amount equal to (a) 105% of LC Obligations, and (b) with respect to any inchoate, contingent or other Obligations (including fees, expenses, indemnification obligations and Obligations under

Bank Products), Lender's good faith estimate of the amount due or to become due. "Cash Collateralization" has a correlative meaning.

Cash Dominion Trigger Period: the period (a) commencing on any day that (i) an Event of Default occurs or (ii) Availability is less than the greater of (x) 15% of the Borrowing Base or (y) \$6,000,000; and (b) continuing until, during each of the preceding 30 consecutive days, (i) no Event of Default has existed and (ii) Availability has been equal to or greater than the greater of (x) 15% of the Borrowing Base and (y) \$6,000,000.

Cash Equivalents: (a) marketable obligations issued or unconditionally guaranteed by, and backed by the full faith and credit of, the U.S. government, maturing within 12 months of the date of acquisition; (b) certificates of deposit, time deposits and bankers' acceptances maturing within 12 months of the date of acquisition, and overnight bank deposits, in each case which are issued by Lender or a commercial bank organized under the laws of the United States or any state or district thereof, rated A-1 (or better) by S&P or P-1 (or better) by Moody's at the time of acquisition, and (unless issued by Lender) not subject to offset rights; (c) repurchase obligations with a term of not more than 30 days for underlying investments of the types described in clauses (a) and (b) entered into with any bank described in clause (b); (d) commercial paper issued by Lender or rated A-1 (or better) by S&P or P-1 (or better) by Moody's, and maturing within nine months of the date of acquisition; and (e) shares of any money market fund that has substantially all of its assets invested continuously in the types of investments referred to above, has net assets of at least \$500,000,000 and has the highest rating obtainable from either Moody's or S&P.

Cash Management Services: services relating to operating, collections, payroll, trust, or other depository or disbursement accounts, including automated clearinghouse, e-payable, electronic funds transfer, wire transfer, controlled disbursement, overdraft, depository, information reporting, blocked account, lockbox and stop payment services.

CERCLA: the Comprehensive Environmental Response Compensation and Liability Act (42 U.S.C. §9601 et seq.).

Change in Law: the occurrence, after the date hereof, of (a) the adoption, taking effect or phasing in of any law, rule, regulation or treaty; (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority; or (c) the making, issuance or application of any request, guideline, requirement or directive (whether or not having the force of law) by any Governmental Authority; provided, that "Change in Law" shall include, regardless of the date enacted, adopted or issued, all requests, rules, guidelines, requirements or directives (i) under or relating to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or (ii) promulgated pursuant to Basel III by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any similar authority) or any other Governmental Authority.

Change of Control: means at any time, any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), shall become, or obtain rights (whether by means of warrants, options or otherwise) to become, the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of fifty percent (50%) or more of the ordinary voting power for the election of directors of Arlo represented by the issued and outstanding Equity Interests of Arlo (determined on a fully diluted basis).

Claims: all claims, liabilities, obligations, losses, damages, penalties, judgments, proceedings, interest, costs and expenses of any kind (including remedial response costs, reasonable attorneys' fees and Extraordinary Expenses) at any time (including after Full Payment of the Obligations) incurred by any Indemnitee or asserted against any Indemnitee by any Obligor or other Person, in any way relating to any (a) Loans, Letters of Credit, Loan Documents, or the use thereof or transactions relating thereto, (b) action taken or omitted in connection with any Loan Documents, (c) existence or perfection of any Liens, or realization on any Collateral, (d) exercise of any rights or remedies under any Loan Documents or Applicable Law, (e) failure by any Obligor to perform or observe any terms of any Loan Document, or (f) Lender's reliance on any Communication executed

using an Electronic Signature or in the form of an Electronic Record, in each case including all costs and expenses relating to any investigation, litigation, arbitration or other proceeding (including an Insolvency Proceeding or appellate proceedings), whether or not the applicable Indemnitee is a party thereto.

Closing Date: as defined in **Section 6.1**.

Code: the United States Internal Revenue Code of 1986, as amended.

Collateral: as defined in **Section 7.1**.

Commitment: Lender's obligation to make Loans and to issue Letters of Credit in an aggregate amount up to \$40,000,000.

Commodity Exchange Act: the Commodity Exchange Act (7 U.S.C. §1 et seq.).

Compliance Certificate: a certificate, in form and substance satisfactory to Lender, by which Borrowers certify compliance with **Section 10.3**, regardless of the existence of a Financial Covenant Trigger Period.

Communication: any notice, request, election, representation, certificate, report, disclosure, statement, authorization, approval, consent, waiver, document, amendment or transmittal of information of any kind in connection with a Loan Document, including any Borrower Materials or Modification of a Loan Document.

Conforming Changes: with respect to use, administration of or conventions associated with BSBY Rate or any proposed Successor Rate, as applicable, any conforming changes to the definition of Base Rate, BSBY Rate, Interest Period, timing and frequency of determining rates and making payments of interest and other technical, administrative or operational matters (including, for the avoidance of doubt, the definition of Business Day, timing of borrowing requests or prepayment, conversion or continuation notices, and length of lookback periods) as may be appropriate, in Lender's discretion, to reflect the adoption and implementation of such applicable rate, and to permit the administration thereof by Lender in a manner substantially consistent with market practice (or, if Lender determines that adoption of any portion of such market practice is not administratively feasible or that no market practice for the administration of such rate exists, in such other manner of administration as Lender determines is reasonably necessary in connection with the administration of any Loan Document).

Connection Income Taxes: Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

Contingent Obligation: any obligation of a Person arising from a guaranty, indemnity or other assurance of payment or performance of any Debt, lease, dividend or other obligation ("primary obligation") of another obligor ("primary obligor") in any manner, whether directly or indirectly, including any obligation of such Person under any (a) guaranty, endorsement, co-making or sale with recourse of an obligation of a primary obligor; (b) obligation to make take-or-pay or similar payments regardless of nonperformance by any other party to an agreement; or (c) arrangement (i) to purchase any primary obligation or security therefor, (ii) to supply funds for the purchase or payment of any primary obligation, (iii) to maintain or assure working capital, equity capital, net worth or solvency of the primary obligor, (iv) to purchase Property or services for the purpose of assuring the ability of the primary obligor to perform a primary obligation, or (v) otherwise to assure or hold harmless the holder of any primary obligation against loss in respect thereof. The amount of any Contingent Obligation shall be deemed to be the stated or determinable amount of the primary obligation (or, if less, the maximum amount for which such Person may be liable under the instrument evidencing the Contingent Obligation) or, if not stated or determinable, the maximum reasonably anticipated liability with respect thereto.

**Control:** possession, directly or indirectly, of the power to direct or cause direction of a Person's management or policies, whether through the ability to exercise voting power, by contract or otherwise.

**Covered Entity:** (a) a "covered entity," as defined and interpreted in accordance with 12 C.F.R. §252.82(b); (b) a "covered bank," as defined in and interpreted in accordance with 12 C.F.R. §47.3(b); or (c) a "covered FSI," as defined in and interpreted in accordance with 12 C.F.R. §382.2(b).

**Daily Simple SOFR:** with respect to any applicable determination date, the secured overnight financing rate published on such date by FRBNY, as administrator of the benchmark (or a successor administrator), on FRBNY's website (or any successor source satisfactory to Lender).

**Debt:** as applied to any Person, without duplication, (a) all items that would be included as liabilities on a balance sheet in accordance with GAAP, excluding trade payables, accrued liabilities and non-trade accounts payable, in each case, incurred and being paid in the Ordinary Course of Business, but including Capital Leases; (b) all Contingent Obligations; (c) all reimbursement obligations in connection with letters of credit issued for the account of such Person; and (d) in the case of a Borrower, the Obligations. The Debt of a Person shall include any recourse Debt of any partnership in which such Person is a general partner or joint venturer.

**Default:** an event or condition that, with the lapse of time or giving of notice, would constitute an Event of Default.

**Default Rate:** for any Obligation (including, to the extent permitted by law, interest not paid when due), 2.00% plus the interest rate or fee otherwise applicable thereto.

**Deposit Account Control Agreement:** control agreement satisfactory to Lender executed by an institution maintaining a Deposit Account for an Obligor, to perfect Lender's Lien on such account.

**Dilution Percent:** the percent, determined for Borrowers' most recent Fiscal Quarter, equal to (a) bad debt write-downs or write-offs, discounts, returns, promotions, credits, credit memos and other dilutive items with respect to Accounts, divided by (b) gross sales.

**Dilution Reserve:** a reserve equal to 1.00% of the Value of Eligible Accounts for each percentage point (or portion thereof) that the Dilution Percent exceeds 5.00%.

**Disclosure Letter:** that certain Disclosure Letter of even date herewith, that was delivered to and accepted by Lender as of the Closing Date, to which each of the Schedules to such Disclosure Letter referenced herein is attached. Each reference to a Schedule of the Disclosure Letter shall refer to the applicable Schedule attached to the Disclosure Letter.

**Disposition:** the sale, transfer, license, lease, consignment, transfer or other disposition (in one transaction, a series of transactions or otherwise) of property of a Person, including a sale-leaseback transaction, synthetic lease, issuance of Equity Interests by a subsidiary, Division, or sale, assignment, transfer or other disposal, with or without recourse, of any notes, accounts receivable or related rights.

**Distribution:** any declaration or payment of a distribution, interest or dividend on any Equity Interest (other than payment-in-kind); distribution, advance or repayment of Debt to a holder of Equity Interests; or purchase, redemption, or other acquisition or retirement for value of any Equity Interest.

**Division:** the division of assets, liabilities and/or obligations of a Person among two or more Persons (whether pursuant to a "plan of division" or similar arrangement), which may or may not

include the original dividing Person and pursuant to which the original dividing Person may or may not survive.

Dollars: lawful money of the United States.

Dominion Account: a special account established by Borrowers at Lender or a bank acceptable to Lender, over which Lender has exclusive control for withdrawal purposes.

Due Diligence Trigger Period: the period (a) commencing on any day that Availability is less than the greater of (i) \$7,000,000 for a period of three (3) consecutive days or (ii) 17.5% of the Borrowing Base for a period of three (3) consecutive days; and (b) continuing until, during each of the preceding 30 consecutive days, (i) no Event of Default has existed and (ii) Availability has been equal to or greater than the greater of (x) \$7,000,000 and (y) 17.5% of the Borrowing Base.

EBITDA: determined on a consolidated basis for Borrowers and Subsidiaries, net income calculated before interest expense, *plus*, without duplication, the following amounts, in each case, to the extent included in determining net income: (i) income taxes; (ii) total depreciation and amortization expense (including, without limitation, amortization of intangibles from purchase price accounting); (iii) gains or losses arising from the sale of capital assets; (iv) gains arising from the write-up of assets and any extraordinary gains, noncash stock based compensation expense, noncash exchange, transaction or performance losses relating to any foreign currency hedging transactions or currency fluctuations; (v) costs, fees and expenses in connection with the execution and delivery of this Agreement and the other Loan Documents and any amendments or other modifications hereto or thereto; (vi) one-time costs, fees, and expenses in connection with Permitted Acquisitions or Investments, Dispositions, issuances or repurchases of Equity Interests, or the incurrence, amendment or waiver of Indebtedness (in each case not prohibited hereunder), in each case, whether or not consummated; (vii) noncash purchase accounting adjustments (including, but not limited to deferred revenue write down) and any adjustments as required or permitted by the application of *ASC 805 – Business Combinations* (requiring the use of acquisition method of accounting for business combination), *ASC 350 – Intangibles – Goodwill and Other* (relating to subsequent accounting of goodwill and certain identifiable intangibles) and *ASC 360 – Property Plant and Equipment* (relating to impairment of long-lived assets), in each case, in connection with Permitted Acquisitions, (viii) noncash charges for goodwill and other intangible impairments in connection with Permitted Acquisitions or otherwise; (ix) the amount of any restructuring charge, accrual or reserve, integration cost or other business optimization expense, including any restructuring costs incurred in connection with acquisitions, mergers or consolidations after the Closing Date and any other restructuring expenses, severance expenses, one-time compensation charges, post-retirement employee benefits plans, any expenses relating to reconstruction, decommissioning or recommissioning fixed assets for alternate use, expenses or charges relating to facility closing costs, acquisition integration costs and signing, retention or completion bonuses or expenses, any extraordinary, unusual or non-recurring non-cash charges; (x) other noncash items reducing consolidated net income (excluding any such non cash item to the extent that it represents an accrual or reserve for potential cash items in any future period or amortization of a prepaid cash item that was paid in a prior period) approved by the Lender in writing as an ‘add-back’ to EBITDA; (xi) expenses and payments that are covered by indemnification or purchase price adjustment provisions in any agreement entered into by a Loan Party in connection with any proposed or actual Permitted Acquisition and for which (A) the indemnitor or counterparty has assumed coverage and (B) the Borrower reasonably expects to receive such expenses and payments within one year from the date of calculation; (xii) any expense deducted in calculating consolidated net income and reimbursed by third parties; (xiii) the amount of earn-out obligations incurred in connection with any Permitted Acquisition, to the extent such earn-outs are permitted under this Agreement and expensed under GAAP standards; and (xiv) write-downs of capitalized software development costs. Notwithstanding the foregoing, for any period of measurement, the aggregate amounts calculated under clauses (vi), (ix), and (xiv) and actually paid in cash by Borrower shall not exceed 30% of EBITDA, calculated without taking into account this limitation.

Electronic Copy: as defined in **Section 12.8**.

Electronic Record and Electronic Signature: as defined in 15 U.S.C. §7006.

Eligible Account: an Account owing to a Borrower that arises in the Ordinary Course of Business from the sale of goods, is payable in Dollars and is deemed by Lender, in its Permitted Discretion, to be an Eligible Account. Without limiting the foregoing, no Account shall be an Eligible Account if:

(a) it is unpaid for more than 60 days after the original due date, or more than 150 days after the original invoice date;

(b) 50% or more of the Accounts owing by the Account Debtor are not Eligible Accounts under the foregoing clause;

(c) with respect to:

(i) Accounts owed by Best Buy Co., Inc. and its Affiliates, when aggregated with other Accounts owing by such Account Debtor and its Affiliates, it exceeds 65% of the aggregate Eligible Accounts (or such other percentage as Lender may establish for the Account Debtor from time to time);

(ii) Accounts owed by Costco Wholesale Corporation and its Affiliates, when aggregated with other Accounts owing by such Account Debtor and its Affiliates, it exceeds 50% of the aggregate Eligible Accounts (or such other percentage as Lender may establish for the Account Debtor from time to time);

(iii) Accounts owed by Walmart Inc. and its Affiliates, when aggregated with other Accounts owing by such Account Debtor and its Affiliates, it exceeds 50% of the aggregate Eligible Accounts (or such other percentage as Lender may establish for the Account Debtor from time to time);

(iv) Accounts owed by Amazon.Com, Inc. and its Affiliates, when aggregated with other Accounts owing by such Account Debtor and its Affiliates, it exceeds 50% of the aggregate Eligible Accounts (or such other percentage as Lender may establish for the Account Debtor from time to time); and

(v) Accounts owed by all other Account Debtors and their Affiliates, when aggregated with other Accounts owing by the Account Debtor, it exceeds 15% of the aggregate Eligible Accounts (or such higher percentage as Lender may establish for the Account Debtor from time to time);

(d) it does not conform with a covenant or representation herein;

(e) it is owing by a creditor or supplier, or is otherwise subject to a potential offset, counterclaim, dispute, deduction, discount, recoupment, reserve, defense, chargeback, credit or allowance (but ineligibility shall be limited to the amount thereof);

(f) an Insolvency Proceeding has been commenced by or against the Account Debtor; or the Account Debtor has failed, has suspended or ceased doing business, is liquidating, dissolving or winding up its affairs, is not Solvent, or is the target of any Sanction or on any specially designated nationals list maintained by OFAC; or the Borrower is not able to bring suit or enforce remedies against the Account Debtor through judicial process;

(g) the Account Debtor is organized or has its principal offices or assets outside the United States or Canada, unless the Account is supported by a letter of credit (delivered to and directly drawable by Lender) or credit insurance satisfactory in all respects to Lender;



(h) it is owing by a Governmental Authority, unless the Account Debtor is the United States or any department, agency or instrumentality thereof and the Account has been assigned to Lender in compliance with the federal Assignment of Claims Act;

(i) it is not subject to a duly perfected, first priority Lien in favor of Lender, or is subject to any other Lien;

(j) the goods giving rise to it have not been delivered to the Account Debtor, the services giving rise to it have not been accepted by the Account Debtor, or it otherwise does not represent a final sale;

(k) it is evidenced by Chattel Paper or an Instrument of any kind, or has been reduced to judgment;

(l) its payment has been extended past 150 days after the original invoice date or the Account Debtor has made a partial payment, which partial payment is the result of the Account Debtor's financial condition or inability to pay;

(m) it arises from a sale to an Affiliate, from a sale on a cash-on-delivery, bill-and-hold, sale or return, sale on approval, consignment, or other repurchase or return basis, or from a sale for personal, family or household purposes;

(n) it represents a progress billing or retainage, or relates to services for which a performance, surety or completion bond or similar assurance has been issued; or

(o) it includes a billing for interest, fees or late charges, but ineligibility shall be limited to the extent thereof.

In calculating delinquent portions of Accounts under clauses (a) and (b), credit balances more than 60 days after the original due date and more than 150 days after the original invoice date will be excluded.

**Enforcement Action:** any action to enforce any Obligations or Loan Documents or to realize upon any Collateral, whether by judicial action, self-help, notification of Account Debtors, setoff or recoupment, credit bid, deed in lieu of foreclosure, action in an Insolvency Proceeding or otherwise.

**Environmental Laws:** Applicable Laws (including programs, permits and guidance promulgated by regulators) relating to public health (other than occupational safety and health regulated by OSHA) or the protection or pollution of the environment, including the Resource Conservation and Recovery Act (42 U.S.C. §§6991-6991i), Clean Water Act (33 U.S.C. §1251 *et seq.*) and CERCLA.

**Environmental Notice:** a notice (whether written or oral) from any Governmental Authority or other Person of any possible noncompliance with, investigation of a possible violation of, litigation relating to, or potential fine or liability under any Environmental Law, or with respect to any Environmental Release, environmental pollution or hazardous materials, including any complaint, summons, citation, order, claim, demand or request for correction, remediation or otherwise.

**Environmental Release:** a release as defined in CERCLA or under any other Environmental Law.

**Equity Interest:** the interest of any (a) shareholder in a corporation; (b) partner in a partnership (whether general, limited, limited liability or joint venture); (c) member in a limited liability company; or (d) other Person having any other form of equity security or ownership interest.

ERISA: the Employee Retirement Income Security Act of 1974.

ERISA Affiliate: any trade or business (whether or not incorporated) under common control with an Obligor within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

ERISA Event: (a) a Reportable Event with respect to a Pension Plan; (b) withdrawal of an Obligor or ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) complete or partial withdrawal of an Obligor or ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) filing of a notice of intent to terminate, treatment of a Pension Plan amendment as a termination under Section 4041 or 4041A of ERISA, or institution of proceedings by the PBGC to terminate a Pension Plan; (e) determination that a Pension Plan is considered an at-risk plan or a plan in critical or endangered status under the Code or ERISA; (f) an event or condition that constitutes grounds under Section 4042 of ERISA for termination of, or appointment of a trustee to administer, any Pension Plan; (g) imposition of any liability on an Obligor or ERISA Affiliate under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA; or (h) failure by an Obligor or ERISA Affiliate to meet all applicable requirements under the Pension Funding Rules in respect of a Pension Plan, whether or not waived, or to make a required contribution to a Multiemployer Plan.

Event of Default: as defined in **Section 11**.

Excluded Accounts: (a) deposit accounts exclusively used for payroll, payroll taxes or employee benefits, (b) escrow accounts and trust accounts where Borrower or any Subsidiary holds the funds exclusively for the benefit of one or more unaffiliated third parties, (c) any deposit account the pledge of which is prohibited by applicable law, (d) deposit accounts exclusively used for securing Permitted Liens securing Borrowers' obligations under letters of credit, (e) accounts containing not more than \$500,000 in the aggregate at any time, (f) restricted cash accounts related to foreign tax duties, (g) merchant accounts (other than any assets held therein), (h) Deposit Accounts located in Canada containing not more than \$5,000,000 in the aggregate at any time, (i) a segregated Deposit Account exclusively used to hold the proceeds of the sale of Equity Interests pursuant to clause (c)(i) of the definition of "Excluded Assets", and (j) other accounts acceptable to Lender.

Excluded Assets:

- (a) Excluded Accounts;
- (b) Intellectual Property;
- (c) any cash received as proceeds of the sale of Equity Interests of Borrower Agent; provided, that such cash is held in a segregated Deposit Account and, within 90 days of receipt thereof, such cash is either (i) used by Borrowers for any purpose not prohibited herein or (ii) transferred to a Deposit Account subject to a Deposit Account Control Agreement;
- (d) the Equity Interests of all Subsidiaries;
- (e) any Inventory located in Mexico and remaining therein;
- (f) any Inventory in-transit to and from a foreign location; and
- (g) any property to the extent that such grant of a security interest is prohibited by any binding contract or any requirement of law of a governmental authority or constitutes a breach or default under or results in the termination of or requires any consent not obtained

under, any contract, license, agreement, instrument or other document evidencing or giving rise to such property; provided that no asset or property shall be excluded from the Collateral to the extent the restriction described in this clause (g) would be rendered ineffective pursuant to Section 9-406, 9-407, 9-408 or 9-409 of the UCC or any other applicable law or principles of equity, or to the extent that any necessary consents or waivers have been obtained to allow the security interest in such asset or property notwithstanding such restriction.

Excluded Swap Obligation: with respect to an Obligor, each Swap Obligation as to which, and only to the extent that, such Obligor's guaranty of or grant of a Lien as security for such Swap Obligation is or becomes illegal under the Commodity Exchange Act because the Obligor does not constitute an "eligible contract participant" as defined in the act (determined after giving effect to any keepwell, support or other agreement for the benefit of such Obligor and all guarantees of Swap Obligations by other Obligors) when such guaranty or grant of Lien becomes effective with respect to the Swap Obligation. If a hedge agreement governs more than one Swap Obligation, only the Swap Obligation(s) or portions thereof described in the foregoing sentence shall be Excluded Swap Obligation(s) for the applicable Obligor.

Excluded Taxes: any of the following Taxes imposed on or with respect to a Recipient or required to be withheld or deducted from a payment to a Recipient, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes and branch profits Taxes, in each case, (i) imposed as a result of such Recipient being organized under the laws of, or having its principal office or applicable Lending Office located in, the jurisdiction imposing such Tax(or any political subdivision thereof), or (ii) that are Other Connection Taxes; (b) in the case of a Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an applicable interest in a Loan or Commitment pursuant to a law in effect on the date on which (i) such Lender acquires such interest in the Loan or Commitment (other than pursuant to an assignment request by the Borrower Agent under **Section 3.8**) or (ii) such Lender changes its lending office, except in each case to the extent that, pursuant to Section 5.7, amounts with respect to such Taxes were payable either to such Lender's assignor immediately before it changed its lending office, (c) Taxes attributable to such Recipient's failure to comply with Section 5.7.6 and (d) any withholding Taxes imposed pursuant to FATCA.

Extraordinary Expenses: all costs, expenses or advances incurred by any Indemnitee during an Event of Default that has occurred and is continuing or Obligor's Insolvency Proceeding, including those relating to any (a) audit, inspection, repossession, storage, repair, appraisal, insurance, processing, preparation or advertising for sale, sale, collection, or other preservation of or realization upon Collateral; (b) action, arbitration or other proceeding (whether instituted by or against Lender, any Obligor, any creditor(s) of an Obligor or any other Person) in any way relating to any Collateral, Lender's Lien, Loan Documents, Letters of Credit or Obligations, including any lender liability or other Claims; (c) Enforcement Action or exercise of any rights or remedies in, or the monitoring of, any Insolvency Proceeding; (d) settlement or satisfaction of taxes, charges or Liens with respect to any Collateral; (e) negotiation and documentation of any Modification, workout, restructuring, forbearance, liquidation or collection with respect to any Loan Document, Collateral or Obligations. Such costs, expenses and advances include transfer fees, Other Taxes, storage and insurance costs, permit fees, utility expenses, legal and accounting fees and expenses, appraisal costs, brokers' and auctioneers' commissions, environmental study costs, wages and salaries paid to employees of any Obligor or independent contractors in liquidating Collateral, and travel expenses.

FATCA: Sections 1471 through 1474 of the Code (including any amended or successor version if substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, any agreements entered into pursuant to Section 1471(b)(1) of the Code and any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement, treaty or convention among Governmental Authorities and implementing such Sections of the Code.

Federal Funds Rate: for any day, the per annum rate calculated by FRBNY based on such day's federal funds transactions by depository institutions (as determined in such manner as FRBNY shall set forth on its public website from time to time) and published on the next Business Day by FRBNY as the federal funds effective rate; provided, that in no event shall the Federal Funds Rate be less than zero.

Financial Covenant Changeover Date: the first day of the Fiscal Quarter after Borrowers have achieved a Fixed Charge Coverage Ratio of at least 1.00 to 1.00 for two (2) consecutive Fiscal Quarters.

Financial Covenant Trigger Period: the period (a) commencing on any day that (i) an Event of Default occurs or (ii) Availability is less than the greater of (x) 15% of the Borrowing Base or (y) \$6,000,000; and (b) continuing until, during each of the preceding 30 consecutive days, (i) no Event of Default has existed and (ii) Availability has been equal to or greater than the greater of (x) 15% of the Borrowing Base and (y) \$6,000,000.

Financial Reporting Trigger Period: the period (a) commencing on any day that (i) an Event of Default occurs or (ii) Availability is less than the greater of (x) 15% of the Borrowing Base for a period of three (3) consecutive days or (y) \$6,000,000 for a period of three (3) consecutive days; and (b) continuing until, during each of the preceding 30 consecutive days, (i) no Event of Default has existed and (ii) Availability has been equal to or greater than the greater of (x) 15% of the Borrowing Base and (y) \$6,000,000.

Fiscal Quarter: a fiscal quarter of Borrowers and Subsidiaries for accounting and tax purposes.

Fiscal Year: the fiscal year of Borrowers and Subsidiaries for accounting and tax purposes, ending on December 31 of each year.

Fixed Charge Coverage Ratio: the ratio, determined on a consolidated basis for Borrowers and Subsidiaries for the most recent 12 months as of the last day of any Fiscal Quarter, of (a) EBITDA minus Capital Expenditures (except those financed with Borrowed Money other than Loans) and cash taxes paid (including Permitted Tax Distributions), to (b) Fixed Charges.

Fixed Charges: the sum of interest expense (other than payment-in-kind), principal payments made on Borrowed Money, and Distributions made in cash (other than Permitted Tax Distributions) and loans or advances made pursuant to clause (l) in the definition of "Restricted Investments".

Flood Laws: the National Flood Insurance Act of 1968, Flood Disaster Protection Act of 1973 and related laws.

FLSA: the Fair Labor Standards Act of 1938.

Foreign Lender: (a) if a Borrower is a U.S. Person, a Lender (or if the Lender is a disregarded entity for U.S. federal income tax purposes, the Person treated as the owner of the assets of such Lender for U.S. federal income tax purposes), with respect to such Borrower, that is not a U.S. Person, and (b) if a Borrower is not a U.S. Person, a Lender or if the Lender is a disregarded entity for U.S. federal income tax purposes, the Person treated as the owner of the assets of such Lender for U.S. federal income tax purposes), with respect to such Borrower, that is resident or organized under the laws of a jurisdiction other than that in which such Borrower is resident for tax purposes.

Foreign Plan: any employee benefit plan or arrangement (a) maintained or contributed to by any Obligor or Subsidiary that is not subject to the laws of the United States; or (b) mandated by a government other than the United States for employees of any Obligor or Subsidiary.

Foreign Subsidiary: any direct or indirect Subsidiary of a Borrower (a) that is not a U.S. Person, (b) that is a direct or indirect Subsidiary of a Subsidiary described in clause (a), or (c) substantially all of the assets of which are Equity Interests in one or more “controlled foreign corporations” as defined in Section 957 of the Code.

FRBNY: the Federal Reserve Bank of New York.

Full Payment: with respect to any Obligations, (a) the full and indefeasible cash payment thereof, including any interest, fees and other charges accruing in an Insolvency Proceeding (whether or not allowed in the proceeding); and (b) if such Obligations are LC Obligations or inchoate or contingent in nature, Cash Collateralization thereof (or delivery of standby letter(s) of credit acceptable to Lender in its discretion, in the amount of required Cash Collateral). The Loans shall not be deemed to have been paid in full unless the Commitment is terminated.

GAAP: generally accepted accounting principles in effect in the United States from time to time.

Governmental Approvals: all authorizations, consents, approvals, licenses and exemptions of, registrations and filings with, and required reports to, all Governmental Authorities.

Governmental Authority: any federal, state, local, foreign or other agency, authority, body, commission, court, instrumentality, political subdivision, central bank, or other entity or officer exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions for any governmental, judicial, investigative, regulatory or self-regulatory authority (including the Financial Conduct Authority, the Prudential Regulation Authority and any supra-national bodies such as the European Union or European Central Bank).

Guarantor Payment: as defined in **Section 5.8.3**.

Guarantors: each Person that guarantees payment or performance of Obligations. Notwithstanding anything to the contrary, no Foreign Subsidiary nor any Non-Material Subsidiary shall be a Guarantor.

Guaranty: each guaranty agreement executed by a Guarantor in favor of Lender.

Indemnified Taxes: (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of an Obligation; and (b) to the extent not otherwise described in clause (a), Other Taxes.

Indemnitees: Lender, other Secured Parties, and their officers, directors, employees, Affiliates and Lender Professionals.

Insolvency Proceeding: any case or proceeding commenced by or against a Person under any state, federal or foreign law for, or any agreement of such Person to, (a) the entry of an order for relief under the Bankruptcy Code, or any other insolvency, debtor relief or debt adjustment law; (b) the appointment of a receiver, trustee, liquidator, administrator, conservator or other custodian for such Person or any part of its Property; or (c) an assignment or trust mortgage for the benefit of creditors.

Intellectual Property: all intellectual and similar Property of a Person, including inventions, designs, patents, copyrights, trademarks, service marks, trade names, trade secrets, confidential or proprietary information, customer lists, know-how, software and databases; all embodiments or fixations thereof and all related documentation, applications, registrations and franchises; all licenses or other rights to use any of the foregoing; and all books and records relating to the foregoing.

Intellectual Property Claim: any claim or assertion (whether in writing, by suit or otherwise) that a Borrower's or Subsidiary's ownership, use, marketing, sale or distribution of any Inventory, Equipment, Intellectual Property or other Property violates another Person's Intellectual Property.

Interest Payment Date: (a) for each BSBY Loan, the last day of the applicable Interest Period and, if the Interest Period is more than three months, each three month anniversary of the beginning of the Interest Period; and (b) for all other Loans, the first day of each calendar month.

Interest Period: as defined in **Section 3.1.3**.

Investment: an Acquisition, an acquisition of record or beneficial ownership of any Equity Interests of a Person, or an advance or capital contribution to or other investment in a Person.

Investment Grade Accounts Formula Amount: 90% of the Value of Investment Grade Eligible Accounts.

Investment Grade Eligible Accounts: Eligible Accounts owing from any Account Debtor (a) whose securities are rated BBB- or higher by S&P or Baa3 or higher by Moody's at such time or (b) is a wholly-owned subsidiary of a Person whose securities are rated BBB- or higher by S&P or Baa3 or higher by Moody's at such time.

IRS: the United States Internal Revenue Service.

LC Application: an application by Borrower Agent to Lender for issuance of a Letter of Credit, in form and substance satisfactory to Lender.

LC Conditions: upon giving effect to issuance of a Letter of Credit, (a) the conditions in **Section 6** are satisfied; (b) total LC Obligations do not exceed the Letter of Credit Subline and Revolver Usage does not exceed the Borrowing Base; (c) the Letter of Credit and payments thereunder are denominated in Dollars or other currency satisfactory to Lender; and (d) the purpose and form of the Letter of Credit are satisfactory to Lender in its discretion.

LC Documents: all documents, instruments and agreements (including requests and applications) delivered by any Borrower or other Person to Lender in connection with a Letter of Credit.

LC Obligations: the sum of (a) all amounts owing by Borrowers for draws under Letters of Credit; and (b) the Stated Amount of all outstanding Letters of Credit.

LC Request: a request by Borrower Agent for issuance of a Letter of Credit, in form satisfactory to Lender.

Lender Professionals: attorneys, accountants, appraisers, auditors, advisors, consultants, agents, service providers, business valuation experts, environmental engineers or consultants, turnaround consultants, and other professionals, experts and representatives retained or used by Lender.

Lending Office: any office (including a domestic or foreign Affiliate or branch) used by Lender to fulfill any of its obligations hereunder.

Letter of Credit: any standby or documentary letter of credit, foreign guaranty, documentary bankers acceptance, indemnity, reimbursement agreement or similar instrument issued by Lender for the account or benefit of a Borrower or Affiliate of a Borrower.

Letter of Credit Subline: \$5,000,000.

**License:** any license or agreement under which an Obligor is authorized to use Intellectual Property in connection with any manufacture, marketing, distribution or disposition of Collateral, any use of Property or any other conduct of its business.

**Licensor:** any Person from whom an Obligor obtains the right to use any Intellectual Property.

**Lien:** an interest in Property securing an obligation or claim, including any lien, security interest, pledge, hypothecation, assignment, trust, reservation, assessment right, encroachment, easement, right-of-way, covenant, condition, restriction, lease, or other title exception or encumbrance.

**Lien Waiver:** an agreement, in form and substance satisfactory to Lender, by which (a) for any material Collateral with a book value in excess of \$5,000,000 located on leased premises, the lessor waives or subordinates any Lien it may have on the Collateral, and allows Lender to enter the premises and remove, store and dispose of Collateral; (b) for any material Collateral with a book value in excess of \$5,000,000 held by a warehouseman, processor, shipper, customs broker or freight forwarder, such Person waives or subordinates any Lien it may have on the Collateral, agrees to hold any Documents in its possession relating to the Collateral as agent for Lender, and agrees to deliver Collateral to Lender upon request; (c) for any material Collateral with a book value in excess of \$5,000,000 held by a repairman, mechanic or bailee, such Person acknowledges Lender's Lien, waives or subordinates any Lien it may have on the Collateral, and agrees to deliver Collateral to Lender upon request; (d) for any material Collateral with a book value in excess of \$5,000,000 subject to a Licensor's Intellectual Property rights, the Licensor grants to Lender the right, vis-à-vis such Licensor, to enforce Lender's Liens with respect to the Collateral, including the right to dispose of it with the benefit of the Intellectual Property, whether or not a default exists under any applicable License and (e) any Person who stores and maintains the electronic books and records of an Obligor, agrees to provide access to Lender for such books and records.

**Liquidity:** means, as of any date of determination, the sum of (a) Availability plus (b) the aggregate amount of domestic unrestricted cash (including certificates of deposits and time deposits) and Cash Equivalents on hand (in each case, free and clear of all Liens other than, the Liens of Lender), held in Deposit Accounts or Securities Accounts (excluding the Cash Collateral Account) specified by Borrower and held at Bank of America (or any of its Affiliates) and subject to a Deposit Account Control Agreement, or a Security Account Control Agreement, as applicable, in favor of Lender.

**Loan:** a loan made by Lender under the credit facility established by this Agreement.

**Loan Documents:** this Agreement, Other Agreements and Security Documents.

**Loan Year:** each 12 month period commencing on the Closing Date or an anniversary thereof.

**Margin Stock:** as defined in Regulation U of the Federal Reserve Board of Governors.

**Material Adverse Effect:** the effect of any event or circumstance that, (a) has a material adverse effect on the business, operations, Properties or condition (financial or otherwise) of any Obligor, the value of any material portion of the Collateral, the enforceability of any Loan Document, or the validity or priority of Lender's Lien on any Collateral; (b) impairs the ability of the Obligors to repay the Obligations; or (c) otherwise impairs Lender's ability to enforce or collect any Obligations or to realize upon any Collateral.

**Material Contract:** any agreement or arrangement to which an Obligor is a party (other than the Loan Documents), for which breach, termination, nonperformance or failure to renew could reasonably be expected to have a Material Adverse Effect.

Modification: any amendment, supplement, extension, approval, consent, waiver, change or other modification of or under a Loan Document, including any waiver of a Default or Event of Default.

Moody's: Moody's Investors Service, Inc. or any successor acceptable to Lender.

Multiemployer Plan: any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which an Obligor or ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

Multiple Employer Plan: a Plan with two or more contributing sponsors, including an Obligor or ERISA Affiliate, at least two of whom are not under common control, as described in Section 4064 of ERISA.

Non-Investment Grade Formula Amount: 85% of the Value of Non-Investment Grade Eligible Accounts.

Non-Investment Grade Eligible Accounts: Eligible Accounts other than Investment Grade Eligible Accounts.

Non-Material Subsidiary: as of the last day of each Fiscal Quarter and at any other date of determination, any one or more domestic Subsidiaries which as of such date, in the aggregate (a) hold assets representing 5% or less of the Borrower's consolidated total assets as of such date (determined in accordance with GAAP), and (b) have generated 5% or less of the Borrower's consolidated total revenues determined in accordance with GAAP for the four fiscal quarter period ending on the last day of the most recent period for which financial statements have been delivered after the Closing Date.

Notice of Borrowing: notice by Borrower Agent of a Borrowing, in form satisfactory to Lender.

Notice of Conversion/Continuation: notice by Borrower Agent of conversion or continuation of a Loan as a BSBY Loan, in form satisfactory to Lender.

Notice of Prepayment: notice by Borrower Agent of prepayment of a Loan, in form satisfactory to Lender.

Obligations: all (a) principal of and premium, if any, on the Loans, (b) LC Obligations and other obligations of Obligors with respect to Letters of Credit, (c) interest, expenses, fees, indemnification obligations, Claims and other amounts payable by Obligors under Loan Documents, (d) Bank Product Debt, and (e) other Debts, obligations and liabilities of any kind owing by any Obligor to Lender, in each case whether now existing or hereafter arising, whether evidenced by a note or other writing, whether allowed in any Insolvency Proceeding, whether arising from an extension of credit, issuance of a letter of credit, acceptance, loan, guaranty, indemnification or otherwise, and whether direct or indirect, absolute or contingent, due or to become due, primary or secondary, or joint or several; provided, that Obligations of an Obligor shall not include its Excluded Swap Obligations.

Obligor: each Borrower and each Guarantor.

OFAC: Office of Foreign Assets Control of the U.S. Treasury Department.

Ordinary Course of Business: the ordinary course of business of any Borrower or Subsidiary, undertaken in good faith and consistent with Applicable Law.



Organic Documents: with respect to any Person, its charter, certificate or articles of incorporation, bylaws, articles of organization, limited liability agreement, operating agreement, members agreement, shareholders agreement, partnership agreement, certificate of partnership, certificate of formation, voting trust agreement, or similar agreement or instrument governing the formation or operation of such Person.

OSHA: the Occupational Safety and Hazard Act of 1970.

Other Agreement: each LC Document, Lien Waiver, Borrower Material, Communication, subordination agreement, intercreditor agreement, or other document, instrument or agreement (other than this Agreement or a Security Document) now or hereafter delivered by an Obligor or other Person to Lender in connection with any transactions relating hereto.

Other Connection Taxes: with respect to a Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the taxing jurisdiction imposing such Tax (other than connections arising solely from the Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a Lien under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

Other Taxes: all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a Lien under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment made pursuant to **Section 3.8**).

Overadvance: the amount by which Revolver Usage exceeds the Borrowing Base at any time.

Patriot Act: the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. No. 107-56, 115 Stat. 272 (2001).

Payment Conditions: as to any relevant action contemplated in this Agreement, the satisfaction of each of the following:

(a) as of the date of any such action and immediately after giving effect thereto, no Event of Default has occurred and is continuing;

(b) either one of the following:

(i) (x) average Availability (after giving pro forma effect to such action) during the thirty (30) consecutive day period ending on and including the date of such action, is not less than the greater of (1) 17.5% of the Borrowing Base or (2) \$7,000,000; and (y) the Fixed Charge Coverage Ratio measured on a trailing twelve month period as of the end of the most recently ended Fiscal Quarter prior to such action, determined on a pro forma basis after giving effect to such action, shall be equal to or greater than 1.00:1.00; or

(ii) average Availability (after giving pro forma effect to such action) during the thirty (30) consecutive day period ending on and including the date of such action, is not less than the greater of (1) 20% of the Borrowing Base or (2) \$8,000,000; and

(c) the Lender has received a certificate from a Senior Officer of Borrower Agent certifying as to compliance with the preceding clauses and demonstrating (in reasonable detail) the calculations required thereunder.

Payment Item: each check, draft or other item of payment payable to a Borrower, including those constituting proceeds of any Collateral.

PBGC: the Pension Benefit Guaranty Corporation.

Pension Funding Rules: Code and ERISA rules regarding minimum required contributions (including installment payments) to Pension Plans set forth in Sections 412, 430, 431, 432 and 436 of the Code and Sections 302, 303, 304 and 305 of ERISA.

Pension Plan: any employee pension benefit plan (as defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by an Obligor or ERISA Affiliate or to which the Obligor or ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the preceding five plan years.

Permitted Acquisition: any Acquisition as long as (a) the assets, business or Person being acquired is useful or engaged in the business of Borrowers and Subsidiaries; (b) no Debt or Liens are assumed or incurred, except Debt permitted by **Sections 10.2.1** and Permitted Liens; (c) the Payment Conditions are satisfied with respect to each such Acquisition; and (d) the Borrowers deliver to Lender, at least 5 Business Days prior to the Acquisition, copies of all material agreements relating thereto and a certificate, in form and substance satisfactory to Lender, stating that the Acquisition is a "Permitted Acquisition" and demonstrating compliance with the foregoing requirements.

Permitted Contingent Obligations: Contingent Obligations (a) arising from endorsements of Payment Items for collection or deposit in the Ordinary Course of Business; (b) relating to Swaps permitted hereunder; (c) existing on the Closing Date, and any extension or renewal thereof that does not increase the amount of such Contingent Obligation when extended or renewed; (d) incurred in the Ordinary Course of Business with respect to surety, appeal or performance bonds, or other similar obligations; (e) arising from customary indemnification obligations in favor of purchasers in connection with dispositions of Equipment not prohibited hereunder; (f) arising under the Loan Documents; or (g) in an aggregate amount of \$5,000,000 or less at any time.

Permitted Discretion: a determination made in good faith, using reasonable business judgment (from the perspective of a secured, asset-based lender).

Permitted Disposition: as long as no Event of Default has occurred and is continuing, a Disposition constituting (a) any Disposition of Property or assets no longer used or useful to the business of Borrower or any worn out, obsolete or surplus Property, assets or Equipment; (b) any Disposition of Inventory in the Ordinary Course of Business; (c) any Lien or Investment not prohibited hereunder; (d) Borrower's use or transfer of money or cash equivalents in a manner that is not prohibited by the terms of this Agreement; (e) non-exclusive licenses for the use of the property of Borrower or its Subsidiaries in the Ordinary Course of Business and Permitted Exclusive Licenses; (f) Dispositions of other non-material assets of Borrower or its Subsidiaries (other than Accounts and Inventory) that do not in the aggregate exceed \$5,000,000 in book value in any 12 month period; (g) early payment discounts given in the Ordinary Course of Business; (h) settlement of Accounts which are not Eligible Accounts in the Ordinary Course of Business; and (i) any Disposition approved by Lender.

Permitted Distributions: (a) Permitted Tax Distributions, (b) conversion or exchange of convertible securities into or for other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (c) payment of dividends solely in Equity Interests, (d) repurchase of stock, partnership, membership, or other ownership interest or other Equity Interests held by current or former employees, officers, directors or consultants pursuant to employee stock purchase plans, stockholder plans, director or consultant stock option plans, employee stock option agreements, restricted stock agreements, equity incentive plans or other similar agreement or plans so long as no Event of Default has occurred and is continuing at the time of any such repurchase and would not exist after giving effect to any such repurchase, (e) de minimis payments in lieu of

fractional shares, (f) purchases of Equity Interests or options, warrants or other agreements to acquire such Equity Interests or convertible securities, (g) purchases of Equity Interests pledged as collateral for loans to employees, (h) purchases for value of any rights distributed in connection with any stockholder rights plan, (i) purchases of Equity Interests in connection with the exercise of stock options, warrants or other equity awards by way of cashless exercise or in connection with the satisfaction of withholding tax obligations, and (j) other Distributions made in cash so long as the Payment Conditions are satisfied with respect to each such Distribution made under this clause (j). Notwithstanding the foregoing, Distributions permitted under clauses (d), (g) and (h) shall not exceed \$2,500,000 in the aggregate during any Fiscal Year unless, giving effect to any such Distribution, the Payment Conditions are satisfied.

Permitted Exclusive License: an exclusive license pertaining to a customized product for a specific customer, and licenses that could not result in a legal transfer of title of the licensed property but that may be exclusive in respects other than territory and that may be exclusive as to territory only as to discrete geographical areas outside of the United States.

Permitted Lien: as defined in **Section 10.2.2**.

Permitted Purchase Money Debt: Purchase Money Debt of Borrowers and Subsidiaries that is unsecured or secured only by a Purchase Money Lien, as long as the aggregate amount does not exceed \$10,000,000 at any time.

Permitted Tax Distributions: so long as no Event of Default has then occurred and is continuing or would result therefrom, Distributions paid from time to time (which may be estimated and paid no more frequently than quarterly by the Borrowers to the holders of its Equity Interests not to exceed in the aggregate in any Fiscal Year an amount equal to the federal and state income taxes of the holders of Borrowers' Equity Interests which are attributable to the taxable income of Borrowers and their Subsidiaries calculated based on statutory rates.

Person: any individual, corporation, limited liability company, partnership, joint venture, association, trust, unincorporated organization, Governmental Authority or other entity of any kind.

Plan: any Benefit Plan maintained for employees of an Obligor or ERISA Affiliate, or to which an Obligor or ERISA Affiliate is required to contribute on behalf of its employees.

Platform: as defined in **Section 12.3.3**.

Prime Rate: the rate of interest announced by Lender from time to time as its prime rate. Such rate is set by Lender on the basis of various factors, including its costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above or below such rate. Any change in such rate publicly announced by Lender shall take effect at the opening of business on the day specified in the announcement.

Properly Contested: with respect to any obligation of an Obligor, (a) the obligation is subject to a bona fide dispute regarding amount or the Obligor's liability to pay; (b) the obligation is being properly contested in good faith by appropriate proceedings promptly instituted and diligently pursued; (c) appropriate reserves have been established in accordance with GAAP; (d) non-payment could not reasonably be expected to have a Material Adverse Effect, nor result in forfeiture or sale of any assets of the Obligor; (e) no Lien is imposed on assets of the Obligor, unless bonded and stayed to the satisfaction of Lender; and (f) if the obligation results from entry of a judgment or other order, such judgment or order is stayed pending appeal or other judicial review.

Property: any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

PTE: a prohibited transaction class exemption issued by the U.S. Department of Labor, as amended from time to time.

Purchase Money Debt: (a) Debt (other than the Obligations) for payment of any of the purchase price of fixed assets, Equipment, software or other Property and (b) any renewals, extensions or refinancings (but not increases) thereof.

Purchase Money Lien: a Lien that secures Purchase Money Debt, encumbering only the fixed assets acquired with such Debt and constituting a Capital Lease or a purchase money security interest under the UCC.

Qualified ECP: an Obligor with total assets exceeding \$10,000,000, or that constitutes an “eligible contract participant” under the Commodity Exchange Act and can cause another Person to qualify as an “eligible contract participant” under Section 1a(18)(A)(v)(II) of such act.

Real Estate: all right, title and interest (whether as owner, lessor or lessee) in any real Property or any buildings, structures, parking areas or other improvements thereon.

Recipient: Lender or any other recipient of a payment to be made by an Obligor under a Loan Document or on account of an Obligation.

Refinancing Conditions: no Event of Default exists upon giving effect to the Refinancing Debt and such Debt, when compared to the Debt being extended, renewed or refinanced, (a) does not have a greater principal amount or interest rate, earlier final maturity or shorter weighted average life, (b) is subordinated to the Obligations to at least the same extent as the Debt being refinanced, (c) has representations, covenants, defaults and other terms no less favorable to Borrowers and Lender, and (d) has no additional obligor, guarantor, Lien, or other recourse to any Person or Property.

Refinancing Debt: Borrowed Money that is the result of an extension, renewal or refinancing of Debt permitted under **Section 10.2.1(b), (d) or (f)**.

Reimbursement Date: as defined in **Section 2.2.2**.

Relevant Governmental Body: the Federal Reserve Board and/or FRBNY, or a committee officially endorsed or convened by the Federal Reserve Board and/or FRBNY.

Rent and Charges Reserve: the aggregate of (a) all past due rent and other past due amounts owing by an Obligor to (i) any landlord, warehouseman, processor, repairman, mechanic, shipper, freight forwarder, broker or other Person who possesses any Collateral or could assert a Lien on any Collateral or (ii) any Person who maintains and stores electronic books and records of an Obligor’s; and (b) a reserve equal to two months’ rent and other charges payable to the landlord at Borrower Agent’s headquarters or any other location where books and records are located, unless the applicable landlord has executed a Lien Waiver.

Reportable Event: an event set forth in Section 4043(c) of ERISA, other than an event for which the 30 day notice period has been waived.

Reporting Date: (a) at any time Revolver Usage is \$0, by no later than 20 days after the end of each calendar quarter, (b) at any time Revolver Usage is greater than \$0, by no later than 20 days after the end of each calendar month, and (c) at any time a Reporting Trigger Period is in effect and Revolver Usage is greater than \$0, by no later than the second Business Day of each week.

Reporting Trigger Period: the period (a) commencing on any day that (i) an Event of Default occurs, or (ii) Availability is less than the greater of (x) \$6,000,000 for a period of three (3) consecutive days or (y) 15% of the Borrowing Base for a period of three (3) consecutive days; and (b) continuing until, during each of the preceding 30 consecutive days, (i) no Event of Default has

existed and (ii) Availability has been greater than or equal to the greater of (x) \$6,000,000 and (y) 15% of the Borrowing Base.

**Restricted Investment:** any Investment by a Borrower or Subsidiary, other than (a) Investments in Subsidiaries (i) which Investments are in existence on the Closing Date, and (ii) that are Borrowers or Guarantors; (b) Cash Equivalents that are subject to Lender's Lien and control, pursuant to documentation in form and substance satisfactory to Lender; (c) Reserved; (d) Permitted Acquisitions; (e) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the Ordinary Course of Business; (f) Investments consisting of deposit and investment accounts; (g) Investments accepted in connection with a Disposition not prohibited by **Section 10.2.6**; (h) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the Ordinary Course of Business; (i) Investments consisting of hedging arrangements not otherwise prohibited hereunder; (j) Investments in an aggregate amount not to exceed \$2,500,000 per Fiscal Year, consisting of (x) travel advances and employee relocation loans and other employee loans and advances in the Ordinary Course of Business, and (y) loans to employees, officers or directors relating to the purchase of Equity Interests of Borrower or its Subsidiaries pursuant to employee stock purchase plans or agreements approved by Borrower's board of directors; (k) to the extent constituting an Investment, Investments consisting of "transfer pricing," "cost plus" arrangements in the Ordinary Course of Business by Borrower in its wholly owned Foreign Subsidiaries (other than directors' qualifying shares or other similar shares as required by applicable law), for operating expenses, provided that the amount charged to Borrower and the other terms of such arrangements are upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a nonaffiliated Person; (l) Investments consisting of loans and advances to Borrower's wholly owned Foreign Subsidiaries in an aggregate amount not to exceed \$500,000 in any Fiscal Year; and (m) any other Investment made in cash so long as the Payment Conditions are satisfied with respect to each such Investment.

**Restrictive Agreement:** an agreement (other than a Loan Document) that conditions or restricts the right of any Borrower, Subsidiary or other Obligor to incur or repay Borrowed Money, to grant Liens on any assets, to declare or make Distributions, to modify, extend or renew any agreement evidencing Borrowed Money, or to repay any intercompany Debt.

**Revolver Usage:** the aggregate amount of outstanding Loans plus the Stated Amount of outstanding Letters of Credit.

**S&P:** Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc., or any successor acceptable to Lender.

**Sanction:** a sanction administered or enforced by the U.S. government (including OFAC), United Nations Security Council, European Union, U.K. government or other applicable sanctions authority.

**Scheduled Unavailability Date:** as defined in **Section 3.6.2**.

**Secured Parties:** Lender and providers of Bank Products.

**Security Documents:** the Guaranties, Deposit Account Control Agreements, and all other documents, instruments and agreements now or hereafter securing (or given with the intent to secure) any Obligations.

**Senior Officer:** the chairman of the board, president, chief executive officer or chief financial officer of the applicable Obligor.

**SOFR:** the secured overnight financing rate published by FRBNY, as administrator of the benchmark (or a successor administrator), on its website (or any successor source satisfactory to Lender).

**SOFR Adjustment:** (a) with respect to Daily Simple SOFR, 0.11448%, and (b) with respect to Term SOFR, 0.11448% for a one month interest period, 0.26161% for a three month interest period and 0.42826% for a six month interest period.

**Solvent:** as to any Person, such Person (a) owns Property whose fair salable value is greater than the amount required to pay all of its debts (including contingent, subordinated, unmatured and unliquidated liabilities); (b) owns Property whose present fair salable value (as defined below) is greater than the probable total liabilities (including contingent, subordinated, unmatured and unliquidated liabilities) of such Person as they become absolute and matured; (c) is able to pay all of its debts as they mature; (d) has capital that is not unreasonably small for its business and is sufficient to carry on its business and transactions and all business and transactions in which it is about to engage; (e) is not “insolvent” within the meaning of Section 101(32) of the Bankruptcy Code; and (f) has not incurred (by way of assumption or otherwise) any obligations or liabilities (contingent or otherwise) under any Loan Documents, or made any conveyance in connection therewith, with actual intent to hinder, delay or defraud either present or future creditors of such Person or any of its Affiliates. “Fair salable value” means the amount that could be obtained for assets within a reasonable time, either through collection or through sale under ordinary selling conditions by a capable and diligent seller to an interested buyer who is willing (but under no compulsion) to purchase.

**Specified Obligor:** an Obligor that is not then an “eligible contract participant” under the Commodity Exchange Act (determined prior to giving effect to **Section 5.8.3**).

**Stated Amount:** the outstanding amount of a Letter of Credit, including any automatic increase or tolerance (whether or not then in effect) provided by the Letter of Credit or related LC Documents.

**Subordinated Debt:** Debt incurred by a Borrower that is expressly subordinate and junior in right of payment to Full Payment of all Obligations and the terms of such subordination are satisfactory to Lender.

**Subsidiary:** any entity at least 50% of whose voting securities or Equity Interests is owned by an Obligor or combination of Obligors (including indirect ownership through other entities in which an Obligor directly or indirectly owns 50% of the voting securities or Equity Interests).

**Successor Rate:** as defined in **Section 3.6.2**.

**Swap:** as defined in Section 1a(47) of the Commodity Exchange Act.

**Swap Obligations:** obligations under an agreement relating to a Swap.

**Taxes:** all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

**Term SOFR:** for the applicable corresponding Interest Period of BSBY (or if any Interest Period does not correspond to an interest period applicable to SOFR, the closest corresponding interest period of SOFR, but if such interest period of SOFR corresponds equally to two Interest Periods of BSBY, the corresponding interest period of shorter duration shall be applied), the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

**Termination Date:** October 27, 2024, or such earlier date on which the Commitment terminates hereunder.

**UCC:** the Uniform Commercial Code as in effect in the State of New York or, when the laws of any other jurisdiction govern the perfection or enforcement of any Lien, the Uniform Commercial Code of such jurisdiction.

**Unrestricted Cash:** cash and Cash Equivalents not subject to Lender's Lien and control under documents satisfactory to Lender.

**Unfunded Pension Liability:** the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to the Code, ERISA or the Pension Protection Act of 2006 for the applicable plan year.

**Unused Line Fee Rate:** a per annum rate equal to 0.20%.

**Upstream Payment:** a Distribution by a Subsidiary of an Obligor to an Obligor or another direct or indirect Subsidiary of an Obligor.

**U.S. Person:** any Person that is a "United States Person" as defined in Section 7701(a)(30) of the Code.

**Value:** for an Account, its face amount, net of any (a) rebates, discounts (calculated on the shortest terms), credits, allowances or Taxes (including sales, excise or other taxes) that have been or could be claimed by the Account Debtor or any other Person and (b) returns that have been claimed by the Account Debtor.

**Withholding Agent:** means each Obligor making payments hereunder.

**1.2. Accounting Terms.** Under the Loan Documents (except as otherwise specified therein), all accounting terms shall be interpreted, all accounting determinations shall be made, and all financial statements shall be prepared, in accordance with GAAP applied on a basis consistent with the most recent audited financial statements of Borrowers delivered to Lender before the Closing Date and using the same and lease accounting treatment as used in such financial statements; provided, that Borrowers may adopt a change required or permitted by GAAP after the Closing Date as long as Borrowers' certified public accountants concur in such change, it is disclosed to Lender and the Loan Documents are amended in a manner satisfactory to Lender to address the change. Upon request by Lender, Borrowers' financial statements and Borrower Materials shall set forth a reconciliation between calculations made before and after giving effect to any change in GAAP.

**1.3. Uniform Commercial Code.** As used herein, the following terms are defined in accordance with the UCC in effect in the State of New York: "Account," "Account Debtor," "Chattel Paper," "Commercial Tort Claim," "Deposit Account," "Document," "Equipment," "General Intangibles," "Goods," "Instrument," "Inventory," "Investment Property," "Letter-of-Credit Right", "Security Account," and "Supporting Obligation."

**1.4. Certain Matters of Construction.** The rules of construction and interpretation included in this Section apply to all Loan Documents. The terms "herein," "hereof," "hereunder" and other words of similar import refer to the applicable document as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be deemed to cover all genders. In the computation of periods of time from a specified date to a later date, "from" means "from and including," and "to" and "until" each mean "to but excluding." The terms "including" and "include" mean "including, without limitation," "or" includes "and/or", and the rule of *ejusdem generis* does not apply. Section titles appear as a matter of convenience only and will not affect the interpretation of a Loan Document. Reference to any (a) law includes all related regulations, interpretations, supplements, amendments and successor provisions; (b) document, instrument or agreement includes

any amendment, extension, supplement, waiver, replacement and other modification thereto (to the extent permitted by the Loan Documents); (c) section means, unless the context otherwise requires, a section of the applicable document; (d) exhibit or schedule means, unless the context otherwise requires, an exhibit or schedule to the applicable document, which is thereby incorporated by reference; (e) Person includes its permitted successors and assigns; (f) time of day means the time of day in the Pacific time zone; or (g) discretion of Lender means its sole and absolute discretion exercised at any time. All references to Value, Borrowing Base components, Loans, Letters of Credit, Obligations and other amounts herein shall be denominated in Dollars, unless expressly provided otherwise, and all determinations (including calculations of Borrowing Base and financial covenants) made from time to time by an Obligor under the Loan Documents shall be made in light of the circumstances existing at such time. Borrowing Base calculations shall be consistent with historical methods of valuation and calculation, and otherwise satisfactory to Lender (and not necessarily calculated in accordance with GAAP). Obligors have the burden of establishing any alleged negligence, misconduct or lack of good faith by any Indemnitee under a Loan Document. No provision of a Loan Document shall be construed against a party by reason of it having, or being deemed to have, drafted the provision. Reference to an Obligor's "knowledge" or similar concept means actual knowledge of a Senior Officer, or knowledge that a Senior Officer would have obtained if he or she had engaged in good faith and diligent performance of his or her duties, including reasonably specific inquiries of employees or agents and a good faith attempt to ascertain the matter.

**1.5. Division.** Any reference herein to a merger, transfer, consolidation, amalgamation, assignment, sale, disposition or transfer, or similar term, shall be deemed to apply to a Division of or by a limited liability company or limited partnership, or an allocation of assets to a series of any such entity (or the unwinding of a Division or allocation) as if it were a merger, transfer, consolidation, amalgamation, assignment, sale, disposition or transfer or similar term, as applicable, to, of or with a separate Person. Any Division of a Person shall constitute a separate Person hereunder.

## **Section 2. CREDIT FACILITIES**

### **1.1. Loan Commitment**

1.1.1. **Commitment.** Lender agrees, on the terms set forth herein, to make Loans to Borrowers in an aggregate amount up to the Commitment, from time to time through the Termination Date. The Loans may be repaid and reborrowed as provided herein. In no event shall Lender have any obligation to honor a request for a Loan if Revolver Usage at such time plus the requested Loan would exceed the Borrowing Base. Lender may fulfill its obligations under the Loan Documents through one or more Lending Offices, and this shall not affect any obligations of Obligors under the Loan Documents or with respect to any Obligations.

1.1.2. **Use of Proceeds.** The proceeds of Loans shall be used by Borrowers solely (a) to satisfy existing Debt; (b) to pay fees and transaction expenses associated with the closing of this credit facility; (c) to pay Obligations in accordance with this Agreement; and (d) for other lawful corporate purposes of Borrowers, including working capital. Borrowers shall not, directly or indirectly, use any Letter of Credit or Loan proceeds, nor use, lend, contribute or otherwise make available any Letter of Credit or Loan proceeds to any Subsidiary, joint venture partner or other Person, (i) to fund any activities of or business with any Person, or in any country, territory or jurisdiction, that, at the time of issuance of the Letter of Credit or funding of the Loan, is the target of any Sanction; or (ii) in any manner that would result in a violation of a Sanction, Anti-Corruption Law or other Applicable Law by any Person (including any Secured Party or other individual or entity participating in any transaction).

1.1.3. **Voluntary Reduction or Termination.** Upon at least 10 days prior written notice to Lender at any time after the first anniversary of this Agreement, Borrowers may terminate or reduce the Commitment. Each reduction shall be in an increment of \$1,000,000, but not less than \$5,000,000 and shall be specified in the notice. Borrowers shall not reduce the Commitment to an aggregate amount less than \$20,000,000; provided that Borrower may at its option reduce the



Commitment to \$0 and terminate this Agreement pursuant to this **Section 2.1.3**. Any notice of termination or reduction by Borrowers shall be irrevocable.

1.1.4. Overadvances. Any Overadvance shall be repaid by Borrowers on the earlier of demand by Lender or the first Business Day after any Borrower has knowledge thereof, and shall constitute an Obligation secured by the Collateral, entitled to all benefits of the Loan Documents. No funding or sufferance of an Overadvance shall constitute a waiver by Lender of the Event of Default caused thereby.

1.1.5. Increase in Commitments. Borrowers may request an increase in Commitments from time to time upon not less than 30 days' notice to Lender, as long as (a) the requested increase is in a minimum amount of \$5,000,000 and is offered on the same terms as existing Commitments, and (b) total increases under this Section do not exceed \$25,000,000 and no more than 5 increases are made. Total Commitments shall be increased by the requested amount (or such lesser amount committed by Lender) on a date agreed upon by Lender and Borrower Agent, provided (i) the conditions set forth in **Section 6.2** are satisfied at such time; and (ii) to the extent Collateral includes any Real Estate, flood insurance diligence and documentation have been completed as required by all Flood Laws or otherwise in a manner satisfactory to all Lender. Lender and Obligors shall execute and deliver such documents and agreements as Lender deems appropriate to evidence the increase in and allocations of Commitments.

## **1.2. Letter of Credit Facility**

1.1.1. Issuance of Letters of Credit. Lender agrees to issue Letters of Credit from time to time until 30 days prior to the Termination Date, on the terms set forth herein, including the following:

(a) Each Borrower acknowledges that Lender's willingness to issue any Letter of Credit is conditioned upon its receipt of a LC Application with respect to the requested Letter of Credit, as well as such other instruments and agreements as Lender may customarily require for issuance of a letter of credit of similar type and amount. Lender shall have no obligation to issue any Letter of Credit unless (i) it receives a LC Request and LC Application at least three Business Days prior to the requested date of issuance; and (ii) each LC Condition is satisfied.

(b) Letters of Credit may be requested by a Borrower to support obligations incurred in the Ordinary Course of Business or as otherwise approved by Lender. Increase, renewal or extension of a Letter of Credit shall be treated as issuance of a new Letter of Credit, but Lender may require a new LC Application in its discretion.

(c) Borrowers assume all risks of beneficiaries' acts, omissions or misuses of Letters of Credit. Lender shall not be responsible for the existence, character, quality, quantity, condition, packing, value or delivery of any goods purported to be represented by any Documents; differences or variation in the character, quality, quantity, condition, packing, value or delivery of any goods from that expressed in any Documents; the form, validity, sufficiency, accuracy, genuineness or legal effect of any Documents or any endorsements thereon; the time, place, manner or order in which shipment of goods is made; partial, incomplete or failed shipment of any goods referred to in a Letter of Credit or Documents; deviation from instructions, delay, default or fraud by any shipper or other Person in connection with any goods, shipment or delivery; breach of contract between a shipper or vendor and a Borrower; errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex, telecopy, e-mail, telephone or otherwise; errors in translation or interpretation of technical terms; misapplication by a beneficiary of a Letter of Credit or proceeds thereof; or consequences arising from causes beyond the control of Lender, including any act or omission of a Governmental Authority. No Indemnitee shall be liable to any Obligor or other Person for any action taken or omitted to be taken in connection with any Letter of Credit or LC Documents except as a result of the Indemnitee's gross negligence or willful misconduct. Borrowers shall take all action (including enforcement of available rights against a beneficiary) to avoid and mitigate damages relating to Letters of Credit or claimed against Lender.

Lender shall be fully subrogated to all rights and remedies of a beneficiary whose claims are discharged through a Letter of Credit.

(d) In connection with its administration of and enforcement of rights or remedies under any Letters of Credit or LC Documents, Lender shall be entitled to act, and shall be fully protected in acting, upon any certification, documentation or other communication in whatever form believed by Lender, in good faith, to be genuine and correct and to have been signed, sent or made by a proper Person. Lender may use legal counsel, accountants and other experts to advise it concerning its obligations, rights and remedies, and shall be entitled to act (and shall be fully protected in any action taken in good faith reliance) upon any advice given by such experts. Lender may employ agents and attorneys-in-fact in connection with any matter relating to Letters of Credit or LC Documents, and shall not be liable for the negligence or misconduct of agents and attorneys-in-fact selected with reasonable care.

1.1.2. Reimbursement. If Lender honors any request for payment under a Letter of Credit, Borrowers shall pay to Lender, on the same day ("Reimbursement Date"), the amount paid under such Letter of Credit, together with interest at the interest rate for Base Rate Loans from the Reimbursement Date until payment by Borrowers. The obligation of Borrowers to reimburse Lender for any payment made under a Letter of Credit shall be absolute, unconditional, irrevocable, and joint and several, and shall be paid without regard to any lack of validity or enforceability of any Letter of Credit or the existence of any claim, setoff, defense or other right that Borrowers may have at any time against the beneficiary. Whether or not Borrower Agent submits a Notice of Borrowing, Borrowers shall be deemed to have requested a Borrowing of Base Rate Loans in an amount necessary to pay all amounts due on any Reimbursement Date.

1.1.3. Cash Collateral. At Lender's request, Borrowers shall Cash Collateralize outstanding Letters of Credit if an Event of Default has occurred or is continuing, the Termination Date is scheduled to occur within 5 Business Days or the Termination Date occurs.

### **Section 3. INTEREST, FEES AND CHARGES**

#### **1.1. Interest**

##### **1.1.1. Rates and Payment of Interest.**

(a) The Obligations shall bear interest (i) if a Base Rate Loan, at the Base Rate in effect from time to time, plus the Applicable Margin; (ii) if a BSBY Loan, at the BSBY Rate for the applicable Interest Period, plus the Applicable Margin; and (iii) if any other Obligation (including, to the extent permitted by law, interest not paid when due), at the Base Rate in effect from time to time, plus the Applicable Margin for Base Rate Loans.

(b) During an Insolvency Proceeding with respect to any Obligor, or during the continuance of any other Event of Default if Lender in its discretion so elects, Obligations shall bear interest at the Default Rate (whether before or after any judgment), payable **on demand**.

(c) Interest shall accrue from the date a Loan is advanced or Obligation is incurred or payable, as applicable, until paid in full by Borrowers, and shall in no event be less than zero at any time. Interest accrued on the Loans is due and payable in arrears (i) on each Interest Payment Date; (ii) concurrently with prepayment of any BSBY Loan, with respect to the principal amount being prepaid; and (iii) on the Termination Date. Interest accrued on any other Obligations shall be due and payable as provided in the applicable agreements or, if no payment date is specified, on demand.

1.1.2. Application of BSBY to Outstanding Loans. Borrowers may elect to convert any portion of Base Rate Loans to, or to continue any BSBY Loan at the end of its Interest Period as, a BSBY Loan. Borrower Agent shall give Lender a Notice of Conversion/Continuation no later than 1:00 p.m at least two Business Days before the requested conversion or continuation date.

Each Notice of Conversion/Continuation shall be irrevocable, and shall specify the amount of Loans to be converted or continued, the conversion or continuation date (which shall be a Business Day), and the duration of the Interest Period (which shall be deemed to be one month if not specified). If, at expiration of an Interest Period for a BSBY Loan, Borrowers have failed to deliver a Notice of Conversion/Continuation, the Loan shall convert to a Base Rate Loan. Lender does not warrant or accept responsibility for, nor shall it have any liability with respect to, administration, submission or any other matter related to any rate used in determining BSBY Rate or with respect to any rate (including, for the avoidance of doubt, the selection of such rate and any related spread or other adjustment) that is an alternate or replacement for or successor to any such rate (including any Successor Rate), or the effect of any of the foregoing or of any Conforming Changes. At any time an Event of Default has occurred and is continuing, Lender may elect not to make, convert or continue a Loan as a BSBY Loan.

1.1.3. Interest Periods. Borrowers shall select an interest period (“Interest Period”) of one, three or six months (in each case, subject to availability) to apply to each BSBY Loan; provided, that (a) the Interest Period shall begin on the date the Loan is made or continued as, or converted into, a BSBY Loan, and shall expire on the numerically corresponding day in the calendar month at its end; (b) if any Interest Period begins on a day for which there is no corresponding day in the calendar month at its end or if such corresponding day falls after the last Business Day of the end month, then the Interest Period shall expire on such month’s last Business Day; and if any Interest Period would otherwise expire on a day that is not a Business Day, the period shall expire on the next Business Day; and (c) no Interest Period shall extend beyond the Termination Date.

## 1.2. Fees

1.1.1. Unused Line Fee. Borrowers shall pay to Lender a fee equal to the Unused Line Fee Rate times the amount by which the Commitment exceeds the average daily Revolver Usage during any month. Such fee shall be payable in arrears, on the first day of each month and on the Termination Date.

1.1.2. LC Facility Fees. Borrowers shall pay to Lender (a) a fee equal to the Applicable Margin in effect for BSBY Loans times the average daily Stated Amount of Letters of Credit, payable in arrears on the first day of each month; (b) a fronting fee equal to 0.125% per annum on the Stated Amount of each Letter of Credit, payable in arrears on the first day of each month; and (c) all customary charges associated with the issuance, amending, negotiating, payment, processing, transfer and administration of Letters of Credit, which charges shall be paid as and when incurred. At any time an Event of Default has occurred and is continuing, the fee payable under clause (a) shall be increased by 2% per annum.

1.3. Computation of Interest, Fees, Yield Protection. All interest, as well as fees and other charges calculated on a per annum basis, shall be computed for the actual days elapsed, based on a year of 360 days. Each determination by Lender of any interest, fee, interest rate or amounts payable hereunder shall be final, conclusive and binding for all purposes, absent manifest error. All fees shall be fully earned when due and shall not be subject to rebate, refund or proration. All fees payable under **Section 3.2** are compensation for services and are not, and shall not be deemed to be, interest or any other charge for the use, forbearance or detention of money. A certificate as to amounts payable by Borrowers under **Section 3.4, 3.6, 3.7, 3.9** or **5.7** that is submitted to Borrower Agent by Lender shall be final, conclusive and binding for all purposes, absent manifest error, and Borrowers shall pay such amounts to the appropriate party within 10 days following receipt of the certificate.

1.4. Reimbursement Obligations. Borrowers shall pay all Claims promptly upon request. Borrowers shall also reimburse Lender for all legal, accounting, appraisal, consulting, and other fees and expenses incurred by it in connection with (a) negotiation and preparation of Loan Documents, including any modification thereof; (b) administration of and actions relating to any Collateral, Loan Documents and transactions contemplated thereby, including any actions taken to perfect or maintain priority of Lender’s Liens on any Collateral, to maintain any insurance required hereunder or to verify Collateral; and (c) subject to **Section 10.1.1(b)**, any examination or appraisal

with respect to any Obligor or Collateral by Lender's personnel or a third party. All legal, accounting and consulting fees shall be charged to Borrowers by Lender's professionals at their full hourly rates, regardless of any alternative fee arrangements that Lender or any of its Affiliates may have with such professionals that otherwise might apply to this or any other transaction. Borrowers acknowledge that counsel may provide Lender with a benefit (such as a discount, credit or accommodation for other matters) based on counsel's overall relationship with Lender, including fees paid hereunder. If, for any reason (including inaccurate information in Borrower Materials), it is determined that a higher Applicable Margin should have been applied to a period than was actually applied, then the proper margin shall be applied retroactively and Borrowers shall immediately pay to Lender an amount equal to the difference between the amount of interest and fees that would have accrued using the proper margin and the amount actually paid. All amounts payable by Borrowers under this Section shall be due **on demand**.

**1.5. Illegality.** If Lender determines that any Applicable Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for Lender or its applicable Lending Office to perform any of its obligations hereunder, to make, maintain, issue, fund, commit to or charge applicable interest or fees with respect to any Loan or Letter of Credit, or to determine or charge interest based on BSBY Rate, then, on notice thereof by Lender to Borrower Agent, (a) any obligation of Lender to perform such obligations, to make, maintain, issue, fund or commit to the Loan or Letter of Credit (or to charge interest or fees otherwise applicable thereto), or to continue or convert Loans as BSBY Loans, shall be suspended, and (b) if Lender cannot lawfully make or maintain Base Rate Loans whose interest rate is determined by reference to BSBY Rate, the interest rate applicable to Lender's Base Rate Loans shall, as necessary to avoid illegality, be determined without reference to the BSBY Rate component of Base Rate, in each case until Lender notifies Borrower Agent that the circumstances giving rise to such determination no longer exist. Upon delivery of such notice, Borrowers shall prepay or convert BSBY Loans to Base Rate Loans, either on the last day of the Interest Period therefor, if Lender may lawfully continue to maintain the Loan and charge applicable interest to such day, or immediately, if Lender cannot so maintain the Loan. Upon any such prepayment or conversion of a Loan pursuant to this Section, Borrowers shall also pay accrued interest on the amount so prepaid or converted.

**1.6. Inability to Determine Rates**

1.1.1. **Inability to Determine Rate**. If in connection with any request for a BSBY Loan or a conversion to or continuation thereof, as applicable, (a) Lender determines (which determination shall be conclusive absent manifest error) that (i) no Successor Rate has been determined in accordance with **Section 3.6.2**, and the circumstances under **Section 3.6.2(a)** or the Scheduled Unavailability Date has occurred (as applicable), or (ii) adequate and reasonable means do not otherwise exist for determining BSBY Rate for any requested Interest Period with respect to a proposed BSBY Loan or in connection with an existing or proposed Base Rate Loan, or (b) Lender determines that for any reason that BSBY Rate for any requested Interest Period with respect to a proposed BSBY Loan does not adequately and fairly reflect the cost to such Lender of funding such Loan, Lender will promptly so notify Borrower Agent. Thereafter, (x) the obligation of Lender to make, maintain, or convert Base Rate Loans to, BSBY Loans shall be suspended (to the extent of the affected BSBY Loans or Interest Periods), and (y) in the event of a determination described in the preceding sentence with respect to the BSBY Rate component of Base Rate, the utilization of such component in determining Base Rate shall be suspended, in each case until Lender revokes such notice. Upon receipt of such notice, (i) Borrowers may revoke any pending request for a Borrowing, conversion or continuation of BSBY Loans (to the extent of the affected BSBY Loans or Interest Periods) or, failing that, will be deemed to have converted such request into a request for Base Rate Loans, and (ii) any outstanding BSBY Loans shall convert to Base Rate Loans at the end of their respective Interest Periods.

1.1.2. **Replacement of BSBY**. Notwithstanding anything to the contrary in this Agreement or any other Loan Document, if Lender determines that:

(a) adequate and reasonable means do not exist for ascertaining one month, three month and six month interest periods of BSBY Rate, including because the BSBY Screen Rate is not available or published on a current basis, and such circumstances are unlikely to be temporary; or

(b) Bloomberg or any successor administrator of the BSBY Screen Rate or a Governmental Authority having jurisdiction over Lender, Bloomberg or such administrator has made a public statement identifying a specific date after which one month, three month and six month interest periods of BSBY Rate or the BSBY Screen Rate shall or will no longer be representative or made available, or used for determining the interest rate of loans, or shall or will otherwise cease, or that such interest periods or BSBY Screen Rate have failed to comply with the International Organization of Securities Commissions (IOSCO) Principles for financial Benchmarks, provided that, at the time of such statement, there is no successor administrator satisfactory to Lender that will continue to provide such representative interest periods of BSBY Rate after such specific date (the latest date on which one month, three month and six month interest periods of BSBY Rate or the BSBY Screen Rate are no longer representative or available permanently or indefinitely, "Scheduled Unavailability Date");

then, on a date and time determined by Lender (any such date, "BSBY Replacement Date"), which date shall be at the end of an Interest Period or on the relevant interest payment date, as applicable for interest calculated and, solely with respect to clause (b) above, no later than the Scheduled Unavailability Date, BSBY Rate will be replaced hereunder and under any other applicable Loan Document with, subject to the proviso below, the first available alternative set forth in the order below for any interest period for interest calculated that can be determined by Lender, in each case, without any amendment to, or further action or consent of any other party to any Loan Document ("Successor Rate");

- (i) Term SOFR plus the SOFR Adjustment; and
- (ii) Daily Simple SOFR plus the SOFR Adjustment;

provided, that if initially BSBY is replaced with Daily Simple SOFR plus the SOFR Adjustment and, subsequent to such replacement, Lender determines that Term SOFR has become available and is administratively feasible for Lender in its discretion, and Lender notifies Borrower Agent of such availability, then from and after the beginning of the Interest Period, relevant interest payment date or payment period for interest calculated, in each case, commencing no less than 30 days after the date of such notice, the Successor Rate shall be Term SOFR plus the SOFR Adjustment. If the Successor Rate is Daily Simple SOFR plus the SOFR Adjustment, all interest will be payable on a monthly basis.

Notwithstanding anything to the contrary herein, (i) if Lender determines that neither of the alternatives in clauses (i) and (ii) is available on or prior to the BSBY Replacement Date or (ii) if the events or circumstances of the type described in clauses (a) or (b) above have occurred with respect to the Successor Rate then in effect, then in each case, Lender and Borrowers may amend this Agreement solely for the purpose of replacing BSBY Rate or any then current Successor Rate in accordance with this Section at the end of any Interest Period, relevant interest payment date or payment period for interest calculated, as applicable, with another alternate benchmark rate giving due consideration to any evolving or then existing convention for similar U.S. dollar denominated syndicated credit facilities for such alternative benchmarks and, in each case, including any mathematical or other adjustments to such benchmark giving due consideration to any evolving or then existing convention for similar U.S. dollar denominated syndicated credit facilities for such benchmarks, which adjustment or method for calculating such adjustment shall be published on an information service selected by Lender from time to time in its discretion and may be periodically updated. For the avoidance of doubt, any such proposed rate and adjustments shall constitute a Successor Rate.

Lender will promptly (in one or more notices) notify Borrowers of implementation of any Successor Rate. A Successor Rate shall be applied in a manner consistent with market practice; provided, that to the extent market practice is not administratively feasible for Lender, the Successor

Rate shall be applied in a manner as determined by Lender in its discretion. Notwithstanding anything else herein, if at any time any Successor Rate as so determined would otherwise be less than zero (0), the Successor Rate will be deemed to be zero (0) for all purposes of the Loan Documents.

In connection with implementation of a Successor Rate, Lender may make Conforming Changes from time to time and, notwithstanding anything to the contrary in any Loan Document, any amendments implementing such Conforming Changes will become effective without any further action or consent of any other party to this Agreement; provided, that with respect to any such amendment effected, Lender shall post each amendment implementing Conforming Changes to Borrowers promptly after such amendment becomes effective.

## **1.7. Increased Costs; Capital Adequacy**

1.1.1. Increased Costs Generally. If any Change in Law shall:

(a) impose modify or deem applicable any reserve, liquidity, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, Lender (except any reserve requirement reflected in calculating BSBY Rate);

(b) subject any Recipient to Taxes (other than (i) Indemnified Taxes, (ii) Taxes described in clauses (b) through (d) of the definition of Excluded Taxes, and (iii) Connection Income Taxes) with respect to any Loan, Letter of Credit, Commitment or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(c) impose on Lender or any interbank market any other condition, cost or expense (other than Taxes) affecting any Loan, Letter of Credit, Commitment or Loan Document;

and the result thereof shall be to increase the cost to Lender of making or maintaining any Loan or the Commitment, or converting to or continuing any interest option for a Loan, or to increase the cost to Lender of issuing or maintaining any Letter of Credit (or of maintaining its obligation to issue a Letter of Credit), or to reduce the amount of any sum received or receivable by Lender hereunder (whether of principal, interest or any other amount) then, upon request by Lender, Borrowers will pay to Lender such additional amount(s) as will compensate it for the additional costs incurred or reduction suffered.

1.1.2. Capital Requirements. If Lender determines that a Change in Law affecting it or its holding company regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on Lender's or such holding company's capital as a consequence of this Agreement, Commitment, Loans or Letters of Credit to a level below that which Lender or such holding company could have achieved but for such Change in Law (taking into consideration its policies with respect to capital adequacy), then from time to time Borrowers will pay to Lender such additional amounts as will compensate it or its holding company for the reduction suffered.

1.1.3. Compensation. Failure or delay on the part of Lender to demand compensation pursuant to this Section shall not constitute a waiver of its right to demand such compensation, but Borrowers shall not be required to compensate Lender for any increased costs or reductions suffered more than nine months (plus any period of retroactivity of the Change in Law giving rise to the demand) prior to the date that Lender notifies Borrower Agent of the applicable Change in Law and of Lender's intention to claim compensation therefor.

**1.8. Mitigation.** If Lender gives a notice under **Section 3.5** or requests compensation under **Section 3.7**, or if Borrowers are required to pay any Indemnified Taxes or additional amounts under **Section 5.7**, then at the request of Borrower Agent, Lender shall use reasonable efforts to designate or assign its obligations hereunder to a different Lending Office, if, in the judgment of Lender, such designation or assignment would eliminate the need for such notice or reduce amounts payable or to be withheld in the future, and would not subject Lender to any unreimbursed cost or expense, and would not otherwise be disadvantageous to it or unlawful. Borrowers shall pay all

reasonable costs and expenses incurred by Lender in connection with any such designation or assignment.

**1.9. Funding Losses.** If for any reason (a) any Borrowing, conversion or continuation of a BSBY Loan does not occur on the date specified therefor in a Notice of Borrowing or Notice of Conversion/Continuation (whether or not withdrawn), (b) any repayment or conversion of a BSBY Loan occurs on a day other than the end of its Interest Period, or (c) Borrowers fail to repay a BSBY Loan when required, then Borrowers shall pay to Lender all losses, expenses and fees arising from redeployment of funds or termination of match funding.

**1.10. Maximum Interest.** Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by Applicable Law (“maximum rate”). If Lender shall receive interest in an amount that exceeds the maximum rate, the excess interest shall be applied to the principal of the Obligations or, if it exceeds such unpaid principal, refunded to Borrowers. In determining whether the interest contracted for, charged or received by Lender exceeds the maximum rate, Lender may, to the extent permitted by Applicable Law, (a) characterize any payment that is not principal as an expense, fee or premium rather than interest; (b) exclude voluntary prepayments and the effects thereof; and (c) amortize, prorate, allocate and spread (in equal or unequal parts) the total amount of interest throughout the contemplated term of the Obligations hereunder.

#### **Section 4. LOAN ADMINISTRATION**

##### **1.1. Manner of Borrowing and Funding Loans**

###### **1.1.1. Notice of Borrowing.**

(a) To request a Loan, Borrower Agent shall give Lender a Notice of Borrowing by 1:00 p.m. (i) on the requested funding date for a Base Rate Loan, and (ii) at least two Business Days prior to the requested funding date for a BSBY Loan. Notices received by Lender after such time shall be deemed received on the next Business Day. Each Notice of Borrowing shall be irrevocable and shall specify (A) the Borrowing amount, (B) the requested funding date (which must be a Business Day), (C) whether the Borrowing is to be made as a Base Rate Loan or BSBY Loan, and (D) in the case of a BSBY Loan, the applicable Interest Period (which shall be deemed to be one month if not specified).

(b) Unless payment is otherwise made by Borrowers, the becoming due of any Obligation (whether principal, interest, fees or other charges, including Extraordinary Expenses, LC Obligations, Cash Collateral and Bank Product Debt) shall be deemed to be a request for a Base Rate Loan on the due date in the amount due and the Loan proceeds shall be disbursed as direct payment of such Obligation. In addition, Lender may, at its option, charge such amount against any operating, investment or other account of a Borrower maintained with Lender or any of its Affiliates.

(c) If a Borrower maintains a disbursement account with Lender or any of its Affiliates, then presentation for payment in the account of a Payment Item when there are insufficient funds to cover it shall be deemed to be a request for a Base Rate Loan on the presentation date, in the amount of the Payment Item. Proceeds of the Loan may be disbursed directly to the account.

1.1.2. Notices. If Borrowers request, convert or continue Loans, select interest rates, or transfer funds based on telephonic or electronic instructions to Lender, Borrowers shall confirm the request by prompt delivery to Lender of a Notice of Borrowing or Notice of Conversion/Continuation, as applicable. Lender is not liable for any loss suffered by a Borrower as a result of Lender acting on its understanding of telephonic or electronic instructions from a person believed in good faith to be authorized to give instructions on a Borrower’s behalf.

**1.2. Number and Amount of BSBY Loans; Determination of Rate.** Each Borrowing of BSBY Loans when made shall be in a minimum amount of \$1,000,000, plus an increment of

\$100,000 in excess thereof. No more than 5 Borrowings of BSBY Loans may be outstanding at any time, and all BSBY Loans having the same length and beginning date of their Interest Periods shall be aggregated together and considered one Borrowing for this purpose. Upon determining BSBY Rate for any Interest Period requested by Borrowers, Lender shall promptly notify Borrowers thereof by telephone or electronically and, if requested by Borrowers, shall confirm any telephonic notice in writing.

**1.3. Borrower Agent.** Each Borrower hereby designates Arlo (“Borrower Agent”) as its representative and agent for all purposes under the Loan Documents, including requests for and receipt of Loans and Letters of Credit, designation of interest rates, delivery or receipt of Communications, delivery of Borrowing Base and financial information and reports, payment of Obligations, requests for waivers, amendments or other accommodations, actions under the Loan Documents (including in respect of compliance with covenants), and all other dealings with Lender. Borrower Agent hereby accepts such appointment. Lender shall be entitled to rely upon any Communication (including any notice of borrowing) delivered by or to Borrower Agent on behalf of any Borrower and shall have the right, in its discretion, to deal exclusively with Borrower Agent for all purposes under the Loan Documents. Each Borrower agrees that any Communication, delivery, action, omission or undertaking by Borrower Agent hereunder shall be binding upon and enforceable against such Borrower.

**1.4. One Obligation.** The Loans, LC Obligations and other Obligations shall constitute one general obligation of Borrowers and are secured by Lender’s Lien on all Collateral; provided, that Lender shall be deemed to be a creditor of, and the holder of a separate claim against, each Borrower to the extent of any Obligations jointly or severally owed by such Borrower.

**1.5. Effect of Termination.** On the effective date of the termination of the Commitment, the Obligations shall be immediately due and payable, and each Secured Party may terminate its Bank Products. Until Full Payment of the Obligations, all undertakings of Borrowers contained in the Loan Documents shall continue, and Lender shall retain its Liens in the Collateral and all rights and remedies under the Loan Documents. Lender shall not be required to terminate its Liens unless it receives Cash Collateral or a written agreement, in each case satisfactory to it, protecting it from dishonor or return of any Payment Item previously applied to the Obligations. **Sections 2.2, 3.4, 3.6, 3.7, 3.9, 5.4, 5.7, 12.2**, this Section, and each indemnity or waiver given by an Obligor in any Loan Document, shall survive any assignment by Lender of rights or obligations hereunder, termination of the Commitment, and any repayment, satisfaction, discharge or Full Payment of any Obligations.

## **Section 5. PAYMENTS**

**1.1. General Payment Provisions.** All payments of Obligations shall be made in Dollars, without offset, counterclaim or defense of any kind, free and clear of (and without deduction for) any Taxes, and in immediately available funds, not later than 12:00 noon on the due date. Any payment after such time shall be deemed made on the next Business Day. Any payment of a BSBY Loan prior to the end of its Interest Period shall be accompanied by all amounts due under **Sections 3.1.1(c) and 3.9**. Lender shall have the continuing, exclusive right to apply and reapply payments and proceeds of Collateral against Obligations, at Lender’s discretion, but whenever possible (provided no Event of Default has occurred and is continuing) any prepayment shall be applied to Base Rate Loans before BSBY Loans.

**1.2. Repayment of Loans.** Loans may be prepaid from time to time, without penalty or premium, pursuant to a Notice of Prepayment to Lender, delivered concurrently with prepayment of a Swingline Loan and at least three Business Days prior to prepayment of other Loans; provided, that no such notice shall be required for payments applied pursuant to **Section 5.5**. Loans shall be due and payable in full on the Termination Date, unless payment is sooner required hereunder, and any Overadvance shall be due and payable as provided in **Section 2.1.4**.



**1.3. Payment of Other Obligations.** Obligations other than Loans, including LC Obligations and Claims, shall be paid by Borrowers as provided in the Loan Documents or, if no payment date is specified, on demand.

**1.4. Marshaling; Payments Set Aside.** Lender shall have no obligation to marshal any assets in favor of any Obligor or against any Obligations. If any payment by or on behalf of Borrowers is made to Lender or if Lender exercises a right of setoff, and any of such payment or setoff is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by Lender in its discretion) to be repaid to a trustee, receiver or any other Person, then the Obligation originally intended to be satisfied, and all Liens, rights and remedies relating thereto, shall be revived and continued in full force and effect as if such payment or setoff had not occurred.

**1.5. Dominion Account.** The ledger balance in the main Dominion Account as of the end of a Business Day shall be applied to the Obligations at the beginning of the next Business Day, during any Cash Dominion Trigger Period. Any resulting credit balance shall not accrue interest in favor of Borrowers and shall be made available to Borrowers as long as no Event of Default has occurred and is continuing. In no event shall monies and collateral proceeds obtained from an Obligor be applied to pay its Excluded Swap Obligations.

**1.6. Account Stated.** Lender shall maintain, in accordance with its customary practices, loan account(s) evidencing the Debt of Borrowers hereunder. Any failure of Lender to record anything in a loan account, or any error in doing so, shall not limit or otherwise affect the obligation of Borrowers to pay any amount owing hereunder. Entries in a loan account shall be presumptive evidence of the information contained therein. If information in a loan account is provided to or inspected by or on behalf of a Borrower, the information shall be conclusive and binding on Borrowers for all purposes absent manifest error, except to the extent Borrower Agent notifies Lender in writing within 30 days of specific information subject to dispute.

**1.7. Taxes.**

**1.1.1. Payments Free of Taxes; Obligation to Withhold; Tax Payment.**

(a) For purposes of this Section, the term “Applicable Law” includes FATCA.

(b) All payments by or on account of any Obligations by Obligors under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by Applicable Law. If Applicable Law (as determined in the good faith discretion of the Withholding Agent) requires the deduction or withholding of any Tax from any such payment by a Withholding Agent, then the applicable Withholding Agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority and, if such Tax is an Indemnified Tax, then the sum payable by the applicable Obligor shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section) the applicable Recipient receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(c) Without limiting the foregoing, Borrowers shall timely pay to the relevant Governmental Authority in accordance with Applicable Law or at Lender’s option, timely reimburse Lender for payment of, any Other Taxes.

**1.1.2. Indemnification by the Borrowers.** Borrowers shall indemnify and hold harmless, on a joint and several basis, each Recipient against any Indemnified Taxes (including those imposed or asserted on or attributable to amounts payable under this Section) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Borrowers

shall make payment within 10 days after demand for any amount or liability payable under this Section. A certificate delivered to Borrower Agent by Lender (for itself or on behalf of a Recipient) as to the amount of such payment or liability, shall be conclusive absent manifest error.

1.1.3. Evidence of Payments. As soon as practicable after payment by an Obligor of any Taxes to a Governmental Authority pursuant to this Section, Borrower Agent shall deliver to Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Applicable Law to report the payment or other evidence of such payment reasonably satisfactory to Lender.

1.1.4. Treatment of Certain Refunds. If Lender determines in its sole discretion exercised in good faith, that it or another Recipient has received a refund of Taxes that were indemnified by Borrowers or with respect to which a Borrower paid additional amounts pursuant to this Section, the Recipient shall pay the amount of such refund to Borrowers (but only to the extent of indemnity payments or additional amounts actually paid by Borrowers with respect to the Taxes giving rise to the refund), net of all out-of-pocket expenses (including Taxes) incurred by the Recipient and without interest (other than interest paid by the relevant Governmental Authority with respect to such refund). Borrowers shall, upon request by Lender, repay to the Recipient such amount paid over to Borrowers (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) if the Recipient is required to repay such refund to the Governmental Authority. Notwithstanding anything herein to the contrary, no Recipient shall be required to pay any amount to Borrowers if such payment would place it in a less favorable net after-Tax position than it would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. In no event shall any Recipient be required to make its tax returns (or any other information relating to its taxes that it deems confidential) available to any Obligor or other Person.

1.1.5. Status of Lender. If Lender is entitled to an exemption from or reduction of withholding Tax with respect to payments of Obligations, it shall deliver to Borrowers properly completed and executed documentation reasonably requested by Borrowers as will permit such payments to be made without or at a reduced rate of withholding. In addition, Lender, if reasonably requested by Borrowers, shall deliver such other documentation prescribed by Applicable Law or reasonably requested by the Borrowers as will enable Borrowers to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding the foregoing, such documentation shall not be required if in the Lender's reasonable judgment such delivery of the documentation would subject it to any material unreimbursed cost or expense or would materially prejudice its legal or commercial position.

1.1.6. Documentation. Without limiting the foregoing, Lender shall deliver to Borrowers, from time to time upon reasonable request, executed copies of IRS Form W-9, certifying that Lender is exempt from U.S. federal backup withholding Tax. If payment of any Obligation to Lender would be subject to U.S. federal withholding Tax imposed by FATCA if Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), Lender shall deliver to Borrower Agent at the time or times prescribed by law and otherwise upon reasonable request such documentation prescribed by Applicable Law (including Section 1471(b)(3)(C)(i) of the Code) and such additional documentation may be appropriate for Borrowers to comply with their obligations under FATCA and to determine that Lender has complied with its obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this **Section 5.7.6**, "FATCA" shall include any amendments made to FATCA after the date of this Agreement. Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify Borrower in writing of its legal inability to do so.

1.1.7. Survival. Each party's obligations under this **Section 5.7** shall survive any assignment of rights by Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

## **1.8. Nature and Extent of Each Borrower's Liability**

1.1.1. Joint and Several Liability. Each Borrower agrees that it is jointly and severally liable for, and absolutely and unconditionally guarantees to Lender and any other Secured Party the prompt payment and performance of, all Obligations, except its Excluded Swap Obligations. Each Borrower agrees that its guaranty obligations hereunder constitute a continuing guaranty of payment and performance and not of collection, that such obligations shall not be discharged until Full Payment of the Obligations, and that such obligations are absolute and unconditional, irrespective of (a) the genuineness, validity, regularity, enforceability, subordination or any future modification of, or change in, any Obligations or Loan Document, or any other document, instrument or agreement to which any Obligor is or may become a party or be bound; (b) the absence of any action to enforce this Agreement (including this Section) or any other Loan Document, or any waiver, consent or indulgence of any kind by any Secured Party with respect thereto; (c) the existence, value or condition of, or failure to perfect a Lien or to preserve rights against, any security or guaranty for any Obligations or any action or inaction of any Secured Party in respect thereof (including the release of any security or guaranty); (d) insolvency of any Obligor; (e) election by any Secured Party in an Insolvency Proceeding for the application of Section 1111(b)(2) of the Bankruptcy Code; (f) any borrowing or grant of a Lien by any other Borrower as debtor-in-possession under Section 364 of the Bankruptcy Code or otherwise; (g) disallowance of any claims of a Secured Party against any Obligor for the repayment of any Obligations under Section 502 of the Bankruptcy Code or otherwise; or (h) any other action or circumstances that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, other than Full Payment of the Obligations.

### 1.1.2. Waivers.

(a) Each Borrower expressly waives all rights that it may have now or in the future under any statute, at common law, in equity or otherwise, to compel Lender to marshal assets or to proceed against any Obligor, other Person or security for the payment or performance of any Obligations before, or as a condition to, proceeding against such Borrower. Each Borrower waives all defenses available to a surety, guarantor or accommodation co-obligor other than Full Payment of Obligations and waives, to the maximum extent permitted by law, any right to revoke any guaranty of Obligations as long as it is a Borrower. It is agreed among each Borrower and Secured Party that the provisions of this Section are of the essence of the transaction contemplated by the Loan Documents and that, but for such provisions, Lender would decline to make Loans and issue Letters of Credit. Each Borrower acknowledges that its guaranty pursuant to this Section is necessary to the conduct and promotion of its business, and can be expected to benefit such business.

(b) Secured Parties may, in their discretion, pursue such rights and remedies as it deems appropriate, including realization upon Collateral or any Real Estate by judicial foreclosure or nonjudicial sale or enforcement, without affecting any rights and remedies under this Section. If, in taking any action in connection with the exercise of any rights or remedies, a Secured Party shall forfeit any other rights or remedies, including the right to enter a deficiency judgment against any Borrower or other Person, whether because of any Applicable Laws pertaining to "election of remedies" or otherwise, each Borrower consents to such action and waives any claim based upon it, even if the action may result in loss of any rights of subrogation that any Borrower might otherwise have had. Any election of remedies that results in denial or impairment of the right of a Secured Party to seek a deficiency judgment against any Borrower shall not impair any other Borrower's obligation to pay the full amount of the Obligations. Each Borrower waives all rights and defenses arising out of an election of remedies, such as nonjudicial foreclosure with respect to any security for Obligations, even though that election of remedies destroys such Borrower's rights of subrogation against any other Person. Lender may bid Obligations, in whole or part, at any foreclosure, trustee or other sale, including any private sale, and the amount of such bid need not be paid by Lender but may

be credited against the Obligations. The amount of the successful bid at any such sale, whether Lender or any other Person is the successful bidder, shall be conclusively deemed to be the fair market value of the Collateral, and the difference between such bid amount and the remaining balance of the Obligations shall be conclusively deemed to be the amount of the Obligations guaranteed under this Section, notwithstanding that any present or future law or court decision may have the effect of reducing the amount of any deficiency claim to which a Secured Party might otherwise be entitled but for such bidding at any such sale.

1.1.3. Extent of Liability; Contribution.

(a) Notwithstanding anything herein to the contrary, each Borrower's liability under this Section shall not exceed the greater of (i) all amounts for which such Borrower is primarily liable, as described in clause (c) below, or (ii) such Borrower's Allocable Amount.

(b) If any Borrower makes a payment under this Section of any Obligations (other than amounts for which such Borrower is primarily liable) (a "Guarantor Payment") that, taking into account all other Guarantor Payments previously or concurrently made by any other Borrower, exceeds the amount that such Borrower would otherwise have paid if each Borrower had paid the aggregate Obligations satisfied by such Guarantor Payments in the same proportion that such Borrower's Allocable Amount bore to the total Allocable Amounts of all Borrowers, then such Borrower shall be entitled to receive contribution and indemnification payments from, and to be reimbursed by, each other Borrower for the amount of such excess, ratably based on their respective Allocable Amounts in effect immediately prior to such Guarantor Payment. The "Allocable Amount" for any Borrower shall be the maximum amount that could then be recovered from such Borrower under this Section without rendering such payment voidable under Section 548 of the Bankruptcy Code or under any applicable state fraudulent transfer or conveyance act, or similar statute or common law.

(c) This Section shall not limit the liability of any Borrower to pay or guarantee Loans made directly or indirectly to it (including Loans advanced hereunder to any other Person and then re-loaned or otherwise transferred to, or for the benefit of, such Borrower), LC Obligations relating to Letters of Credit issued to support its business, Bank Products incurred to support its business, and all accrued interest, fees, expenses and other related Obligations with respect thereto, for which such Borrower shall be primarily liable for all purposes hereunder. Lender shall have the right, at any time in its discretion, to condition Loans and Letters of Credit upon a separate calculation of borrowing availability for each Borrower and to restrict the disbursement and use of Loans and Letters of Credit to a Borrower based on that calculation.

(d) Each Obligor that is a Qualified ECP when its guaranty of or grant of Lien as security for a Swap Obligation becomes effective hereby jointly and severally, absolutely, unconditionally and irrevocably undertakes to provide funds or other support to each Specified Obligor with respect to such Swap Obligation as may be needed by such Specified Obligor from time to time to honor all of its obligations under the Loan Documents in respect of such Swap Obligation (but, in each case, only up to the maximum amount of such liability that can be hereby incurred without rendering such Qualified ECP's obligations and undertakings under this Section voidable under any applicable fraudulent transfer or conveyance act). The obligations and undertakings of each Qualified ECP under this Section shall remain in full force and effect until Full Payment of all Obligations. Each Obligor intends this Section to constitute, and this Section shall be deemed to constitute, a guarantee of the obligations of, and a "keepwell, support or other agreement" for the benefit of, each Obligor for all purposes of the Commodity Exchange Act.

1.1.4. Joint Enterprise. Each Borrower has requested that Lender make this credit facility available to Borrowers on a combined basis, in order to finance Borrowers' business most efficiently and economically. Borrowers' business is a mutual and collective enterprise, and the successful operation of each Borrower is dependent upon the successful performance of the integrated group. Borrowers believe that consolidation of their credit facility will enhance the borrowing power of each Borrower and ease administration of the facility, all to their mutual

advantage. Borrowers acknowledge that Lender's willingness to extend credit and to administer the Collateral on a combined basis hereunder is done solely as an accommodation to Borrowers and at Borrowers' request.

1.1.5. Subordination. Each Borrower hereby subordinates any claims, including any rights at law or in equity to payment, subrogation, reimbursement, exoneration, contribution, indemnification or set off, that it may have at any time against any other Obligor, howsoever arising, to the Full Payment of its Obligations.

## **Section 6. CONDITIONS PRECEDENT**

**1.1. Conditions Precedent to Initial Loans.** In addition to the conditions set forth in **Section 6.2**, Lender shall not be required to fund any requested Loan, issue any Letter of Credit or otherwise extend credit to Borrowers hereunder, until the date ("Closing Date") that each of the following conditions has been satisfied:

(a) Subject to Section 6.3, each Loan Document shall have been duly executed and delivered to Lender by each of the signatories thereto, and each Obligor shall be in compliance with all terms thereof.

(b) Lender shall have received acknowledgments of all filings or recordings necessary to perfect its Liens in the Collateral, as well as UCC and Lien searches and other evidence satisfactory to Lender that such Liens are the only Liens upon the Collateral, except Permitted Liens.

(c) Lender shall have received certificates, in form and substance satisfactory to it, from a knowledgeable Senior Officer of each Borrower certifying that, after giving effect to the initial Loans and transactions hereunder, (i) such Borrower is Solvent; (ii) no Event of Default has occurred and is continuing; (iii) the representations and warranties set forth in **Section 9** are true and correct; and (iv) such Borrower has complied with all agreements and conditions to be satisfied by it under the Loan Documents.

(d) Lender shall have received a certificate of a duly authorized officer of each Obligor, certifying (i) that attached copies of such Obligor's Organic Documents are true and complete, and in full force and effect, without amendment except as shown; (ii) that an attached copy of resolutions authorizing execution and delivery of the Loan Documents is true and complete, and that such resolutions are in full force and effect, were duly adopted, have not been amended, modified or revoked, and constitute all resolutions adopted with respect to this credit facility; and (iii) to the name, title and signature of each Person authorized to sign the Loan Documents. Lender may conclusively rely on this certificate until it is otherwise notified by the applicable Obligor in writing.

(e) Lender shall have received a written opinion of Cooley LLP, as well as any local counsel to Borrowers or Lender, in form and substance satisfactory to Lender.

(f) Lender shall have received copies of the charter documents of each Obligor, certified by the Secretary of State or other appropriate official of such Obligor's jurisdiction of organization. Lender shall have received good standing certificates for each Obligor, issued by the Secretary of State or other appropriate official of such Obligor's jurisdiction of organization and each jurisdiction where such Obligor's conduct of business or ownership of Property necessitates qualification.

(g) Lender shall have received copies of policies or certificates of insurance for the insurance policies carried by Borrowers, all in compliance with the Loan Documents.

(h) Each Borrower shall have provided, in form and substance satisfactory to Lender, all documentation and other information as Lender deems appropriate in connection with applicable "know your customer" and anti-money-laundering rules and regulations, including the Patriot Act and Beneficial Ownership Regulation. If any Borrower qualifies as a "legal entity

customer” under the Beneficial Ownership Regulation, it shall have provided a Beneficial Ownership Certification to Lender in relation to such Borrower.

(i) Lender shall have completed its business, financial and legal due diligence of Obligors, including a roll-forward of its previous field examination, with results satisfactory to Lender. No material adverse change in the financial condition of any Obligor or in the quality, quantity or value of any Collateral shall have occurred since December 31, 2020.

(j) Borrowers shall have paid all fees and expenses to be paid to Lender on the Closing Date.

(k) Lender shall have received a Borrowing Base Report prepared as of October 3, 2021. Upon giving effect to the initial funding of Loans and issuance of Letters of Credit, and the payment by Borrowers of all fees and expenses incurred in connection herewith as well as any payables stretched beyond their customary payment practices (other than stretched payables owed by any Borrower to its Affiliates), Availability shall be at least \$6,000,000.

Notwithstanding the foregoing, Lender shall not be required to make any credit extension hereunder (including funding any Loan, issuing any Letter of Credit, or granting any other accommodation to or for the benefit of any Borrower) until Lender has confirmed Obligors’ satisfaction of the requirements **Section 6.3.1** and **Section 10.1.10**.

**1.2. Conditions Precedent to All Credit Extensions.** Lender shall not be required to make any credit extension hereunder (including funding any Loan, issuing any Letter of Credit, or granting any other accommodation to or for the benefit of any Borrower), if the following conditions are not satisfied on such date and upon giving effect thereto:

(a) No Default or Event of Default has occurred and is continuing;

(b) The representations and warranties of each Obligor in the Loan Documents are true and correct in all material respects (or, in the case of any representation and warranty qualified by materiality, in all respects) except for representations and warranties that expressly apply only on an earlier date);

(c) All conditions precedent in any Loan Document are satisfied;

(d) No event has occurred or circumstance exists that has or could reasonably be expected to have a Material Adverse Effect;

(e) With respect to a Letter of Credit issuance, all LC Conditions are satisfied; and

(f) Borrower Agent has delivered to Lender, a Borrowing Base Report within 10 Business Days prior to the date of requested funding of the Loan or issuance of Letter of Credit, if, at the time of such request for an extension of a Loan or issuance of a Letter of Credit, no Loans or Letters of Credit are outstanding, which Borrowing Base Certificate shall be prepared as of the last day of the most recently ended month.

Each request (or deemed request) by a Borrower for any credit extension shall constitute a representation by Borrowers that the foregoing conditions are satisfied on the date of such request and on the date of the credit extension. As an additional condition to a credit extension, Lender may request any other information, certification, document, instrument or agreement as it deems appropriate.

**1.3. Post-Closing Date Conditions.**

1.1.1. Within no later than 60 days of the Closing Date (or such longer period in Lender's sole discretion), Borrower shall deliver to Lender duly executed agreements establishing each Dominion Account and related lockbox, in form and substance, and with financial institutions, satisfactory to Lender.

1.1.2. Within no later than 60 days of the Closing Date (or such longer period in Lender's sole discretion), Borrower shall use commercially reasonable efforts to deliver to Lender duly executed Lien Waivers with respect to the locations located at 2200 Faraday Ave., Suite #150, Carlsbad, California and 408 Brea Canyon Road, City of Industry, CA 91789.

1.1.3. Within no later than 30 days of the Closing Date (or such longer period in Lender's sole discretion), Lender shall have received insurance endorsements for the property insurance policy carried by Borrowers, in compliance with the Loan Documents.

## **Section 7. COLLATERAL**

**1.1. Grant of Security Interest.** To secure the prompt payment and performance of its Obligations, each Borrower hereby grants to Lender a continuing Lien on the following, whether now owned or hereafter acquired, and wherever located (the "**Collateral**"):

- (a) all Accounts;
- (b) all Deposit Accounts and Security Accounts;
- (c) all Goods consisting of Inventory;
- (d) all monies, whether or not in the possession or under the control of Lender, including any Cash Collateral;
- (e) to the extent related to the above,
  - (i) all Chattel Paper, including electronic chattel paper;
  - (ii) all Commercial Tort Claims, including those shown on **Schedule 9.1.16**;
  - (iii) all Documents;
  - (iv) all General Intangibles;
  - (v) all Instruments;
  - (vi) all Investment Property;
  - (vii) all Letter-of-Credit Rights;
  - (viii) all Supporting Obligations;
- (f) all accessions to, substitutions for, and all replacements, products, and cash and non-cash proceeds of the foregoing, including proceeds of and unearned premiums with respect to insurance policies, and claims against any Person for loss, damage or destruction of any Collateral; and
- (g) all books and records (including customer lists, files, correspondence, tapes, computer programs, print-outs and computer records) pertaining to the foregoing.

Notwithstanding anything to the contrary herein, the Collateral shall not include any Excluded Assets.

## **1.2. Lien on Deposit Accounts; Cash Collateral**

1.1.1. Deposit Accounts. Lender's Lien encumbers all amounts credited to any Deposit Account located in the United States of a Borrower, including sums in any blocked, lockbox, sweep or collection account. Subject to **Sections 8.2.4** and **8.2.5**, each Borrower hereby authorizes and directs each bank or other depository to deliver to Lender, upon request while an Event of Default has occurred and is continuing, all balances in any Deposit Account maintained for such Borrower, without inquiry into the authority or right of Lender to make such request. Obligors shall, at no time, maintain balances in Deposit Accounts located outside of the United States in an aggregate amount exceeding \$5,000,000.

1.1.2. Cash Collateral. Cash Collateral may be invested, at Lender's discretion (with the consent of Borrowers, provided no Event of Default exists), but Lender shall have no duty to do so, regardless of any agreement or course of dealing with any Borrower, and shall have no responsibility for any investment or loss. As security for its Obligations, each Borrower hereby grants to Lender a security interest in and Lien upon all Cash Collateral delivered hereunder from time to time, whether held in a segregated cash collateral account or otherwise. Lender may apply Cash Collateral to the payment of such Obligations as they become due, in such order as Lender may elect. All Cash Collateral and related deposit accounts shall be under the sole dominion and control of Lender, and no Borrower or other Person shall have any right to any Cash Collateral until Full Payment of the Obligations.

## **1.3. Reserved**

## **1.4. Other Collateral**

1.1.1. Certain After-Acquired Collateral. Borrowers shall (a) promptly notify Lender if a Borrower obtains an interest in any Deposit Account or Securities Account and to the extent constituting Collateral, any Chattel Paper, Document, Instrument, Investment Property or Letter-of-Credit Right, and (b) upon request, take such actions as Lender, acting reasonably, deems appropriate to effect its perfected, first priority Lien on the Collateral, including using commercially reasonable efforts to obtain any possession, control agreement or Lien Waiver. If Collateral with a book value in excess of \$5,000,000 in the aggregate is in the possession of a third party, at the request of Agent, Borrowers shall use commercially reasonable efforts to obtain an acknowledgment (in form and substance satisfactory to Lender) from such party that it holds the Collateral for the benefit of Lender.

**1.5. Limitations**. The Lien on Collateral granted hereunder is given as security only and shall not subject Lender to, or in any way modify, any obligation or liability of Borrowers relating to any Collateral. In no event shall any Obligor's grant of a Lien under any Loan Document secure its Excluded Swap Obligations.

**1.6. Further Assurances; Extent of Liens**. All Liens granted to Lender under the Loan Documents are for the benefit of Secured Parties. Promptly upon request, Borrowers shall deliver such instruments and agreements, and shall take such actions, as Lender deems appropriate under Applicable Law to evidence or perfect its Lien on any Collateral, or otherwise to give effect to the intent of this Agreement. Each Borrower authorizes Lender to file any financing statement that describes the Collateral of such Borrower, and ratifies any action taken by Lender before the Closing Date to effect or perfect its Lien on any Collateral.

## **Section 8. COLLATERAL ADMINISTRATION**

**1.1. Borrowing Base Reports**. By no later than the Reporting Date and as set forth in Section 6.2(f), Borrowers shall deliver to Lender a Borrowing Base Report as of the close of business of the previous applicable quarter, month, or week, and, in each case, at such other times as Lender may request. All information (including calculation of Availability) in a Borrowing Base Report shall be certified by Borrowers. Lender may from time to time adjust such report (i) to reflect Lender's reasonable estimate of declines in value of Collateral, due to collections received in the Dominion



Account or otherwise; (ii) to adjust advance rates to reflect changes in dilution, quality, mix and other factors affecting Collateral; and (iii) to the extent any information or calculation does not comply with this Agreement.

## 1.2. Accounts

1.1.1. Records and Schedules of Accounts. Each Borrower shall keep accurate and complete records of its Accounts, including all payments and collections thereon, and shall submit to Lender sales, collection, reconciliation and other reports in form satisfactory to Lender, on such periodic basis as Lender may request. Each Borrower shall also provide to Lender, together with delivery of each Borrowing Base Report, a detailed aged trial balance of all Accounts as of the end of the preceding month, specifying each Account's Account Debtor name and address, amount, invoice date and due date, showing any discount, allowance, credit, authorized return or dispute, and including such proof of delivery, copies of invoices and invoice registers, copies of related documents, repayment histories, status reports and other information as Lender may reasonably request. If Accounts in an aggregate face amount of \$1,000,000 or more cease to be Eligible Accounts, Borrowers shall notify Lender of such occurrence promptly (and in any event within one Business Day) after any Borrower has knowledge thereof.

1.1.2. Taxes. If an Account of any Borrower includes a charge for any Taxes, Lender is authorized, in its discretion, to pay the amount thereof to the proper taxing authority for the account of such Borrower and to charge Borrowers therefor; provided, that Lender shall not be liable for any Taxes that may be due from Borrowers or relate to any Collateral.

1.1.3. Account Verification. Whether or not an Event of Default has occurred and is continuing, Lender shall have the right at any time, in the name of Lender, any designee of Lender or any Borrower, to verify the validity, amount or any other matter relating to any Accounts of Borrowers by mail, telephone or otherwise. Borrowers shall cooperate fully with Lender in an effort to facilitate and promptly conclude any such verification process.

1.1.4. Maintenance of Dominion Account. Subject to Section 6.3, Borrowers shall maintain Dominion Accounts pursuant to lockbox or other arrangements acceptable to Lender. Borrowers shall obtain an agreement (in form and substance satisfactory to Lender) from each lockbox servicer and Dominion Account bank, establishing Lender's control over and Lien in the lockbox or Dominion Account (which may be exercised by Lender only during a Cash Dominion Trigger Period) requiring immediate deposit of all remittances received in the lockbox to a Dominion Account, and waiving offset rights of such servicer or bank, except for customary administrative charges. If a Dominion Account is not maintained with Lender, Lender shall, during any Cash Dominion Trigger Period, require immediate transfer of all funds in such account to a Dominion Account maintained with Lender. Lender assumes no responsibility to Borrowers for any lockbox arrangement or Dominion Account, including any claim of accord and satisfaction or release with respect to any Payment Items accepted by any bank.

1.1.5. Proceeds of Collateral. Borrowers shall request in writing and otherwise take all necessary steps to ensure that all payments on Accounts or otherwise relating to Collateral are made directly to a Dominion Account (or a lockbox relating to a Dominion Account), excluding payments on account of Borrowers' paid subscription services, payments made to Borrowers' merchant accounts and any payments in respect of direct to consumer online store collections; provided, that (a) any payments made to a Borrower with respect to Borrowers' paid subscription services, (b) any payments made to a merchant account and (c) any payments received by or for the benefit of a Borrower with respect of direct-to-consumer online store collections shall be deposited into a Deposit Account subject to a Deposit Account Control Agreement on a weekly basis; provided, further that if any merchant or other account holding any such payment has a balance greater than \$100,000, such account shall be deposited into a Deposit Account subject to a Deposit Account Control Agreement within one (1) Business Day. If any Borrower or Subsidiary receives cash or Payment Items with respect to any Collateral, it shall hold same in trust for Lender and promptly (not later than the next Business Day) deposit same into a Dominion Account.

**1.3. Inventory.** Each Borrower shall keep accurate and complete records of its Inventory. Borrower shall take all steps to assure that all Inventory is produced in accordance with Applicable Law, including the FLSA.

**1.4. Equipment.** Each Borrower shall keep accurate and complete records of its Equipment. The Equipment is in good operating condition and repair, and all necessary replacements and repairs have been made so that its value and operating efficiency are preserved at all times, reasonable wear and tear excepted. Each Borrower shall ensure that the Equipment is mechanically and structurally sound, and capable of performing the functions for which it was designed, in accordance with manufacturer specifications.

**1.5. Deposit Accounts.** Schedule 8.5 to the Disclosure Letter lists all Deposit Accounts maintained by Borrowers as of the Closing Date. Each Borrower shall take all actions necessary to establish Lender's first priority Lien on each Deposit Account (other than any Excluded Accounts). Borrowers shall be the sole account holder(s) of each Deposit Account and shall not allow any Person (other than Lender) to have control over their Deposit Accounts or any Property deposited therein. Borrowers shall promptly notify Lender of any opening or closing of a Deposit Account.

**1.6. General Provisions**

1.1.1. Location of Collateral. All tangible items of Collateral shall at all times be kept by Borrowers at the business locations set forth in Schedule 8.6.1 to the Disclosure Letter, except that Borrowers may (a) make sales or other dispositions of Collateral in accordance with Section 10.2.6; and (b) move Collateral to another location in the United States, upon prior written notice to Lender.

1.1.2. Insurance of Collateral; Condemnation Proceeds.

(a) Each Borrower shall maintain insurance with respect to the Collateral, covering casualty, hazard, theft, malicious mischief and flood, in amounts, with endorsements and with insurers (with a Best rating of at least A+, unless otherwise approved by Lender in its discretion) satisfactory to Lender. All flood hazard diligence, documentation and insurance for any Real Estate constituting Collateral shall comply with all Flood Laws and be satisfactory to Lender. All proceeds under each policy shall be payable to Lender. From time to time upon request, Borrowers shall deliver to Lender the originals or certified copies of its insurance certificates and updated flood plain searches. Each policy shall include the following endorsements reasonably satisfactory to Lender (i) showing Lender as lender's loss payee; (ii) requiring 30 days prior written notice to Lender of cancellation of the policy for any reason whatsoever; and (iii) specifying that the interest of Lender shall not be impaired or invalidated by any act or neglect of any Borrower or the owner of the Property, nor by the occupation of the premises for purposes more hazardous than are permitted by the policy. If any Borrower fails to provide and pay for any insurance, Lender may, in its discretion, procure the insurance and charge Borrowers therefor. Each Borrower agrees to deliver to Lender, promptly as rendered, copies of all reports made to insurance companies. While no Event of Default has occurred and is continuing, Borrowers may settle, adjust or compromise any insurance claim, provided the proceeds are delivered to Lender. If an Event of Default has occurred and is continuing, only Lender may settle, adjust and compromise such claims.

(b) Any proceeds of insurance (other than workers' compensation) and awards from condemnation of Collateral shall be paid directly to Lender for application to the Obligations.

(c) If requested by Borrowers in writing within 15 days after Lender's receipt of any insurance proceeds or condemnation awards relating to any loss or destruction of Equipment or Real Estate, Borrowers may use such proceeds or awards to repair or replace such Equipment or Real Estate (and until so used, the proceeds shall be held by Lender as Cash Collateral) as long as (i) no Event of Default has occurred and is continuing; (ii) such repair or replacement is promptly undertaken and concluded, in accordance with plans satisfactory to Lender; (iii) replacement buildings are constructed on the sites of the original casualties and are of comparable size, quality

and utility to the destroyed buildings; (iv) the repaired or replaced Property is free of Liens, other than Permitted Liens that are not Purchase Money Liens; (v) Borrowers comply with disbursement procedures for such repair or replacement as Lender may reasonably require; and (vi) the aggregate amount of such proceeds or awards from any single casualty or condemnation does not exceed \$1,000,000.

1.1.3. **Protection of Collateral.** All expenses of protecting, storing, warehousing, insuring, handling, maintaining and shipping any Collateral, all Taxes payable with respect to any Collateral (including any sale thereof), and all other payments required to be made by Lender to any Person to realize upon any Collateral, shall be borne and paid by Borrowers. Lender shall not be liable or responsible in any way for the safekeeping of any Collateral, for any loss or damage thereto (except for reasonable care in its custody while Collateral is in Lender's actual possession), for any diminution in the value thereof, or for any act or default of any warehouseman, carrier, forwarding agency or other Person whatsoever, but the same shall be at Borrowers' sole risk.

1.1.4. **Defense of Title.** Each Borrower shall defend its title to Collateral and Lender's Liens therein against all Persons, claims and demands, except Permitted Liens.

**1.7. Power of Attorney.** Each Borrower hereby irrevocably constitutes and appoints Lender (and all Persons designated by Lender) as such Borrower's true and lawful attorney (and agent-in-fact) for the purposes provided in this Section. Lender, or Lender's designee, may (in its discretion), without notice and in either its or a Borrower's name, but at the cost and expense of Borrowers:

(a) Endorse a Borrower's name on any Payment Item or other proceeds of Collateral (including proceeds of insurance) that come into Lender's possession or control; and

(b) Following the occurrence and during the continuance of any Event of Default, (i) notify any Account Debtors of the assignment of their Accounts, demand and enforce payment of Accounts, by legal proceedings or otherwise, and generally exercise any rights and remedies with respect to Accounts; (ii) settle, adjust, modify, compromise, discharge or release any Accounts or other Collateral, or any legal proceedings brought to collect Accounts or Collateral; (iii) sell or assign any Accounts and other Collateral upon such terms, for such amounts and at such times as Lender deems advisable; (iv) collect, liquidate and receive balances in Deposit Accounts or investment accounts, and take control, in any manner, of proceeds of Collateral; (v) prepare, file and sign a Borrower's name to a proof of claim or other document in a bankruptcy of an Account Debtor, or to any notice, assignment or satisfaction of Lien or similar document; (vi) receive, open and dispose of mail addressed to a Borrower, and notify postal authorities to deliver any such mail to an address designated by Lender; (vii) endorse any Chattel Paper, Document, Instrument, bill of lading, or other document or agreement relating to any Accounts, Inventory or other Collateral; (viii) use a Borrower's stationery and sign its name to verifications of Accounts and notices to Account Debtors; (ix) use information contained in any data processing, electronic or information systems relating to Collateral; (x) make and adjust claims under insurance policies; (xi) take any action as may be necessary or appropriate to obtain payment under any letter of credit, banker's acceptance or other instrument for which a Borrower is a beneficiary; (xii) exercise any voting or other rights relating to Investment Property; and (xiii) take all other actions as Lender deems appropriate to fulfill any Borrower's obligations under the Loan Documents.

## **Section 9. REPRESENTATIONS AND WARRANTIES**

**1.1. General Representations and Warranties.** To induce Lender to enter into this Agreement and to make available the Commitment, Loans and Letters of Credit, each Borrower represents and warrants that:

1.1.1. **Organization and Qualification.** Each Borrower and Subsidiary is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Each Borrower and Subsidiary is duly qualified, authorized to do business and in good standing as a

foreign corporation in each jurisdiction where failure to be so qualified could reasonably be expected to have a Material Adverse Effect. No Obligor is, or is a subsidiary of, a credit institution, investment firm, or parent company of a credit institution or investment firm, in each case that is established in a member state of the European Union, Iceland, Liechtenstein or Norway, and no Obligor is a Covered Entity. The information included in the most recently provided Beneficial Ownership Certification is true and complete in all respects.

1.1.2. Power and Authority. Each Obligor is duly authorized to execute, deliver and perform its Loan Documents. The execution, delivery and performance of the Loan Documents (including through electronic means) have been duly authorized by all necessary action, and do not (a) require any consent or approval of any holders of Equity Interests of any Obligor, except those already obtained; (b) contravene the Organic Documents of any Obligor; (c) violate any Applicable Law; or (d) result in or require imposition of a Lien (other than a Permitted Lien) on any Obligor's Property.

1.1.3. Enforceability. Each Loan Document is a legal, valid and binding obligation of each Obligor party thereto, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

1.1.4. Capital Structure. As of the Closing Date, **Schedule 9.1.4** to the Disclosure Letter shows, for each Subsidiary of Borrower Agent, its name, jurisdiction of organization, authorized and issued Equity Interests, holders of its Equity Interests, and agreements binding on such holders with respect to such Equity Interests. Except as disclosed on **Schedule 9.1.4** to the Disclosure Letter, in the five years preceding the Closing Date, no Borrower or Subsidiary has changed its name or state of incorporation or organization, acquired any substantial assets from any other Person nor been the surviving entity in a merger or combination. Each Borrower has good title to its Equity Interests in its Subsidiaries, subject only to Lender's Lien, and all such Equity Interests are duly issued, fully paid and non-assessable. As of the Closing Date, except as disclosed on **Schedule 9.1.4** to the Disclosure Letter and except for option and similar interest in favor of officers, directors and employees, there are no outstanding purchase options, warrants, subscription rights, agreements to issue or sell, convertible interests, phantom rights or powers of attorney relating to Equity Interests of any Borrower or Subsidiary.

1.1.5. Title to Properties; Priority of Liens. Each Borrower and Subsidiary has good and marketable title to (or valid leasehold interests in) all of its Real Estate, and good title to all of its personal Property, including all Property reflected in any financial statements delivered to Lender, in each case free of Liens except Permitted Liens. Each Borrower and Subsidiary has paid and discharged all lawful claims that, if unpaid, could become a Lien on its Properties, other than Permitted Liens or as could not reasonably be expected to have a Material Adverse Effect. All Liens of Lender in the Collateral are duly perfected, first priority Liens, subject only to Permitted Liens that are expressly allowed to have priority over Lender's Liens.

1.1.6. Accounts. Lender may rely, in determining which Accounts are Eligible Accounts, on all statements and representations made by Borrowers with respect thereto. Borrowers warrant, with respect to each Account at the time it is shown as an Eligible Account in a Borrowing Base Report, that:

- (a) it is genuine and in all respects what it purports to be;
- (b) it arises out of a completed, *bona fide* sale and delivery of goods in the Ordinary Course of Business, and substantially in accordance with any purchase order, contract or other document relating thereto;
- (c) it is for a sum certain, maturing as stated in the applicable invoice, a copy of which has been furnished or is available upon request to Lender;

(d) it is not subject to any offset, Lien (other than Lender's Lien), deduction, defense, dispute, counterclaim or other adverse condition except as arising in the Ordinary Course of Business and disclosed to Lender; and it is absolutely owing by the Account Debtor, without contingency of any kind;

(e) no purchase order, agreement, document or Applicable Law restricts assignment of the Account to Lender (regardless of whether, under the UCC, the restriction is ineffective), and the applicable Borrower is the sole payee or remittance party shown on the invoice;

(f) no extension, compromise, settlement, modification, credit, deduction or return has been authorized or is in process with respect to the Account, except discounts or allowances granted in the Ordinary Course of Business for prompt payment that are reflected on the face of the invoice related thereto and in the reports submitted to Lender hereunder; and

(g) to the best of Borrowers' knowledge, (i) there are no facts or circumstances that are reasonably likely to impair the enforceability or collectability of such Account; (ii) the Account Debtor had the capacity to contract when the Account arose, continues to meet the applicable Borrower's customary credit standards, is Solvent, is not contemplating or subject to an Insolvency Proceeding, and has not failed, or suspended or ceased doing business; and (iii) there are no proceedings or actions threatened or pending against any Account Debtor that could reasonably be expected to have a material adverse effect on the Account Debtor's financial condition.

1.1.7. Financial Statements. The consolidated balance sheets, and related statements of income, cash flow and shareholders equity, of Borrowers and Subsidiaries that have been and are hereafter delivered to Lender, are prepared in accordance with GAAP, and fairly present the financial positions and results of operations of Borrowers and Subsidiaries at the dates and for the periods indicated. All projections delivered from time to time to Lender have been prepared in good faith, based on reasonable assumptions in light of the circumstances at such time. Since December 31, 2021, there has been no change in the condition, financial or otherwise, of any Borrower or Subsidiary that could reasonably be expected to have a Material Adverse Effect. No financial statement delivered to Lender at any time contains any untrue statement of a material fact, nor fails to disclose any material fact necessary to make such statement not materially misleading. Each Borrower and Subsidiary is Solvent.

1.1.8. Surety Obligations. No Borrower or Subsidiary is obligated as surety or indemnitor under any bond or other contract that assures payment or performance of any obligation of any Person, except as permitted hereunder.

1.1.9. Taxes. Each Borrower and Subsidiary has filed all material federal, state and local tax returns and other reports that it is required by law to file, and has paid, or made provision for the payment of, all Taxes upon it, its income and its Properties that are due and payable, except to the extent being Properly Contested. The provision for Taxes on the books of each Borrower and Subsidiary is adequate for all years not closed by applicable statutes and for its current Fiscal Year.

1.1.10. Brokers. There are no brokerage commissions, finder's fees or investment banking fees payable in connection with any transactions contemplated by the Loan Documents.

1.1.11. Intellectual Property. Each Borrower and Subsidiary owns or has the lawful right to use all Intellectual Property necessary for the conduct of its business, without conflict with any rights of others. There is no pending or, to any Borrower's knowledge, threatened Intellectual Property Claim with respect to any Borrower, any Subsidiary or any of their Property (including any Intellectual Property).

1.1.12. Governmental Approvals. Each Borrower and Subsidiary has, is in compliance with, and is in good standing with respect to, all Governmental Approvals necessary to conduct its business and to own, lease and operate its Properties. All necessary import, export or

other licenses, permits or certificates for the import or handling of any goods or other Collateral have been procured and are in effect, and Borrowers and Subsidiaries have complied with all foreign and domestic laws with respect to the shipment and importation of any goods or Collateral, except where noncompliance could not reasonably be expected to have a Material Adverse Effect.

1.1.13. Compliance with Laws. Each Borrower and Subsidiary has duly complied, and its Properties and business operations are in compliance, in all material respects with all Applicable Law, except where noncompliance could not reasonably be expected to have a Material Adverse Effect. There have been no citations, notices or orders of material noncompliance issued to any Borrower or Subsidiary under any Applicable Law.

1.1.14. Compliance with Environmental Laws. Except as disclosed on **Schedule 9.1.14** to the Disclosure Letter, no Borrower's or Subsidiary's past or present operations, Real Estate or other Properties are subject to any federal, state or local investigation to determine whether any remedial action is needed to address any environmental pollution, hazardous material or environmental clean-up. No Borrower or Subsidiary has received any Environmental Notice. No Borrower or Subsidiary has any contingent liability with respect to any Environmental Release, environmental pollution or hazardous material on any Real Estate now or previously owned, leased or operated by it.

1.1.15. Burdensome Contracts. No Borrower or Subsidiary is party or subject to any Restrictive Agreement, except as shown on **Schedule 9.1.15** to the Disclosure Letter. No such Restrictive Agreement prohibits the execution, delivery or performance of any Loan Document by an Obligor or would otherwise reasonably be expected to have a Material Adverse Effect.

1.1.16. Litigation. Except as shown on **Schedule 9.1.16** to the Disclosure Letter or described in any SEC filings, there are no proceedings or investigations pending or, to any Borrower's knowledge, threatened against any Borrower or Subsidiary, or any of their businesses, operations, Properties, prospects or conditions, that (a) relate to any Loan Documents or transactions contemplated thereby; or (b) could reasonably be expected to have a Material Adverse Effect if determined adversely to any Borrower or Subsidiary. No Borrower or Subsidiary is in default with respect to any order, injunction or judgment of any Governmental Authority.

1.1.17. No Defaults. No event or circumstance has occurred or exists that constitutes a Default or Event of Default. No Borrower or Subsidiary is in default, and no event or circumstance has occurred or exists that with the passage of time or giving of notice would constitute a default, in the payment of any Borrowed Money.

1.1.18. ERISA. Except as disclosed on **Schedule 9.1.18** to the Disclosure Letter:

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code, and other federal and state laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the knowledge of Borrowers, nothing has occurred which would prevent, or cause the loss of, such qualification. Each Obligor and ERISA Affiliate has met all applicable requirements under the Code, ERISA and the Pension Protection Act of 2006, and no application for a waiver of the minimum funding standards or an extension of any amortization period has been made with respect to any Plan.

(b) There are no pending or, to the knowledge of Borrowers, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted in or could reasonably be expected to have a Material Adverse Effect. No Borrower is or will be using "plan assets" (within the meaning of 29 C.F.R. §2510.3-101, as modified by ERISA Section 3(42) or otherwise) of one or more Benefit Plans with respect to its entrance into, participation in,

administration of and performance of the Loans, Letter of Credits, Commitments or Loan Documents.

(c) No ERISA Event has occurred or is reasonably expected to occur. As of the most recent valuation date for any Pension Plan, the funding target attainment percentage (as defined in Section 430(d)(2) of the Code) is at least 60%, and no Obligor or ERISA Affiliate knows of any reason that such percentage could reasonably be expected to drop below 60%. No Obligor or ERISA Affiliate has incurred any liability to the PBGC except for the payment of premiums, and no premium payments are due and unpaid. No Obligor or ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA. No Pension Plan has been terminated by its plan administrator or the PBGC, and no fact or circumstance exists that could reasonably be expected to cause the PBGC to institute proceedings to terminate a Pension Plan.

(d) With respect to any Foreign Plan, (i) all employer and employee contributions required by law or by the terms of the Foreign Plan have been made, or, if applicable, accrued, in accordance with normal accounting practices; (ii) the fair market value of the assets of each funded Foreign Plan, the liability of each insurer for any Foreign Plan funded through insurance, or the book reserve established for any Foreign Plan, together with any accrued contributions, is sufficient to procure or provide for the accrued benefit obligations with respect to all current and former participants in such Foreign Plan according to the actuarial assumptions and valuations most recently used to account for such obligations in accordance with applicable generally accepted accounting principles; and (iii) it has been registered as required and has been maintained in good standing with applicable regulatory authorities.

1.1.19. Trade Relations. There exists no actual or threatened termination, limitation or modification of any business relationship between any Borrower or Subsidiary and any customer or supplier, or any group of customers or suppliers, who individually or in the aggregate are material to the business of such Borrower or Subsidiary. There exists no condition or circumstance that could reasonably be expected to impair the ability of any Borrower or Subsidiary to conduct its business at any time hereafter in substantially the same manner as conducted on the Closing Date.

1.1.20. Labor Relations. No Borrower or Subsidiary is party to or bound by any collective bargaining agreement, management agreement or consulting agreement. There are no material grievances, disputes or controversies with any union or other organization of any Borrower's or Subsidiary's employees, or, to any Borrower's knowledge, any asserted or threatened strikes, work stoppages or demands for collective bargaining.

1.1.21. Affiliate Payable Practices. No Obligor has made any material change in its historical accounts payable practices with respect to accounts payable owed to its Affiliates, from those in effect on the Closing Date.

1.1.22. Not a Regulated Entity. No Obligor is (a) an "investment company" or "person directly or indirectly controlled by or acting on behalf of an investment company" within the meaning of the Investment Company Act of 1940; or (b) subject to regulation under the Federal Power Act, Interstate Commerce Act, any public utilities code or other Applicable Law regarding its authority to incur Debt.

1.1.23. Margin Stock. No Borrower or Subsidiary is engaged, principally or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No Loan proceeds or Letters of Credit will be used by Borrowers to purchase or carry, or to reduce or refinance any Debt incurred to purchase or carry, any Margin Stock or for any related purpose governed by Regulations T, U or X of the Federal Reserve Board of Governors.

1.1.24. OFAC: Anti-Corruption Laws. No Borrower, Subsidiary, or director, officer, employee, agent, affiliate or representative thereof, is or is owned or controlled by an individual or entity that is currently the target of any Sanction or is located, organized or resident in a

country, territory or jurisdiction that is the subject of a Sanction. Each Borrower and Subsidiary has conducted its business in compliance with all applicable Anti-Corruption Laws.

**1.2. Complete Disclosure.** No Loan Document contains any untrue statement of a material fact, nor fails to disclose any material fact necessary to make the statements contained therein not materially misleading. There is no fact or circumstance that any Obligor has failed to disclose to Lender in writing that could reasonably be expected to have a Material Adverse Effect.

## **Section 10. COVENANTS AND CONTINUING AGREEMENTS**

**1.1. Affirmative Covenants.** As long as the Commitment or any Obligations are outstanding, each Borrower shall, and shall cause each Subsidiary to:

### **1.1.1. Inspections; Appraisals.**

(a) Permit Lender from time to time, not more than three (3) times during any Fiscal Year (which amount shall not be capped following the occurrence and during the continuance of an Event of Default), subject (unless an Event of Default has occurred and is continuing) to reasonable notice and during normal business hours of the Borrower, to visit and inspect the Properties of any Borrower or Subsidiary, inspect, audit and make extracts from any Borrower's or Subsidiary's books and records, and discuss with its officers, employees, agents, advisors and independent accountants such Borrower's or Subsidiary's business, financial condition, assets, prospects and results of operations. Lender shall have no duty to any Obligor to make any inspection, nor to share any results of any inspection, appraisal or report with any Obligor. Borrowers acknowledge that all inspections, appraisals and reports are prepared by Lender for its purposes, and Borrowers shall not be entitled to rely upon them.

(b) Reimburse Lender for all its charges, costs and expenses in connection with examinations and inspections conducted pursuant to **Section 10.1.1** up to one (1) time per Fiscal Year (which amount shall increase to two (2) times per Fiscal Year if a Due Diligence Trigger Period has occurred and is continuing at the time such examination or inspection is requested); provided, that if any examination or inspection is requested after the occurrence and during the continuance of an Event of Default, all charges, costs and expenses relating thereto shall be reimbursed by Borrowers without regard to such limits. Borrowers shall pay Lender's then standard charges for examination activities, including charges for its internal examination groups, as well as the charges of any third party used for such purposes. No Borrowing Base calculation shall include Collateral acquired in a Permitted Acquisition or otherwise outside the Ordinary Course of Business until completion of applicable field examinations (which shall not be included in the limits provided above) satisfactory to Lender.

**1.1.2. Financial and Other Information.** Keep adequate records and books of account with respect to its business activities, in which proper entries are made in accordance with GAAP reflecting all financial transactions; and furnish to Lender:

(a) as soon as available, and in any event within 90 days after the close of each Fiscal Year, balance sheets as of the end of such Fiscal Year and the related statements of income, cash flow and shareholders equity for such Fiscal Year, on consolidated basis for Borrowers and Subsidiaries, which consolidated statements shall be audited and certified (without a "going concern" qualification or similar notation other than as a result of debt maturity within one year) by a firm of independent certified public accountants of recognized standing selected by Borrowers and reasonably acceptable to Lender, and shall set forth in comparative form corresponding figures for the preceding Fiscal Year and other information acceptable to Lender;

(b) as soon as available, and

(i) if a Financial Reporting Trigger Period is not in effect during the applicable Fiscal Quarter, in any event within 45 days after the end of each



Fiscal Quarter, unaudited balance sheets as of the end of such Fiscal Quarter and the related statements of income and cash flow for such month and for the portion of the Fiscal Year then elapsed, on consolidated basis for Borrowers and Subsidiaries, setting forth in comparative form corresponding figures for the preceding Fiscal Year and certified by the chief financial officer of Borrower Agent as prepared in accordance with GAAP and fairly presenting the financial position and results of operations for such month and period, subject to normal year-end adjustments and the absence of footnotes; and

(ii) if a Financial Reporting Trigger Period is in effect at any time during the applicable month, in any event within 30 days after the end of each month, unaudited balance sheets as of the end of such month and for the portion of the Fiscal Year then elapsed, on consolidated basis for Borrowers and Subsidiaries, setting forth in comparative form corresponding figures for the preceding Fiscal Year and certified by the chief financial officer of Borrower Agent as prepared in accordance with GAAP and fairly presenting the financial position and results of operations for such month and period, subject to normal year-end adjustments and the absence of footnotes;

(c) concurrently with delivery of financial statements under clauses (a) and (b) above, or more frequently if requested by Lender at any time an Event of Default has occurred and is continuing and Loans are outstanding, a Compliance Certificate executed by the chief financial officer of Borrower Agent;

(d) concurrently with delivery of financial statements under clause (a) above, copies of all management letters and other material reports, in each case which demonstrate an issue with Borrowers' internal controls, submitted to Borrowers by their accountants in connection with such financial statements;

(e) not later than 60 days after the end of each Fiscal Year, projections of Borrowers' consolidated balance sheets, results of operations, cash flow and Availability for the next Fiscal Year, Fiscal Quarter by Fiscal Quarter;

(f) together with delivery of each Borrowing Base Report provided on a monthly or quarterly basis, listing of each Borrower's trade payables, specifying the trade creditor and balance due, and a detailed trade payable aging, all in form reasonably satisfactory to Lender;

(g) promptly after the sending or filing thereof, copies of any proxy statements, financial statements or reports that any Borrower has made generally available to its shareholders; copies of any regular, periodic and special reports or registration statements or prospectuses that any Borrower files with the Securities and Exchange Commission or any other Governmental Authority, or any securities exchange; and copies of any press releases or other statements made available by a Borrower to the public concerning material changes to or developments in the business of such Borrower;

(h) promptly after the sending or filing thereof, copies of any annual report to be filed in connection with each Plan or Foreign Plan; and

(i) such other reports and information (financial or otherwise) as Lender may request from time to time in connection with any Collateral or any Borrower's, Subsidiary's or other Obligor's financial condition, ownership or business.

Documents required to be delivered pursuant to **Section 10.1.2(a)** and **Section 10.1.2(b)** may be delivered electronically and if so delivered, shall be deemed to have been delivered to, and received by, Lender on the date (x) on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the Internet, (y) on which such documents are posted on Borrower's behalf on Intralinks or another website, if any, to

which Lender has access (whether a commercial or governmental third-party website or whether sponsored by Lender) or (z) on which Borrower has filed such reports with the SEC via the EDGAR filing system.

1.1.3. Notices. Notify Lender in writing, promptly after a Borrower's knowledge thereof, of any of the following affecting an Obligor: (a) threat or commencement of any proceeding or investigation, whether or not covered by insurance, if an adverse determination could reasonably be expected to have a Material Adverse Effect; (b) pending or threatened labor dispute, strike, walkout or expiration of a material labor contract; (c) default or dispute under a Material Contract which may negatively impact the collectability of any Account in excess of \$1,000,000 in the aggregate; (d) existence of a Default or Event of Default; (e) judgment against an Obligor, which is not covered by insurance and for which the applicable insurer has not denied coverage in writing, in an amount exceeding \$2,500,000; (f) assertion of any Intellectual Property Claim, if an adverse resolution could reasonably be expected to have a Material Adverse Effect; (g) violation or asserted violation of any Applicable Law (including ERISA, OSHA, FLSA or any Environmental Law), if an adverse resolution could have a Material Adverse Effect; (h) an Environmental Release by an Obligor or on any Property owned, leased or occupied by an Obligor; or receipt of an Environmental Notice; (i) occurrence of an ERISA Event; (j) material change in any accounting or financial reporting practice that affects calculation of the Borrowing Base, any Reserve or any covenant hereunder; (k) change in any information contained in a Beneficial Ownership Certificate delivered to Lender; (l) discharge of or withdrawal or resignation by Borrowers' independent accountants; or (m) opening or move of Borrower's headquarters or any location where books and records are maintained.

1.1.4. Landlord and Storage Agreements. Upon request, provide Lender with copies of all existing agreements, and promptly after execution thereof provide Lender with copies of all future agreements, between an Obligor and any landlord, warehouseman, processor, shipper, bailee or other Person that owns any premises at which any Collateral which has a book value in excess of \$5,000,000 may be kept in the United States.

1.1.5. Compliance with Laws. Comply with all Applicable Laws, including ERISA, Environmental Laws, FLSA, OSHA, Anti-Terrorism Laws, and laws regarding collection and payment of Taxes, and maintain all Governmental Approvals necessary to the ownership of its Properties or conduct of its business, unless failure to comply (other than failure to comply with Anti-Terrorism Laws) or maintain could not reasonably be expected to have a Material Adverse Effect. Each Borrower and Subsidiary shall maintain policies and procedures designed to promote and achieve compliance with applicable Anti-Corruption Laws and Sanctions. Without limiting the generality of the foregoing, if any Environmental Release occurs at or on any Properties of any Borrower or Subsidiary, it shall act promptly and diligently to investigate and report to Lender and all appropriate Governmental Authorities the extent of, and to make appropriate remedial action to eliminate, such Environmental Release, whether or not directed to do so by any Governmental Authority.

1.1.6. Taxes. Pay and discharge all federal and material state and local Taxes prior to the date on which they become delinquent or penalties attach, unless such Taxes are being Properly Contested.

1.1.7. Insurance. In addition to the insurance required hereunder with respect to Collateral, maintain insurance in form and substance and with insurers (with a Best rating of at least A+, unless otherwise approved by Lender in its discretion) satisfactory to Lender, (a) with respect to the Properties and business of Borrowers and Subsidiaries of such type (including product liability, workers' compensation, larceny, embezzlement, or other criminal misappropriation insurance), in such amounts, and with such coverages and deductibles as are customary for companies similarly situated; and (b) business interruption insurance in an amount not less than \$5,000,000, in each case with deductibles, endorsements and assignments satisfactory to Lender.

1.1.8. Licenses. Keep each material License affecting any Collateral of Borrowers and Subsidiaries in full force and effect, except as could not reasonably be expected to have a Material Adverse Effect.

1.1.9. Future Subsidiaries. Promptly notify Lender upon any Person becoming a Subsidiary (which is not a Non-Material Subsidiary) and deliver any know-your-customer or other background diligence information requested by Lender with respect to such Subsidiary; and (provided it is not a Foreign Subsidiary) cause it to guaranty the Obligations in a manner satisfactory to Lender, and to execute and deliver such documents, instruments and agreements and to take such other actions as Lender shall require to evidence and perfect a Lien in favor of Lender on all assets of such Person, including delivery of legal opinions, in form and substance satisfactory to Lender.

1.1.10. Depository Bank. Commencing on January 17, 2022, and at all times thereafter, so long as Borrowers' domestic unrestricted cash and Cash Equivalents are in excess of \$50,000,000, maintain a balance of at least \$20,000,000 in deposit accounts or securities accounts held at Bank of America, N.A. (or any of its Affiliates) and subject to Section 6.3, a Deposit Account Control Agreement, or a Security Account Control Agreement, as applicable, in favor of Lender.

**1.2. Negative Covenants**. As long as the Commitment or any Obligations are outstanding, each Borrower shall not, and shall cause each Subsidiary not to:

1.1.1. Permitted Debt. Create, incur, guarantee or suffer to exist any Debt, except:

- (a) the Obligations;
- (b) Subordinated Debt;
- (c) Permitted Purchase Money Debt;
- (d) existing Borrowed Money not satisfied with the initial Loan proceeds;
- (e) Bank Product Debt incurred in the Ordinary Course of Business;
- (f) Debt that is in existence when a Person becomes a Subsidiary or that is secured by an asset when acquired by a Borrower or Subsidiary, as long as such Debt was not incurred in contemplation of such Person becoming a Subsidiary or such acquisition, and does not exceed \$5,000,000 in the aggregate at any time;
- (g) Permitted Contingent Obligations;
- (h) Refinancing Debt as long as each Refinancing Condition is satisfied;
- (i) earnouts, purchase price adjustments, profit sharing arrangements, deferred purchase money amounts and similar payment obligations or continuing obligations of any nature of such Person arising out of Permitted Acquisitions;
- (j) Debt with respect to performance bonds, appeal bonds, customs and duty bonds, and other similar obligations;
- (k) hedging obligations incurred in the Ordinary Course of Business and not for speculative purposes, credit card indebtedness, letters of credit, and other Debt in respect of bank services provided by financial institutions other than Lender;
- (l) unsecured indebtedness to trade creditors incurred in the Ordinary Course of Business;

- (m) Debt incurred as a result of endorsing negotiable instruments received in the Ordinary Course of Business; and
- (n) other unsecured Debt up to \$5,000,000 in the aggregate at any time.

1.1.2. Permitted Liens. Create or suffer to exist any Lien upon any of its Property, except the following (collectively, “Permitted Liens”):

- (a) Liens in favor of Lender and Secured Parties;
- (b) Purchase Money Liens securing Permitted Purchase Money Debt;
- (c) Liens for Taxes not yet delinquent or being Properly Contested;
- (d) statutory Liens (other than Liens for Taxes or imposed under ERISA) arising in the Ordinary Course of Business, but only if (i) payment of the obligations secured thereby is not yet delinquent or is being Properly Contested, and (ii) such Liens do not materially impair the value or use of the Property or materially impair operation of the business of any Borrower or Subsidiary;
- (e) Liens incurred or deposits made in the Ordinary Course of Business to secure the performance of government tenders, bids, contracts, statutory obligations and other similar obligations, as long as such Liens are at all times junior to Lender’s Liens and are required or provided by law;
- (f) Liens arising in the Ordinary Course of Business and subject to Lien Waivers;
- (g) Liens arising by virtue of a judgment or judicial order against any Borrower or Subsidiary, or any Property of a Borrower or Subsidiary, as long as such Liens are (i) in existence for less than 20 consecutive days or being Properly Contested, and (ii) at all times junior to Lender’s Liens;
- (h) easements, rights-of-way, restrictions, covenants or other agreements of record, and other similar charges or encumbrances on Real Estate, that do not secure any monetary obligation and do not interfere with the Ordinary Course of Business;
- (i) normal and customary rights of setoff upon deposits in favor of depository institutions, and Liens of a collecting bank on Payment Items in the course of collection;
- (j) Liens on assets (other than Accounts) acquired in a Permitted Acquisition, securing Debt permitted by **Section 10.2.1(f)**;
- (k) Liens in cash, Cash Equivalents and other investment securities securing obligations described in **Section 10.2.1(k)**;
- (l) Deposits to secure customs duties and the performance of bids, tenders, trade contracts, government contracts, statutory obligations, surety, stay, customs and appeal bonds, performance and other similar obligations, in each case provided in the Ordinary Course of Business and not in connection with indebtedness for money borrowed;
- (m) non-exclusive licenses of Intellectual Property granted to third parties in the Ordinary Course of Business and Permitted Exclusive Licenses;
- (n) deposits with landlords as security in connection with real property leases;
- (o) precautionary UCC filings in connection with operating leases;

(p) escrows and licenses contemplated in or related to Permitted Acquisitions;

(q) Liens securing Subordinated Debt so long as such Lien is subject to a subordination agreement in form and substance satisfactory to Lender; and

(r) existing Liens shown on **Schedule 10.2.2** to the Disclosure Letter.

1.1.3. Reserved.

1.1.4. Distributions; Upstream Payments. Declare or make any Distributions, except Upstream Payments and Permitted Distributions; or create or suffer to exist any encumbrance or restriction on the ability of a Subsidiary to make an Upstream Payment, except for restrictions under the Loan Documents, under Applicable Law or in effect on the Closing Date as shown on **Schedule 9.1.15** to the Disclosure Letter.

1.1.5. Investments. Make any Restricted Investment.

1.1.6. Disposition of Assets. Make any Disposition, except a Permitted Disposition or transfer of Collateral to any Loan Party.

1.1.7. Restrictions on Payment of Certain Debt. At any time the Payment Conditions are not satisfied, make any payments (whether voluntary or mandatory, or a prepayment, redemption, retirement, defeasance or acquisition) with respect to any (a) Subordinated Debt, except regularly scheduled payments of principal, interest and fees, but only to the extent permitted under any subordination agreement relating to such Debt; (b) Borrowed Money (other than the Obligations) prior to its due date under the agreements evidencing such Debt as in effect on the Closing Date (or as amended thereafter with the consent of Lender); or (c) earnouts, purchase price adjustments, profit sharing arrangements, deferred purchase money amounts and similar payment obligations or continuing obligations of any nature of such Person arising out of Permitted Acquisitions. The restrictions on prepayment of Debt set forth in clause (b) of this **Section 10.2.7** shall not apply to the prepayment by Obligor and their Subsidiaries of outstanding balances on credit cards issued to the Obligor or their Subsidiaries.

1.1.8. Fundamental Changes. Change its name or conduct business under any fictitious name; change its tax, charter or other organizational identification number; change its form or state of organization; liquidate, wind up its affairs or dissolve itself; consummate (or unwind) a Division; effect a Disposition of substantially all its assets; or merge, combine or consolidate with any Person; in each case, whether in a single transaction or series of related transactions, except for (a) mergers or consolidations of a wholly-owned Subsidiary with another wholly-owned Subsidiary when no Event of Default has occurred and is continuing, or into a Borrower; or (b) Permitted Acquisitions.

1.1.9. Organic Documents. Amend, modify or otherwise change any of its Organic Documents, except in any respect not materially adverse to Lender's interests.

1.1.10. Tax Consolidation. File or consent to the filing of any consolidated income tax return with any Person other than Borrowers and Subsidiaries.

1.1.11. Accounting Changes. Make any material change in accounting treatment or reporting practices, except in accordance with **Section 1.2** or as required by GAAP; or change its Fiscal Year.

1.1.12. Restrictive Agreements. Become a party to any Restrictive Agreement, except a Restrictive Agreement (a) in effect on the Closing Date; (b) relating to secured Debt permitted hereunder or any Liens permitted pursuant to **Section 10.2.2**, as long as the restrictions

apply only to collateral for such Debt or the property encumbered by such Liens, as applicable; or (c) constituting customary restrictions on assignment in leases and other contracts.

1.1.13. Swaps. Enter into any Swap, except to hedge risks arising in the Ordinary Course of Business and not for speculative purposes.

1.1.14. Conduct of Business. Engage in any business, other than its business as conducted on the Closing Date and any activities complimentary or incidental thereto.

1.1.15. Affiliate Transactions. Enter into or be party to any transaction with an Affiliate, except (a) transactions expressly permitted by the Loan Documents; (b) payment of reasonable compensation to officers and employees for services actually rendered, and payment of customary directors' fees and indemnities; (c) transactions solely among Borrowers; (d) transactions with Affiliates consummated prior to the Closing Date, as shown on **Schedule 10.2.17** to the Disclosure Letter; and (e) transactions with Affiliates in the Ordinary Course of Business, upon fair and reasonable terms no less favorable than would be obtained in a comparable arm's-length transaction with a non-Affiliate.

1.1.16. Plans. Become party to any Multiemployer Plan or Foreign Plan, other than any in existence on the Closing Date.

1.1.17. Amendments to Subordinated Debt. Amend, supplement or otherwise modify any document, instrument or agreement relating to any Subordinated Debt, except as permitted under the applicable subordination agreement.

**1.3. Financial Covenants**. As long as the Commitment or any Obligations are outstanding, Borrowers shall:

1.1.1. Minimum Liquidity. Commencing on the Closing Date and continuing until the last day of the Fiscal Quarter immediately preceding the Financial Covenant Changeover Date, maintain Liquidity at all times, of at least \$20,000,000.

1.1.2. Fixed Charge Coverage Ratio. For the period commencing on the Financial Covenant Changeover Date, and each Fiscal Quarter thereafter, maintain a Fixed Charge Coverage Ratio for each 12 month period of at least 1.00 to 1.00 while a Financial Covenant Trigger Period is in effect, measured quarterly as of the last day of each Fiscal Quarter for the most recent period for which financial statements were delivered hereunder prior to the Financial Covenant Trigger Period and each period ending thereafter until the Financial Covenant Trigger Period is no longer in effect.

## **Section 11. EVENTS OF DEFAULT; REMEDIES ON DEFAULT**

**1.1. Events of Default**. Each of the following shall be an "Event of Default" if it occurs for any reason whatsoever, whether voluntary or involuntary, by operation of law or otherwise:

(a) Any Borrower fails to pay its Obligations when due (whether at stated maturity, on demand, upon acceleration or otherwise);

(b) Any representation, warranty or other written statement of an Obligor made in connection with any Loan Documents or transactions contemplated thereby is incorrect or misleading in any material respect when given;

(c) A Borrower breaches or fail to perform any covenant contained in **Section 7.2, 7.4, 7.6, 8.1, 8.2.4, 8.2.5, 8.6.2, 10.1.1, 10.1.2, 10.2 or 10.3**;

(d) An Obligor breaches or fails to perform any other covenant contained in any Loan Documents, and such breach or failure is not cured within 30 days after a Senior Officer of

such Obligor has knowledge thereof or receives notice thereof from Lender, whichever is sooner; provided, however, that, if such breach or failure cannot by its nature be cured within thirty (30) day period or cannot after diligent attempts by Borrower be cured within such thirty (30) day period, and such default is to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such breach or failure, and within such reasonable time period the failure to cure such default shall not be deemed an Event of Default;

(e) A Guarantor repudiates, revokes or attempts to revoke its Guaranty or an Obligor or third party denies or contests the validity or enforceability of any Loan Documents or Obligations, or the perfection or priority of any Lien granted to Lender; it is unlawful for an Obligor to perform any of its obligations under a Loan Document; or any Loan Document ceases to be in full force or effect for any reason (other than a waiver or release by Lender);

(f) Any breach or default of an Obligor occurs under (i) any Swap; or (ii) any instrument or agreement to which it is a party or by which it or any of its Properties is bound, relating to any Debt (other than the Obligations) in excess of \$4,000,000 if the maturity of or any payment with respect to such Debt could be accelerated or demanded due to such breach (whether or not any applicable grace period or notice has been satisfied);

(g) Any final, nonappealable judgment or order for the payment of money is entered against an Obligor in an amount that exceeds, individually or cumulatively with all unsatisfied judgments or orders against all Obligors, \$4,000,000 (net of insurance coverage therefor that has not been denied by the insurer);

(h) A loss, theft, damage or destruction occurs with respect to any Collateral if the amount not covered by insurance exceeds \$5,000,000;

(i) An Obligor is enjoined, restrained or in any way prevented by any Governmental Authority from conducting any material part of its business; an Obligor suffers the loss, revocation or termination of any material license, permit, lease or agreement necessary to its business; there is a cessation of any material part of an Obligor's business for a material period of time; any material Collateral or Property of an Obligor is taken or impaired through condemnation; an Obligor agrees to or commences any liquidation, dissolution or winding up of its affairs; or an Obligor is not Solvent;

(j) An Insolvency Proceeding is commenced by an Obligor; an Obligor makes an offer of settlement, extension or composition to its unsecured creditors generally; a trustee is appointed to take possession of any substantial Property of or to operate any of the business of an Obligor; or an Insolvency Proceeding is commenced against an Obligor and: the Obligor consents to institution of the proceeding, the petition commencing the proceeding is not timely contested by the Obligor, the petition is not dismissed within 30 days after filing, or an order for relief is entered in the proceeding;

(k) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan that has resulted or could reasonably be expected to result in liability of an Obligor to a Pension Plan, Multiemployer Plan or PBGC, or that constitutes grounds for appointment of a trustee for or termination by the PBGC of any Pension Plan or Multiemployer Plan; an Obligor or ERISA Affiliate fails to pay when due any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan; or any event similar to the foregoing occurs or exists with respect to a Foreign Plan;

(l) An Obligor or any of its Senior Officers is criminally indicted or convicted for (i) a felony committed in the conduct of the Obligor's business, or (ii) violating any state or federal law (including the Controlled Substances Act, Money Laundering Control Act of 1986 and Illegal Exportation of War Materials Act) that could lead to forfeiture of any material Property or any Collateral; or

(m) A Change of Control occurs.

**1.2. Remedies upon Default.** If an Event of Default described in **Section 11.1(j)** has occurred and is continuing with respect to any Borrower, then to the extent permitted by Applicable Law, all Obligations shall become automatically due and payable and the Commitment shall terminate, without any action by Lender or notice of any kind. In addition, or if any other Event of Default has occurred and is continuing, Lender may in its discretion do any one or more of the following from time to time:

(a) declare any Obligations immediately due and payable, whereupon they shall be due and payable without diligence, presentment, demand, protest or notice of any kind, all of which are hereby waived by Borrowers to the fullest extent permitted by law;

(b) terminate, reduce or condition the Commitment or adjust the Borrowing Base;

(c) require Obligors to Cash Collateralize LC Obligations, Bank Product Debt and other Obligations that are contingent or not yet due and payable; and

(d) exercise any other rights or remedies afforded under any agreement, by law, at equity or otherwise, including the rights and remedies of a secured party under the UCC. Such rights and remedies include the rights to (i) take possession of any Collateral; (ii) require Borrowers to assemble Collateral, at Borrowers' expense, and make it available to Lender at a place designated by Lender; (iii) enter any premises where Collateral is located and store Collateral on such premises until sold (and if the premises are owned or leased by a Borrower, Borrowers agree not to charge for such storage); and (iv) sell or otherwise dispose of any Collateral in its then condition, or after any further manufacturing or processing thereof, at public or private sale, with such notice as may be required by Applicable Law, in lots or in bulk, at such locations, all as Lender, in its discretion, deems advisable. Each Borrower agrees that 10 days' notice of any proposed sale or other disposition of Collateral by Lender shall be reasonable, and that any sale conducted on the internet or to a licensor of Intellectual Property shall be commercially reasonable. Lender may conduct sales on any Obligor's premises, without charge, and any sales may be adjourned from time to time in accordance with Applicable Law. Lender shall have the right to sell, lease or otherwise dispose of any Collateral for cash, credit or any combination thereof, and Lender may purchase any Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of the purchase price, may set off the amount of such price against the Obligations.

**1.3. License.** Lender is hereby granted an irrevocable, non-exclusive license or other right to use, license or sub-license (without payment of royalty or other compensation to any Person) any or all Intellectual Property of Borrowers, computer hardware and software, trade secrets, brochures, customer lists, promotional and advertising materials, labels, packaging materials and other Property, in advertising for sale, marketing, selling, collecting, completing manufacture of, or otherwise exercising any rights or remedies with respect to, any Collateral. Each Borrower's rights and interests under Intellectual Property shall inure to Lender's benefit.

**1.4. Setoff.** At any time an Event of Default has occurred and is continuing, Lender and its Affiliates are authorized, to the fullest extent permitted by Applicable Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by Lender or such Affiliate to or for the credit or the account of an Obligor against its Obligations, whether or not Lender or such Affiliate shall have made any demand under this Agreement or any other Loan Document and although such Obligations may be contingent or unmatured or are owed to a branch or office of Lender or such Affiliate different from the branch or office holding such deposit or obligated on such indebtedness. The rights of Lender and each such Affiliate under this Section are in addition to other rights and remedies (including other rights of setoff) that such Person may have.

**1.5. Remedies Cumulative; No Waiver**



1.1.1. Cumulative Rights. All agreements, warranties, guaranties, indemnities and other undertakings of Obligors under the Loan Documents are cumulative and not in derogation of each other. The rights and remedies of Lender under the Loan Documents are cumulative, may be exercised at any time and from time to time, concurrently or in any order, and are not exclusive of any other rights or remedies available by agreement, by law, at equity or otherwise. All such rights and remedies shall continue in full force and effect until Full Payment of all Obligations.

1.1.2. Waivers. No waiver or course of dealing shall be established by (a) the failure or delay of Lender to require strict performance by any Obligor under any Loan Document, or to exercise any rights or remedies with respect to Collateral or otherwise; (b) the making of any Loan or issuance of any Letter of Credit when an Event of Default has occurred and is continuing or other failure to satisfy any conditions precedent; or (c) acceptance by Lender of any payment or performance by an Obligor under any Loan Documents in a manner other than that specified therein. Any failure to satisfy a financial covenant on a measurement date shall not be cured or remedied by satisfaction of such covenant on a subsequent date.

## **Section 12. MISCELLANEOUS**

### **1.1. Amendments and Waivers**

1.1.1. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Borrowers, Lender, and their respective successors and assigns, except that no Obligor may assign or delegate its rights or obligations under any Loan Documents. So long as no Event of Default has occurred and is continuing, Lender may not assign its interests, rights or obligations under any Loan Document to any Person who is (a) a direct competitor of Borrower, whether as an operating company or direct or indirect parent with voting control over such operating company, (b) an investor specializing in distressed debt, or (c) a Foreign Lender.

1.1.2. Amendments and Other Modifications. No Modification of a Loan Document shall be effective without the prior written agreement of Lender and each Obligor party to such Loan Document; provided, that if Real Estate secures any Obligations, no Modification of a Loan Document shall add, increase, renew or extend any credit line hereunder until completion of flood diligence and documentation as required by Flood Laws and satisfactory to Lender; and provided further, that only the consent of the parties to a Bank Product agreement shall be required for any modification of such agreement. Notwithstanding anything in any Loan Document to the contrary, Lender may make or adopt Conforming Changes from time to time and any amendment implementing such changes will become effective without further action or consent of any other party; provided, that Lender shall post or otherwise provide each such amendment to Borrowers reasonably promptly after it becomes effective. Any waiver or consent granted by Lender shall be effective only if in writing, and only for the matter specified.

**1.2. Indemnity. EACH BORROWER SHALL INDEMNIFY AND HOLD HARMLESS THE INDEMNITEES AGAINST ANY CLAIMS THAT MAY BE INCURRED BY OR ASSERTED AGAINST ANY INDEMNITEE, INCLUDING CLAIMS ASSERTED BY ANY OBLIGOR OR OTHER PERSON OR ARISING FROM THE NEGLIGENCE OF AN INDEMNITEE.** In no event shall any party to a Loan Document have any obligation thereunder to indemnify or hold harmless an Indemnitee with respect to a Claim that is determined in a final, non-appealable judgment by a court of competent jurisdiction to result from the gross negligence or willful misconduct of such Indemnitee. This Section 12.2 shall not apply with respect to Taxes other than any Taxes that represent losses, claims, damages, etc. arising from any non-Tax claim. Without limiting the provisions of Section 5.7.1, this Section 12.2 shall not apply with respect to Taxes other than any Taxes that represent losses, claims, damages, etc. arising from any non-Tax claim.

### **1.3. Notices and Communications**

1.1.1. Notice Address. Subject to **Section 12.3.2**, all Communications by or to a party hereto shall be in writing and shall be given to any Borrower, at Borrower Agent's address

shown on the signature pages hereof, and to any other Person at its address shown on the signature pages hereof, or at such other address as a party may hereafter specify by notice in accordance with this **Section 12.3**. In addition, a Communication from Lender to Borrowers may, to the extent permitted by law, be delivered electronically (i) by transmitting the Communication to the electronic address specified by Borrower Agent to Lender in writing from time to time, or (ii) by posting the Communication on a website and sending Borrower Agent notice (electronically or otherwise) that the Communication has been posted and providing instructions (at such time or prior to delivery of such Communication) for viewing it. Each Communication shall be effective only (a) if given by facsimile transmission, when transmitted to the applicable facsimile number, if confirmation of receipt is received; (b) if given by mail, three Business Days after deposit in the U.S. mail, with first-class postage pre-paid, addressed to the applicable address; (c) if given by personal delivery, when duly delivered to the notice address with receipt acknowledged; or (d) if provided electronically by Lender to Borrowers, when the Communication (or notice advising of its posting to a website) is sent to Borrower Agent's electronic address. Notwithstanding the foregoing, no notice to Lender pursuant to **Section 2.1.3, 2.2, 3.1.2** or **4.1.1** shall be effective until actually received by the individual to whose attention at Lender such notice is required to be sent. Any written Communication not sent in conformity with the foregoing provisions shall nevertheless be effective on the date actually received by the noticed party. Any notice received by Borrower Agent shall be deemed received by all Borrowers.

1.1.2. **Communications.** Electronic and telephonic Communications (including e-mail, messaging, voice mail and websites) may be used only in a manner acceptable to Lender. Lender makes no assurance as to the privacy or security of electronic or telephonic Communications. E-mail and voice mail shall not be effective notices under the Loan Documents.

1.1.3. **Platform.** Borrower Materials shall be delivered by Borrowers pursuant to procedures approved by Lender, including electronic delivery (if requested by Lender) to an electronic system maintained by it ("**Platform**"). Borrowers shall notify Lender of each posting of Borrower Materials on the Platform and the materials shall be deemed received by Lender only upon its receipt of such notice. The Platform is provided "as is" and "as available." Lender does not warrant the adequacy or functioning of the Platform, and expressly disclaims liability for any issues involving the Platform. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS, OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY LENDER WITH RESPECT TO THE PLATFORM. No Indemnitee shall have any liability to Obligor or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) relating to use by any Person of the Platform, including any unintended recipient, nor for delivery of any information via the Platform, internet, e-mail, or any other electronic platform or messaging system.

1.1.4. **Non-Conforming Communications.** Lender may rely on any Communication purportedly given by or on behalf of an Obligor even if it was not made in a manner specified herein, incomplete or not confirmed, or if the terms thereof, as understood by the recipient, varied from an earlier Communication or later confirmation. Each Borrower shall indemnify and hold harmless each Indemnitee from any liabilities, losses, costs and expenses arising from any electronic or telephonic Communication purportedly given by or on behalf of any Obligor.

1.1.5. **Reliance on Communications.** No Secured Party shall be responsible for or have any duty to ascertain or inquire into the sufficiency, validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document (including, for the avoidance of doubt, in connection with an Electronic Signature transmitted by telecopy, emailed .pdf or other electronic means). Secured Parties may rely on, and shall incur no liability under or in respect of any Loan Document by acting on, any Communication (which may be a fax, electronic message, internet or intranet website posting, or other distribution, or signed by an Electronic Signature) or any statement made to it orally or by telephone and believed by it to be genuine and signed or sent or otherwise authenticated (whether or not such Person in fact meets the requirements set forth in the Loan Documents for being the maker thereof). Lender shall be entitled

to rely on the e-mail addresses and telephone numbers provided by Obligor and their authorized representatives. Each Obligor hereby waives (a) any argument, defense or right to contest the legal effect, validity or enforceability of any Loan Document or other Communication based solely on the lack of a paper original copy thereof, and (b) waives any claim against any Indemnitee for liabilities arising from its reliance on or use of Electronic Signatures, including liabilities relating to an Obligor's failure to use a security measure in connection with execution, delivery or transmission of an Electronic Signature.

**1.4. Performance of Borrowers' Obligations.** Lender may, in its discretion at any time and from time to time, at Borrowers' expense, pay any amount or do any act required of a Borrower under any Loan Documents or otherwise lawfully requested by Lender to (a) enforce any Loan Documents or collect any Obligations; (b) protect, insure, maintain or realize upon any Collateral; or (c) defend or maintain the validity or priority of Lender's Liens in any Collateral, including any payment of a judgment, insurance premium, warehouse charge, finishing or processing charge, or landlord claim, or any discharge of a Lien. All payments, costs and expenses (including Extraordinary Expenses) of Lender under this Section shall be reimbursed by Borrowers, **on demand**, with interest from the date incurred until paid in full, at the Default Rate applicable to Base Rate Loans. Any payment made or action taken by Lender under this Section shall be without prejudice to any right to assert an Event of Default or to exercise any other rights or remedies under the Loan Documents.

**1.5. Credit Inquiries.** Lender may (but shall have no obligation) to respond to usual and customary credit inquiries from third parties concerning any Obligor or Subsidiary.

**1.6. Severability.** Wherever possible, each provision of the Loan Documents shall be interpreted in such manner as to be valid under Applicable Law. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of the Loan Documents shall remain in full force and effect.

**1.7. Cumulative Effect; Conflict of Terms.** The provisions of the Loan Documents are cumulative. The parties acknowledge that the Loan Documents may use several limitations or measurements to regulate similar matters, and they agree that these are cumulative and that each must be performed as provided. Except as otherwise provided in another Loan Document (by specific reference to the applicable provision of this Agreement), if any provision contained herein is in direct conflict with any provision in another Loan Document, the provision herein shall govern and control.

**1.8. Execution; Electronic Records.** Any Loan Document, including any required to be in writing, may (if agreed by Lender) be in the form of an Electronic Record and may be executed using Electronic Signatures. An Electronic Signature on or associated with any Communication shall be valid and binding on each Obligor and other party thereto to the same extent as a manual, original signature, and any Communication entered into by Electronic Signature shall constitute the legal, valid and binding obligation of each party, enforceable to the same extent as if a manually executed original signature were delivered. A Communication may be executed in as many counterparts as necessary or convenient, including both paper and electronic counterparts, but all such counterparts are one and the same Communication. The parties may use or accept manually signed paper Communications converted into electronic form (such as scanned into pdf), or electronically signed Communications converted into other formats, for transmission, delivery and/or retention. Lender may, at its option, create one or more copies of a Communication in the form of an imaged Electronic Record ("Electronic Copy"), which shall be deemed created in the ordinary course of Lender's business, and may destroy the original paper document. Any Communication in the form of an Electronic Record, including an Electronic Copy, shall be considered an original for all purposes, and shall have the same legal effect, validity and enforceability as a paper record. Notwithstanding anything herein, (a) Lender is under no obligation to accept an Electronic Signature in any form or format unless expressly agreed by it pursuant to procedures approved by it; (b) Lender is entitled to rely on any Electronic Signature purportedly given by or on behalf of an Obligor without further verification and regardless of the appearance or form of such Electronic Signature; and (c) upon

request by Lender, any Loan Document using an Electronic Signature shall be promptly followed by a manually executed, original counterpart.

**1.9. Entire Agreement.** This Agreement shall be effective when executed by Lender and when Lender has received counterparts hereof that, taken together, bear the signature of each other party hereto. Time is of the essence with respect to all Loan Documents and Obligations. The Loan Documents constitute the entire agreement, and supersede all prior understandings and agreements, among the parties relating to the subject matter thereof.

**1.10. No Control; No Advisory or Fiduciary Responsibility.** Nothing in any Loan Document and no action of Lender pursuant to any Loan Document shall be deemed to constitute control of any Obligor by Lender. In connection with all aspects of each transaction contemplated by any Loan Document, Borrowers acknowledge and agree that (a)(i) this credit facility and all related services by Lender or its Affiliates are arm's-length commercial transactions between Borrowers and such Person; (ii) Borrowers have consulted their own legal, accounting, regulatory, tax and other advisors to the extent they have deemed appropriate; and (iii) Borrowers are capable of evaluating, and understand and accept, the terms, risks and conditions of the transactions contemplated by the Loan Documents; (b) each of Lender and its Affiliates is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for Borrowers, their Affiliates or any other Person, and has no obligation with respect to the transactions contemplated by the Loan Documents except as expressly set forth therein; and (c) Lender and its Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of Borrowers and their Affiliates, and have no obligation to disclose any of such interests to Borrowers or their Affiliates. To the fullest extent permitted by Applicable Law, each Borrower hereby waives and releases any claims that it may have against Lender and its Affiliates with respect to any breach of agency or fiduciary duty in connection with any transaction contemplated by a Loan Document.

**1.11. Confidentiality.** Lender agrees to maintain the confidentiality of all Information (as defined below), except that Information may be disclosed (a) to its Affiliates, and its and their partners, directors, officers, employees and Lender Professionals (provided they are informed of the confidential nature of the Information and instructed to keep it confidential); (b) to the extent requested by any governmental, regulatory or self-regulatory authority purporting to have jurisdiction over it or its Affiliates; (c) to the extent required by Applicable Law or by any subpoena or other legal process; (d) to any other party hereto; (e) in connection with any action or proceeding relating to any Loan Documents or Obligations; (f) subject to an agreement containing provisions substantially the same as this Section, to any potential or actual transferee of any interest in a Loan Document or any actual or prospective party (or its advisors) to any Bank Product or to any swap, derivative or other transaction under which payments are to be made by reference to an Obligor or Obligor's obligations; (g) to the extent such Information is (i) publicly available other than as a result of a breach of this Section, (ii) available to Lender or its Affiliates on a nonconfidential basis from a source other than Borrowers, or (iii) independently discovered or developed by a party hereto without utilizing any Information or violating this Section; (h) on a confidential basis to a provider of a Platform; or (i) with the consent of Borrower Agent. Borrowers consent to the publication by Lender of customary advertising material relating to transactions contemplated hereby, using the names, product photographs, logos or trademarks of Borrowers and Subsidiaries. Lender may disclose information regarding this Agreement and the credit facility hereunder to market data collectors, similar service providers to the lending industry, and Lender's service providers in connection with the Loan Documents and Commitment. As used herein, "Information" means information received from an Obligor or Subsidiary relating to it or its business, that is identified as confidential when delivered. A Person required to maintain confidentiality of Information pursuant to this Section shall be deemed to have complied if it exercises a degree of care similar to that accorded its own confidential information. Lender acknowledges that (i) Information may include material non-public information; (ii) it has developed compliance procedures regarding the use of such information; and (iii) it will handle the material non-public information in accordance with Applicable Law.

**1.12. Reserved.**

**1.13. GOVERNING LAW.** UNLESS EXPRESSLY PROVIDED IN ANY LOAN DOCUMENT, THIS AGREEMENT, THE OTHER LOAN DOCUMENTS AND ALL CLAIMS SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ANY CONFLICT OF LAW PRINCIPLES EXCEPT FEDERAL LAWS RELATING TO NATIONAL BANKS.

**1.14. Consent to Forum**

1.1.1. Forum. EACH BORROWER HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION OF ANY STATE COURT SITTING IN NEW YORK COUNTY, NEW YORK, OR THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, IN ANY DISPUTE, ACTION, LITIGATION OR OTHER PROCEEDING RELATING IN ANY WAY TO ANY LOAN DOCUMENTS, AND AGREES THAT ANY DISPUTE, ACTION, LITIGATION OR OTHER PROCEEDING SHALL BE BROUGHT BY IT SOLELY IN ANY SUCH COURT. EACH BORROWER IRREVOCABLY AND UNCONDITIONALLY WAIVES ALL CLAIMS, OBJECTIONS AND DEFENSES THAT IT MAY HAVE REGARDING ANY SUCH COURT'S PERSONAL OR SUBJECT MATTER JURISDICTION, VENUE OR INCONVENIENT FORUM. EACH PARTY HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE JURISDICTION OF SUCH COURTS AND CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 12.3.1. A final judgment in any proceeding of any such court shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or any other manner provided by Applicable Law.

1.1.2. Other Jurisdictions. Nothing herein shall limit the right of Lender to bring proceedings against any Obligor in any other court, nor limit the right of any party to serve process in any other manner permitted by Applicable Law. Nothing in this Agreement shall be deemed to preclude enforcement by Lender of any judgment or order obtained in any forum or jurisdiction.

1.1.3. Judicial Reference. If any action or proceeding relating to any Obligations, Loan Documents or related transaction is filed in a court sitting in or applying the laws of California, the court shall, and is hereby directed to, make a general reference pursuant to Cal. Civ. Proc. Code §638 to a referee (who shall be a single active or retired judge) to hear and determine all issues in the case (whether fact or law) and to report a statement of decision; provided, that (a) at the option of any party to such action or proceeding, any issues pertaining to a "provisional remedy" as defined in Cal. Civ. Proc. Code §1281.8 shall be heard and determined by the court, and (b) Borrowers shall be solely responsible to pay all fees and expenses of the referee. Nothing in this Section shall limit the right of Lender to exercise self-help remedies, such as setoff, foreclosure or sale of Collateral or to obtain provisional or ancillary remedies from a court of competent jurisdiction before, during or after any judicial reference. The exercise of a remedy does not waive the right of any party to require judicial reference. At Lender's option, foreclosure under a mortgage or deed of trust may be accomplished either by exercise of power of sale thereunder or by judicial foreclosure.

**1.15. Waivers by Borrowers.** To the fullest extent permitted by Applicable Law, each Borrower waives (a) the right to trial by jury (which each Secured Party hereby also waives) in any proceeding or dispute of any kind relating in any way to any Loan Documents, Obligations or Collateral; (b) presentment, demand, protest, notice of presentment, default, non-payment, maturity, release, compromise, settlement, extension or renewal of any commercial paper, accounts, documents, instruments, chattel paper and guaranties at any time held by Lender on which a Borrower may in any way be liable, and hereby ratifies anything Lender may do in this regard; (c) notice prior to taking possession or control of any Collateral; (d) any bond or security that might be required by a court prior to allowing Lender to exercise any rights or remedies; (e) the benefit of all valuation, appraisal and exemption laws; (f) any claim against an Indemnitee on any theory of liability, for special, indirect, consequential, exemplary or punitive damages (as opposed to direct or actual damages) in any way relating to any Enforcement Action, Obligations, Loan Documents or transactions relating thereto; and (g) notice of acceptance hereof. Each Borrower acknowledges that the foregoing waivers are a material

inducement to Lender entering into this Agreement and that Lender is relying upon the foregoing in its dealings with Borrowers. Each Borrower has reviewed the foregoing waivers with its legal counsel and has knowingly and voluntarily waived its jury trial and other rights following consultation with legal counsel. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

**1.16. Acknowledgement Regarding Supported QFCs.** To the extent that the Loan Documents provide support, through a guarantee or otherwise, for any Swap or any other agreement or instrument that is a QFC (such support, “QFC Credit Support”, and each such QFC, a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States):

1.1.1. **Covered Party.** If a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regimes if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. If a Covered Party or BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regimes if the Supported QFC and Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a defaulting lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

1.1.2. **Definitions.** As used in this Section, (a) “BHC Act Affiliate” means an “affiliate,” as defined in and interpreted in accordance with 12 U.S.C. §1841(k); (b) “Default Right” has the meaning assigned in and interpreted in accordance with 12 C.F.R. §§252.81, 47.2 or 382.1, as applicable; and (c) “QFC” means a “qualified financial contract,” as defined in and interpreted in accordance with 12 U.S.C. §5390(c)(8)(D).

**1.17. Patriot Act Notice; Beneficial Ownership Regulation.** Lender hereby notifies Borrowers that pursuant to the Patriot Act, Lender is required to obtain, verify and record information that identifies each Borrower, including its legal name, address, tax ID number and other information that will allow Lender to identify it in accordance with the Patriot Act. Lender will also require information regarding any personal guarantor and may require information regarding Borrowers’ management and owners, such as legal name, address, social security number and date of birth. Borrowers shall, promptly upon request, provide all documentation and information as Lender may request from time to time for purposes of complying with any “know your customer,” anti-money laundering or other requirements of Applicable Law, including the Patriot Act and Beneficial Ownership Regulation.

**1.18. NO ORAL AGREEMENT.** THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.

[Remainder of page intentionally left blank; signatures begin on following page]

IN WITNESS WHEREOF, this Agreement has been executed and delivered as of the date set forth above.

**LENDER:**

**BANK OF AMERICA, N.A.**

By: /s/ Susan Freed  
Name: Susan Freed  
Title: Senior Vice President  
Address: 333 S. Hope Street, 19<sup>th</sup> Floor  
Los Angeles, CA 90071  
Attention: Asset Based Portfolio Specialist  
-Arlo Technologies, Inc.

LOAN AND SECURITY AGREEMENT  
(ARLO TECHNOLOGIES, INC.)  
SIGNATURE PAGE

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**BORROWERS:**

**ARLO TECHNOLOGIES, INC.,**  
a Delaware corporation

By: /s/ Gordon Mattingly  
Name: Gordon Mattingly  
Title: Chief Financial Officer  
Address: 2200 Faraday Avenue Avenue, Suite 150  
Carlsbad, CA 92008  
Attention: Brian Busse, General Counsel

**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 Taiwan Co. Ltd  
Arlo Technologies UK Limited  
Arlo Italy Srl  
Arlo Technologies Services India Private Ltd  
Avaak, Inc.  
Placemeter Inc.  
Placemeter France SAS

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, 333-236864, 333-253833, 333-258972 and 333-262275) of Arlo Technologies, Inc. of our report dated March 2, 2022 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
San Jose, California  
March 2, 2022

## 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: March 2, 2022

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/s/ MATTHEW MCRAE

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Matthew McRae  
Chief Executive Officer  
Arlo Technologies, Inc.

## 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: March 2, 2022

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/s/ GORDON MATTINGLY

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Gordon Mattingly  
Chief Financial Officer  
Arlo Technologies, Inc.

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, 2021, 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: March 2, 2022

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.*



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, 2021, 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: March 2, 2022

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.*