FORM 10-K

INPIXON - INPX

Filed: April 17, 2017 (period: December 31, 2016)

Annual report with a comprehensive overview of the company

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

FORM 10-K

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

For the fiscal year ended December 31, 2016
OR

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

For the transition period from _____ to _____

Commission File Number 001-36404

INPIXON

(Exact name of registrant as specified in its charter)

NEVADA	**88-0434915**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2479 E. Bayshore Road
Suite 195
Palo Alto, CA 94303
(Address of principal executive offices)
(Zip Code)

(408) 702-2167
(Registrant's telephone number, including area code)

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

Title of each class	**Name of each exchange on which each is registered**
Common Stock, par value $0.001	The NASDAQ Stock Market LLC

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

None
(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

As of June 30, 2016, the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the last sale price of the common equity was $9,508,073.

As of April 11, 2017, the registrant has 2,181,745 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

INPIXON

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION CONTAINED IN THIS REPORT

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. You can find many (but not all) of these statements by looking for words such as "approximates," "believes," "hopes," "expects," "anticipates," "estimates," "projects," "intends," "plans," "would," "should," "could," "may," or other similar expressions in this report. In particular, these include statements relating to future actions; prospective products, applications, customers and technologies; future performance or results of anticipated products; and projected expenses and financial results. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- our limited cash and our history of losses;
- our ability to achieve profitability;
- our limited operating history with recent acquisitions;
- emerging competition and rapidly advancing technology in our industry that may outpace our technology;
- customer demand for the products and services we develop;
- the impact of competitive or alternative products, technologies and pricing;
- our ability to manufacture any products we develop;
- general economic conditions and events and the impact they may have on us and our potential customers;
- our ability to obtain adequate financing in the future;
- our ability to continue as a going concern;
- our success at managing the risks involved in the foregoing items; and
- other factors discussed in this report.

The forward-looking statements are based upon management's beliefs and assumptions and are made as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements included in this report. You should not place undue reliance on these forward-looking statements.

PART I

ITEM 1: BUSINESS

Unless otherwise stated or the context otherwise requires, the terms "Inpixon" "we," "us," "our" "the Corporation" and the "Company" refer collectively to Inpixon, f/k/a Sysorex Global, and its subsidiaries.

Introduction

Inpixon is a technology company that helps to secure, digitize and optimize any premises with Indoor Positioning Analytics (IPA) for Businesses and Governments in the connected world. Inpixon Indoor Positioning Analytics is based on radically new sensor technology that finds all accessible cellular, Wi-Fi, Bluetooth and RFID signals anonymously. Paired with a high-performance, data analytics platform, this technology delivers visibility, security and business intelligence on any commercial or government premises world-wide. Inpixon's products, infrastructure solutions and professional services group help customers take advantage of mobile, big data, analytics and the Internet of Things (IoT).

Inpixon Indoor Positioning Analytics offer:

- Radically new sensors with proprietary technology that can find all accessible cellular, Wi-Fi, Bluetooth and RF signals. Utilizing various radio signal technologies ensures precision device positioning accurately down to arm's length. This enables highly detailed understanding of customer journey and dwell time in retail scenario; detection and identification of authorized and unauthorized devices; and prevention of rogue devices through alert notification based on rules when unknown devices are detected in restricted areas.

- Data Science analytics with lightning fast data mining using in-memory database that uses a dynamic blend of RAM and NAND along with specially optimized algorithms that both minimize data movement and maximize system performance. This enables the system to deliver reports full of valuable Insights to the user as well as integrate with common 3rd party visualization, charting, graphing and dashboard systems.

- Insights that deliver visibility and business intelligence about detailed customer journey and flow analysis of in stores and storefronts allowing businesses to better understand customer preferences, measure campaign effectiveness, uncover revenue opportunities and deliver an exceptional shopping experience.

Inpixon Indoor Positioning Analytics can assist all types of establishments, including brands, retailers, shopping malls and shopping centers, hotels and resorts, gaming operators, airports, healthcare facilities, office buildings and government agencies, by providing greater security, gaining better business intelligence, increasing consumer confidence and reducing risk while being compliant with most stringent "Personal Identifiable Information" regulation.

Inpixon also provides supporting products and services including enterprise computing and storage, virtualization, business continuity, data migration, custom application development, networking and information technology business consulting services. These allow Inpixon to offer turnkey solutions when requested by customers.

Corporate Strategy

Management's corporate strategy is to continue to build and develop Inpixon as a technology company that provides turnkey solutions from the collection of data to delivering insights from that data to our customers with a focus on securing, digitizing and optimizing premises with indoor Positioning Analytics (IPA) for businesses and governments. In connection with such strategy and in order to facilitate our long-term growth, we have acquired certain companies, technologies and intellectual property, or IP, that complement such goals and will continue to consider completing additional strategic acquisitions as long as our financial condition permits. An important element of this mergers and acquisitions strategy is to acquire companies with complementary capabilities and/or innovative and commercially proven technologies in indoor positioning and big data analytics and to obtain an established customer base. We believe that acquiring complementary products and/or IP will add value to the Company, and the customer base of each potential acquisition will also present an opportunity to cross-sell our existing solutions. Candidates with proven technologies that complement our overall strategy may come from anywhere in the world, so long as there are strategic and financial reasons to make the acquisition. If we conduct any acquisitions in the future, we expect to pay for such acquisitions using restricted common stock, cash and debt financing in combinations appropriate for each acquisition. In connection with our strategic business plan, Inpixon may also consider the sale or divestment of certain assets for strategic and financial purposes should the management deem such transactions necessary or desirable in order to facilitate its overall strategy.

Industry Overview

We believe that more and more enterprises are realizing the importance of employing Information Technology in their operations. The technology growth story has long focused on the consumer, but as enterprises in every industry sector, including the government sector, look to technology to facilitate and transform their own operations, the opportunities for technology companies have broadened considerably. The following information illustrates the ways in which various IT markets are expected to grow.

The indoor location market is estimated to grow from $4.72 billion in 2016 to $23.13 billion by 2021, at a compound annual growth rate, or CAGR of 37.4%. [Source: http://www.marketsandmarkets.com/PressReleases/indoor-location.asp]

The location analytics market is expected to grow from $8.20 billion in 2016 to $16.34 billion by 2021, at a CAGR of 17.6% from 2016 to 2021. [Source: http://www.marketsandmarkets.com/Market-Reports/location-analytics-market-177193456.html?gclid=CMzC4pzkztICFVY7gQodHsoFzQ]

The location-based services (LBS) and real-time location systems (RTLS) market has grown considerably over the past few years and is expected to grow further with increasing portable personal digital assistant (PDA)-based e-commerce. The overall market is expected to grow from $15.04 billion in 2016 to $77.84 billion by 2021, at a Compound Annual Growth Rate (CAGR) of 38.9%.

The IDC Worldwide Semiannual Big Data and Analytics Spending Guide, released October 3, 2016, predicts that the Big Data and business analytics market will grow from $130 billion by the end of this year to $203 billion by 2020. That's a compound annual growth rate (CAGR) of 11.7% over the next years, according to IDC.[Source: http://www.informationweek.com/big-data/big-data-analytics-market-to-hit-$203-billion-in-2020-/d/d-id/1327092]

In July 2013, Cisco forecasted that The Internet of Things, which consists of smart connected objects in homes, businesses and our surroundings that have the ability communicate over a multimodal network without human-to-human or human-to-computer involvement, would grow to 50 billion devices by the year 2020.

According to a report by Allied Market Research titled, "Global Mobile Security Market, Solution, Types, OS, Trends, Opportunities, Growth and Forecast, 2013 – 2020", the global mobile security market would reach $34.8 billion by 2020, registering a CAGR of 40.8% during 2014 - 2020.

The cyber security market size is estimated to grow from USD 122.45 Billion in 2016 to USD 202.36 Billion by 2021, at a Compound Annual Growth Rate (CAGR) of 10.6% during the forecast period. 2015 is considered to be the base year while the forecast period is 2016–2021. (Source: http://www.marketsandmarkets.com/Market-Reports/cyber-security-market-505.html?gclid=COSEpv-Ho9MCFYVgfgodYmAJXw)

According to industry sources, the cloud analytics market is expected to grow from $7.5 Billion in 2015 to $23.1 Billion in 2020 at a CAGR of 25.1% during the forecast period. (source:http://www.marketsandmarkets.com/PressReleases/cloud-based-business-analytics.asp)

The U.S. Federal IT market will reach $140 billion by 2023, growing at CAGR 3.6% in the period 2018-2023 according to Market Research Media (Source: https://www.marketresearchmedia.com/?p=193)

We expect that investment in IT research and development will continue to be strong in the future and that technologies like ours will deliver new level of value and opportunities for business enterprises.

Corporate Structure

In 2015 we had five operating subsidiaries: (i) Sysorex Federal, Inc. (100% ownership) ("Sysorex Federal") and its wholly owned subsidiary Sysorex Government Services, Inc. ("Sysorex Government" or "Sysorex Government Services") based in Herndon, Virginia, which focused on the U.S. Federal government market; (ii) Lilien Systems (100% ownership) ("Lilien") based in Larkspur, California; (iii) Shoom, Inc. (100% ownership) ("Shoom") based in Encino, California, (iv) AirPatrol Corporation (100% ownership) ("AirPatrol") based in Maple Lawn, Maryland and its wholly owned subsidiary AirPatrol Research Corp. based in Coquitlam, British Columbia, and (v) Sysorex Arabia LLC (50.2% ownership) ("Sysorex Arabia") based in Riyadh, Saudi Arabia. On December 4, 2015, the Company's board of directors approved a series of reorganization transactions to streamline the organizational structure of the Company and its direct and indirect subsidiaries.

Effective January 1, 2016 we have three operating subsidiaries: (i) Inpixon USA (100% ownership) based in Larkspur, California and its wholly-owned subsidiary Inpixon Federal, Inc. based in Herndon, Virginia, which focuses on the U.S. Federal government market; (ii) Inpixon Canada Corp. based in Coquitlam, British Columbia; and (iii) Sysorex Arabia LLC (50.2% ownership) based in Riyadh, Saudi Arabia.

These consolidated subsidiaries operate in the following business segments:

- Mobile, IoT and Big Data Products: These products currently include our AirPatrol product line (location-based security and marketing platform for wireless and cellular devices that can detect, monitor and manage the content and behavior of smartphones, tablets and other mobile devices based on their location and user) and our on-premises Big Data appliance product (Light Miner Studio "LMS") and will include future products we acquire or develop.

- Storage and Computing: This segment includes third party hardware, software and related maintenance and/or warranty products and services that we resell. It includes, but is not limited to, products for enterprise computing, storage, virtualization, networking, etc.

- SaaS Revenues: These are Software-as-a-Services (SaaS) or internet based hosted services including the Shoom product line and Cloud based Big Data analytics services (based on our LMS product) and other data science services, analytics services for AirPatrol products and other managed services on a SaaS basis.

- Professional Services: These are general IT services including but not limited to: custom application/software design; architecture and development; project management; C4I system consulting; strategic outsourcing; staff augmentation; data center design and operations services; data migration services and other non-SaaS services.

Although the subsidiaries are separate legal entities, the Company is structured by function and organized to operate in an integrated fashion as one business.

Corporate History

The Company was formed in Nevada in April 1999.

On July 29, 2011, we acquired all of the stock of the U.S. Federal government business of the Company, which included Sysorex Federal and its subsidiary Sysorex Government, and 50.2% of the stock of the operating unit of the Company engaged in Saudi Arabian government contracts (Sysorex Arabia, LLC).

On March 20, 2013, we completed the acquisition of the assets of Lilien LLC. In conjunction with the name change we announced in February 2017, Lilien was renamed Inpixon USA. Inpixon USA, based in Larkspur, California, is an information technology company that provides a Big Data analytics platform and enterprise infrastructure capabilities. Inpixon USA delivers right-fit information technology solutions in enterprise computing and storage, virtualization, business continuity, networking and IT business consulting that help organizations reach their next level of business advantage.

Effective August 31, 2013, we acquired 100% of the stock of Shoom. Shoom, which was merged into Inpixon USA in January 2016, provides us with Cloud based data analytics and enterprise solutions to the media, publishing and entertainment industries.

Effective April 18, 2014, we acquired 100% of the stock of AirPatrol Corporation. AirPatrol, which was merged into Inpixon USA in January 2016, developed indoor device locationing, monitoring and management technologies for mobile devices operating on WiFi, cellular and wideband RF networks. Through AirPatrol we acquired two product lines, ZoneDefense (now rebranded "AirPatrol for Security") and ZoneAware (now rebranded "AirPatrol for Retail"). These products and technologies deliver solutions to address an exploding global location-based mobile security and services (LBS) and real-time location systems (RTLS) market estimated to be more than $15.0 billion in 2016 and to grow to $77.8 billion by 2021, growing at 37.5% (Source: http://www.marketsandmarkets.com/Market-Reports/location-based-service-market-96994431.html?gclid=CKz8gKml69ICFQx6fgodTkoBNQ]. AirPatrol for Retail also serves as a location-based services, sales and marketing system. The security platform connects to third party apps on a user's mobile device that provide functions such as location-based offers, discounts and suggestive selling, VIP service functions (for hotels, resorts, casinos, etc.), and location-based information delivery such as mobile-based guided tours of historic sites, points of interest and museums, shopping center maps, building floor plans and so on. These products require no app installation for anonymous collection of behavioral data such as traffic flow, entry and exit patterns, length of stay and other business intelligence and analytics functions.

On April 24, 2015, we completed the acquisition of substantially all of the assets of LightMiner Systems, Inc. ("LightMiner"), which was in the business of developing and commercializing in-memory Structured Query Language databases. The assets acquired from LightMiner included an in-memory, real-time, data analysis system designed to perform very large, highly complex and extremely difficult calculations using off-the-shelf hardware and memory. The system supports both traditional SQL-based business intelligence and analytics applications as well as a host of integrated statistical, machine learning and artificial intelligence algorithms allowing it to provide supercomputer-like performance at competitive prices.

On November 21, 2016 we completed the acquisition of the business and certain assets of Integrio Technologies, LLC ("Integrio" or "Integrio Technologies") and Emtech Federal, LLC ("Emtech Federal"). Integrio, together with Emtech Federal, is an IT integration and engineering company that provides solutions for network performance, secure wireless infrastructure, software application lifecycle support, and physical cyber security for federal, state and local government agencies.

On December 4, 2015 and effective January 1, 2016, our Board of Directors approved the following reorganization transactions: (1) statutory mergers of AirPatrol and Shoom with and into Lilien, pursuant to which Lilien was the surviving corporation and changed its name to "Sysorex USA"; and (2) a short-form statutory merger of the Company with a newly-formed wholly-owned Nevada corporation, pursuant to which the Company changed its name to "Sysorex Global". Immediately prior to the consummation of these mergers, the Company carried out (i) an assignment from AirPatrol to the Company of all shares of capital stock of AirPatrol Research Corp. ("AirPatrol Research"), pursuant to which AirPatrol Research became a direct subsidiary of the Company; (ii) the amendment of AirPatrol Research's Notice of Articles to change its name to "Sysorex Canada Corp."; (iii) the dissolution and winding up of Sysorex Federal, in which Sysorex Federal assigned and transferred all of its assets, including all outstanding shares of capital stock of Sysorex Government, to the Company, and the Company assumed Sysorex Federal's debts and liabilities; (iv) an assignment from the Company to Lilien of all outstanding shares of capital stock of Sysorex Government, pursuant to which Sysorex Government became a direct subsidiary of Lilien.

On February 27, 2017, we entered into an Agreement and Plan of Merger with Inpixon, our wholly-owned Nevada subsidiary formed solely for the purpose of changing our corporate name from Sysorex Global to Inpixon. As part of the name change, each of our subsidiaries also amended their corporate charters to change their names from Sysorex USA, Sysorex Government Services, Inc. and Sysorex Canada Corp. to Inpixon USA, Inpixon Federal, Inc. and Inpixon Canada, Inc., respectively, effective as of March 1, 2017. Also effective March 1, 2017, the Company filed a Certificate of Amendment to its Articles of Incorporation with the Secretary of State of the State of Nevada to effect a 1-for-15 reverse stock split of the Company's common stock.

Our Products and Services

We provide the following products and services that may be used by any number of businesses and government agencies.

- ***LightMiner Analytics Platform*** — This is an advanced solution for aggregating and mining multi-terabyte Big Data sets in real time for instant insights. The product is Cloud-based so there's nothing to install and it is fully scalable to meet even the most demanding business requirements. Our quick start analytics modules are available for a variety of industry verticals and applications.

- ***Data Science and Advanced Analytics Consulting Services —*** Our consulting services are backed by our data science and analytics team that develops data driven solutions for the most complex challenges. Our team's extensive experience and unique strategies allow it to leverage Big Data in new ways to uncover hidden insights and create new business opportunities.

- ***AirPatrol for Security (formerly ZoneDefense)*** – This is a mobile security and detection product that locates devices operating within a monitored area, determines their compliance with network security policies for that zone, and if the device is not compliant, can trigger policy modification of device apps and/or features either directly or via third party mobile device, application and network management tools.

- ***AirPatrol for Retail (formerly ZoneAware)*** – This is a commercial product for enabling location and/or context-based marketing services and information delivery to mobile devices based on zones as small as 10 feet or as large as a square mile. The monitored areas may include a building, a campus, a mall, and outdoor regions like a downtown. Unlike other mobile locationing technologies, AirPatrol technologies use passive sensors that work over both cellular and WiFi networks and offer device locationing and zone-based app and information delivery accurate to within 10 feet. Additionally, unlike geo-fencing systems, AirPatrol technologies are capable of simultaneously enabling different policies and delivering different apps or information to multiple devices within the same zone based on contexts such as the type of device, the device user and time of day.

- ***Shoom Products*** (eTearsheets; eInvoice, AdDelivery, ePaper) - The Shoom products are Cloud based applications and analytics for the media and publishing industry. These products also generate critical data analytics for the customers.

- ***Enterprise Infrastructure Solutions and Services —*** These products and services help organizations tackle challenges and accelerate business goals by implementing best of breed technology solutions. We believe that our deep expertise in a broad range of infrastructure solutions, from storage and Big Data solutions to converged infrastructure and cyber security, delivers impactful results for our clients.

- ***IT Services*** — From enterprise architecture design to custom application development, Inpixon offers a full range of information technology development and implementation services with expertise in a broad range of IT practices including project design and management, systems integration, outsourcing, independent validation and verification, cyber security and more.

Research and Development Expenses

Our future plans include significant investments in research and development and related product opportunities. Our management believes that we must continue to dedicate a significant amount of resources to research and development efforts to maintain a competitive position. Research and development expenses for the years ended December 31, 2016 and 2015 totaled $2.3 million and $635,000, respectively.

Sales and Marketing

We utilize direct marketing through approximately 44 outside and inside sales representatives, who are compensated with a base salary and some sales positions receive incentive plans such as commission or bonus plans. We utilize webinars, conferences, tradeshows and other direct and indirect marketing activities to generate demand for our products and services. We also have extensive relationships with channel partners to directly engage with customers and to perform the installation services. We train our partners and we have our own channel/partner managers to support and augment partners as needed.

We have built a core competency in bidding on government requests for proposals. We utilize our internal bid and proposal team as well as consultants to prepare the proposal responses for government clients. We also use business development, sales and account management employees or consultants.

As part of our end-to-end IT solutions, we are authorized resellers of the products and services of leading IT manufacturers and distributors. In many cases, we have achieved the highest level of relationship the manufacturer or distributor offers. In addition, our employees hold certifications issued by these manufacturers and by industry associations relating to the configuration, installation and servicing of these products. We differentiate ourselves from our competitors by the range of manufacturers and distributors we represent, the relationship level we have achieved with these manufacturers and distributors and the scope of the manufacturer and industry certifications our employees hold.

Inpixon has a variety of contracts that vary from cost plus to time and material in its storage and computing and professional services segments. These apply to both commercial and government customers including contracts recently acquired from Integrio Technologies. Our proprietary products such as AirPatrol and Lightminer are sold on a license or software-as-a-service (SaaS) model. In our licensing model we also typically charge an annual maintenance fee. Our Shoom product is on a monthly subscription model based on 2-3 year contracts.

Customers

Inpixon has worked with over 1,000 customers company-wide since inception. These customers include many civilian and defense federal, state and local government agencies as well as enterprise customers in retail, manufacturing, life sciences, bio-tech, high-tech, agriculture, financial services, state and local government, utilities, media and entertainment, telecom and many other verticals. A partial list of recent customers include Healthnet, Gilead Sciences, Dow Jones Local Media Group, Gannett, RockStar Games, Hewlett Packard, Evault, Hawaii Electric, Hearst Corporation, E& J Gallo Winery, U.S. Army, U.S. Navy, Business Wire, Premera Blue Cross and the City of Seattle. The Company does not depend on one or a few customers, however, as a result of our acquisition of Integrio, there are a few large government contracts (SEWP, CIO-CS, ADMC, GSA) that may generate a significant portion of our revenues during 2017, but these are task order contracts that come from a variety of end-user customers. In the private sector we have long term client relationships that may generate approximately 5%-10% of our revenue in a particular quarter as a result of a large project that may be in process, but once the project is completed another project may not be immediately undertaken.

Competition

We face substantial competition from other national, multi-regional, regional and local value-added resellers and IT service providers, some of which may have greater financial and other resources than we do or that may have more fully developed business relationships with clients or prospective clients than we do. Many of our competitors compete principally on the basis of price and may have lower costs or accept lower selling prices than we do and, therefore, we may need to reduce our prices. In addition, manufacturers may choose to market their products directly to end-users, rather than through IT solutions providers such as us, and this could adversely affect our business, financial condition and results of operations.

We face competition from various companies, both small and large, for different parts of our business. In the Big Data analytics market, these competitors, and sometimes partners, could include HP, IBM, Splunk, Fusion Storm, Global Inc., Bear Data, LLC.

Our AirPatrol products compete with WiFi based detection companies such as Aruba, Cisco, Euclid Analytics and other smaller companies. However, these companies currently offer only WiFi detection and therefore we believe they cannot achieve the accuracy that AirPatrol can achieve. AirPatrol has partnered with or replaced some of these companies because it offers WiFi, cellular, RFID and Bluetooth and has a location accuracy of approximately 10-feet. Mobile device management companies like AirWatch, Mobile Iron and Good Technology have also integrated with AirPatrol instead of developing competing products. MerlinOne and PressTeligence compete with the functionality of our Shoom products, but typically provide information only for the specific customer and not for the customer's competitors or for the industry.

The U.S. government systems integration business is intensely competitive and subject to rapid change. We compete with a large number of systems integrators, hardware and software manufacturers, and other large and diverse companies attempting to enter or expand their presence in the U.S. government market. Many of the existing and potential competitors have greater financial, operating and technological resources than we have. The competitive environment may require us to make changes in our pricing, services or marketing. The competitive bidding process involves substantial costs and a number of risks, including significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us, or that may be awarded, but for which we do not receive meaningful revenues. Accordingly, our success depends on our ability to develop services and products that address changing needs and to provide people and technology needed to deliver these services and products. In the government services sector our competition includes large systems integrators and defense contractors as well as small businesses such as 8a, Women Owned, Veteran Disabled, Alaskan Native, etc. Some of these competitors include global defense and IT service companies including IBM Global Services, LogicaCMG, CSC, ATOS Origins, Northrop Grumman, Raytheon IT Services and SAIC.

This complex landscape of domestic and multi-national services companies creates a challenging environment. To remain competitive, we must consistently provide superior service, technology and performance on a cost-effective basis to our customers. While we believe that, due to the functionality of our products, we can successfully compete in all of these markets, at this time we do not represent a significant presence in any these markets.

Intellectual Property

The Company expects to file trademark applications for the names Inpixon, Inpixon – Indoor Positioning & Analytics, and Inpixon – Security Dome. The Company uses several trademarks relating to the products and services of AirPatrol and owns one registered mark, ZoneDefense®. The Company also owns three issued patents, two of which are registered in the United States and one of which is registered in Mexico, and has ten patent applications pending in various countries, including the United States, relating to AirPatrol products and two pending patent applications, both of which are filed in the United States, relating to Lightminer products. The awarded patents were issued September 23, 2015, September 23, 2014 and September 16, 2014 and will expire in the years 2032, 2031 and 2028, respectively.

Government Regulation

In general, we are subject to numerous federal, state and foreign legal requirements on matters as diverse as data privacy and protection, employment and labor relations, immigration, taxation, anticorruption, import/export controls, trade restrictions, internal and disclosure control obligations, securities regulation and anti-competition.

Furthermore, U.S. government contracts generally are subject to the Federal Acquisition Regulation (FAR), which sets forth policies, procedures and requirements for the acquisition of goods and services by the U.S. government, department-specific regulations that implement or supplement DFAR, such as the DoD's Defense Federal Acquisition Regulation Supplement (DFARS) and other applicable laws and regulations. We are also subject to the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with certain contract negotiations; the Procurement Integrity Act, which regulates access to competitor bid and proposal information and government source selection information, and our ability to provide compensation to certain former government officials; the Civil False Claims Act, which provides for substantial civil penalties for violations, including for submission of a false or fraudulent claim to the U.S. government for payment or approval; and the U.S. Government Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based U.S. government contracts.

Violations of one or more of these diverse legal requirements in the conduct of our business could result in significant fines and other damages, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations or contractual obligations related to regulatory compliance in connection with the performance of customer contracts could also result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to compete for certain work and allegations by our customers that we have not performed our contractual obligations. To date, compliance with these regulations has not been financially burdensome.

Employees

As of March 22, 2017, we have 157 employees including 6 part-time employees. This includes 7 officers, 44 sales people, 4 marketing people, 92 technical/engineering people and 24 finance and administration persons.

Emerging Growth Company

As a company with less than $1.0 billion in revenue during our most recently completed fiscal year, we qualify as an "emerging growth company" as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable, in general, to public companies that are not emerging growth companies. These provisions include:

- Reduced disclosure about our executive compensation arrangements;
- No non-binding shareholder advisory votes on executive compensation or golden parachute arrangements;
- Exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting; and

Reduced disclosure of financial information in this report, limited to two years of audited financial information and two years of selected financial information.

As a smaller reporting company, each of the foregoing exemptions is currently available to us. We may take advantage of these exemptions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than $1.0 billion in annual revenues as of the end of a fiscal year, if we are deemed to be a large accelerated filer under the rules of the Securities and Exchange Commission, or if we issue more than $1.0 billion of non-convertible debt over a three-year-period.

The JOBS Act permits an emerging growth company to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have chosen to "opt out" of this provision. Therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Corporate Information

Our principal executive offices are located at 2479 E. Bayshore Road, Suite 195, Palo Alto, CA 94303, and our telephone number is (408) 702-2167. Our subsidiaries maintain offices in Herndon Virginia, Larkspur California, Honolulu Hawaii, Bellevue Washington, Beaverton Oregon, Carlsbad California, Encino California, Maple Lawn Maryland and Coquitlam, British Columbia. Our Internet website is www.inpixon.com. The information on, or that can be accessed through, our website is not part of this report, and you should not rely on any such information in making any investment decision relating to our common stock.

ITEM 1A: RISK FACTORS

We are subject to various risks that may materially harm our business, prospects, financial condition and results of operations. An investment in our common stock is speculative and involves a high degree of risk. In evaluating an investment in shares of our common stock, you should carefully consider the risks described below, together with the other information included in this report.

If any of the events described in the following risk factors actually occurs, or if additional risks and uncertainties later materialize, that are not presently known to us or that we currently deem immaterial, then our business, prospects, results of operations and financial condition could be materially adversely affected. In that event, the trading price of our common stock could decline, and investors in our common stock may lose all or part of their investment in our shares. The risks discussed below include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Risks Related to Our Consolidated Operations

We have completed five acquisitions since 2013, including Lilien, Shoom, AirPatrol, LightMiner and Integrio, which may make it difficult for potential investors to evaluate our future consolidated business. Furthermore, due to the risks and uncertainties related to the acquisition of new businesses, any such acquisition does not guarantee that we will be able to attain profitability.

Between March 2013 and November 2016, we completed five acquisitions. Our limited combined operating history makes it difficult for potential investors to evaluate our business or prospective operations or the merits of an investment in our securities. We are subject to the risks inherent in the financing, expenditures, complications and delays characteristic of a newly combined business. These risks are described below under the risk factor titled *"Any future acquisitions that we may make could disrupt our business, cause dilution to our stockholders and harm our business, financial condition or operating results."* In addition, while the former affiliates of four of these businesses have indemnified the Company from any undisclosed liabilities, there may not be adequate resources to cover such indemnity. Furthermore, there are risks that the vendors, suppliers and customers of these acquired entities may not renew their relationships for which there is no indemnification. Accordingly, our business and success faces risks from uncertainties inherent to developing companies in a competitive environment. There can be no assurance that our efforts will be successful or that we will ultimately be able to attain profitability.

Our ability to successfully execute our business plan may require additional debt or equity financing, which may otherwise not be available on reasonable terms or at all.

According to our business plan we may need additional debt or equity financing. Future financings through equity offerings by us will be dilutive to existing stockholders. Also, the terms of securities we may issue in future capital transactions may be more favorable to new investors than our current investors. Newly issued securities may include preferences, superior voting rights, the issuance of warrants or other derivative securities. We may also issue incentive awards under employee equity incentive plans, which may have additional dilutive effects. We may also be required to recognize non-cash expenses in connection with certain securities we may issue in the future such as convertible notes and warrants, which would adversely impact our financial condition and results of operations. Our ability to obtain needed financing may be impaired by factors, including the condition of the economy and capital markets, both generally and specifically in our industry, and the fact that we are not profitable, which could impact the availability or cost of future financing. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs, we may need to reduce our operations by, for example, selling certain assets or business segments.

Failure to manage or protect growth may be detrimental to our business because our infrastructure may not be adequate for expansion.

The Lilien, Shoom, AirPatrol, LightMiner and Integrio acquisitions require a substantial expansion of the Company's systems, workforce and facilities (Effective January 1, 2016, Shoom and AirPatrol were merged into Lilien, which changed its name to Sysorex USA and then to Inpixon USA on March 1, 2017). We may fail to adequately manage our anticipated future growth. The substantial growth in our operations as a result of our acquisitions has, and is expected to continue to, place a significant strain on our administrative, financial and operational resources, and increase demands on our management and on our operational and administrative systems, controls and other resources. For instance the growth strategy of Inpixon USA (formerly Lilien) includes broadening its service and product offerings, implementing an aggressive marketing plan and employing leading technologies. There can be no assurance that our systems, procedures and controls will be adequate to support our operations as they expand. We cannot assure you that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employee base, and maintain close coordination among our staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems.

To the extent we acquire other businesses, we will also need to integrate and assimilate new operations, technologies and personnel. The integration of new personnel will continue to result in some disruption to ongoing operations. The ability to effectively manage growth in a rapidly evolving market requires effective planning and management processes. We will need to continue to improve operational, financial and managerial controls, reporting systems and procedures, and will need to continue to expand, train and manage our work force. There can be no assurance that the Company would be able to accomplish such an expansion on a timely basis. If the Company is unable to effect any required expansion and is unable to perform its contracts on a timely and satisfactory basis, its reputation and eligibility to secure additional contracts in the future could be damaged. The failure to perform could also result in contract terminations and significant liability. Any such result would adversely affect the Company's business and financial condition.

Our financial status raises doubt about our ability to continue as a going concern.

Our cash and cash equivalents were $1,821,000 at December 31, 2016, compared with $4,060,000 at December 31, 2015. We continue to incur significant operating losses, and management expects that significant on-going operating expenditures will be necessary to successfully implement our business plan and develop and market our products. These circumstances raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements included elsewhere in this Annual Report on Form 10-K are issued. Implementation of our plans and our ability to continue as a going concern will depend upon our ability to market our technology and raise additional capital.

Management believes that we have access to capital resources through possible public or private equity offerings, exchange offers, debt financings, corporate collaborations or other means. In addition, we continue to explore opportunities to strategically monetize our technology and our services, although there can be no assurance that we will be successful with such plans. We have historically been able to raise capital through equity offerings, although no assurance can be provided that we will continue to be successful in the future. If we are unable to raise sufficient capital through 2017 or otherwise, we will not be able to pay our obligations as they become due.

We have regained our compliance status with NASDAQ's Listing Rules but there is no assurance for our continued listing.

On November 30, 2015, the Company received notification from The NASDAQ Stock Market LLC ("NASDAQ") stating that the Company did not comply with the minimum $1.00 bid price requirement for continued listing set forth in NASDAQ Listing Rule 5550(a)(2) (the "Rule") and that it would have 180 days until May 31, 2016 to regain compliance. On June 1, 2016, NASDAQ provided the Company granted the Company an additional 180 days, or until November 28, 2016 to comply with this requirement.

On November 29, 2016, the Company received notification (the "Staff Delisting Determination") from NASDAQ that it had not regained compliance with the Rule and unless the Company appealed the Staff Delisting Determination, trading of the Company's common stock would be suspended at the opening of business on December 8, 2016, and a Form 25-NSE would be filed with the SEC which would remove the Company's securities from listing and registration on NASDAQ.

On March 16, 2017, the Company received notice from NASDAQ stating that the Company had regained compliance with the Rule and is in compliance with other applicable requirements required for listing on NASDAQ. In order to maintain that listing, we must continue to satisfy minimum financial and other continued listing requirements and standards, including those regarding director independence and independent committee requirements, minimum stockholders' equity, minimum share price, and certain corporate governance requirements. There can be no assurances that we will be able to comply with the applicable listing standards. If we are unable to maintain compliance with these NASDAQ requirements, our common stock could be delisted from NASDAQ.

In such event, it could become more difficult to dispose of, or obtain accurate price quotations for, our common stock, and there would likely also be a reduction in our coverage by securities analysts and the news media, which could cause the price of our common stock to decline further. Also, it may be difficult for us to raise additional capital if we are not listed on a major exchange.

We will need to increase the size of our organization, and we may experience difficulties in managing growth, which could hurt our financial performance.

In addition to employees hired from Lilien, Shoom, AirPatrol, LightMiner and Integrio and any other companies which we may acquire in the future, we anticipate that we will need to expand our employee infrastructure for managerial, operational, financial and other resources at the parent company level. Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively.

In order to manage our future growth, we will need to continue to improve our management, operational and financial controls and our reporting systems and procedures. All of these measures will require significant expenditures and will demand the attention of management. If we do not continue to enhance our management personnel and our operational and financial systems and controls in response to growth in our business, we could experience operating inefficiencies that could impair our competitive position and could increase our costs more than we had planned. If we are unable to manage growth effectively, our business, financial condition and operating results could be adversely affected.

The reorganization transactions we carried out in 2015 and the name change completed in 2017 may cause us to be in a technical breach of certain third-party agreements.

In 2015, we carried out a series of reorganization transactions to streamline the organizational structure within the Company and both its direct and indirect subsidiaries. In addition, in February 2017, we changed our corporate name. Although these transactions occurred solely within the Company and its subsidiaries, there still may have been an obligation to either provide notice and/or seek consent from certain third parties pursuant to the contracts we have with these parties. We have reviewed and addressed these requirements; however, our failure to comply with any of these notice or consent requirements may have left us in a technical breach, thus possibly subjecting us to potential liabilities or an early termination under the applicable contracts. As of the date of this filing there are no known breaches.

Our business depends on experienced and skilled personnel, and if we are unable to attract and integrate skilled personnel, it will be more difficult for us to manage our business and complete contracts.

The success of our business depends on the skill of our personnel. Accordingly, it is critical that we maintain, and continue to build, a highly experienced management team and specialized workforce, including those who create software programs and sales professionals. Competition for personnel, particularly those with expertise in government consulting and a security clearance, is high, and identifying candidates with the appropriate qualifications can be costly and difficult. We may not be able to hire the necessary personnel to implement our business strategy given our anticipated hiring needs, or we may need to provide higher compensation or more training to our personnel than we currently anticipate. In addition, our ability to recruit, hire and indirectly deploy former employees of the U.S. government is subject to complex laws and regulations, which may serve as an impediment to our ability to attract such former employees.

Our business is labor intensive and our success depends on our ability to attract, retain, train and motivate highly skilled employees, including employees who may become part of our organization in connection with our acquisitions. The increase in demand for consulting, technology integration and managed services has further increased the need for employees with specialized skills or significant experience in these areas. Our ability to expand our operations will be highly dependent on our ability to attract a sufficient number of highly skilled employees and to retain our employees and the employees of companies that we have acquired. We may not be successful in attracting and retaining enough employees to achieve our desired expansion or staffing plans. Furthermore, the industry turnover rates for these types of employees are high and we may not be successful in retaining, training or motivating our employees. Any inability to attract, retain, train and motivate employees could impair our ability to adequately manage and complete existing projects and to accept new client engagements. Such inability may also force us to increase our hiring of independent contractors, which may increase our costs and reduce our profitability on client engagements. We must also devote substantial managerial and financial resources to monitoring and managing our workforce. Our future success will depend on our ability to manage the levels and related costs of our workforce.

In the event we are unable to attract, hire and retain the requisite personnel and subcontractors, we may experience delays in completing contracts in accordance with project schedules and budgets, which may have an adverse effect on our financial results, harm our reputation and cause us to curtail our pursuit of new contracts. Further, any increase in demand for personnel may result in higher costs, causing us to exceed the budget on a contract, which in turn may have an adverse effect on our business, financial condition and operating results and harm our relationships with our customers.

Any future acquisitions that we may make could disrupt our business, cause dilution to our stockholders and harm our business, financial condition or operating results.

If we are successful in consummating acquisitions, those acquisitions could subject us to a number of risks, including, but not limited to:

- the purchase price we pay and/or unanticipated costs could significantly deplete our cash reserves or result in dilution to our existing stockholders;
- we may find that the acquired company or technologies do not improve our market position as planned;
- we may have difficulty integrating the operations and personnel of the acquired company, as the combined operations will place significant demands on the Company's management, technical, financial and other resources;
- key personnel and customers of the acquired company may terminate their relationships with the acquired company as a result of the acquisition;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning and financial reporting;

- we may assume or be held liable for risks and liabilities (including environmental-related costs) as a result of our acquisitions, some of which we may not be able to discover during our due diligence investigation or adequately adjust for in our acquisition arrangements;

- our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises;

- we may incur one-time write-offs or restructuring charges in connection with the acquisition;

- we may acquire goodwill and other intangible assets that are subject to amortization or impairment tests, which could result in future charges to earnings; and

- we may not be able to realize the cost savings or other financial benefits we anticipated.

We cannot assure you that, following any acquisition, our continued business will achieve sales levels, profitability, efficiencies or synergies that justify the acquisition or that the acquisition will result in increased earnings for us in any future period. These factors could have a material adverse effect on our business, financial condition and operating results.

Insurance and contractual protections may not always cover lost revenue, increased expenses or liquidated damages payments, which could adversely affect our financial results.

Although we maintain insurance and intend to obtain warranties from suppliers, obligate subcontractors to meet certain performance levels and attempt, where feasible, to pass risks we cannot control to our customers, the proceeds of such insurance or the warranties, performance guarantees or risk sharing arrangements may not be adequate to cover lost revenue, increased expenses or liquidated damages payments that may be required in the future.

Our obligations to our current lender are secured by a security interest in substantially all of our assets, so if we default on those obligations, the lender could foreclose on, liquidate and/or take possession of our assets. If that were to happen, we could be forced to curtail, or even to cease, our operations.

We entered into a Loan and Security Agreement (the "Loan Agreement") with GemCap Lending I, LLC, or GemCap, dated as of November 14, 2016. Under the terms of the Loan Agreement, and subject to the satisfaction of certain conditions to funding, GemCap has agreed to make revolving credit loans to us provided that in no event can the aggregate amount of the revolving credit loans outstanding at any time exceed $10 million (subject to certain conditions). As of December 31, 2016, we had $6.7 million in outstanding revolving credit loans. All amounts due under the Loan Agreement upon funding are secured by our assets. As a result, if we default under our obligations under the Loan Agreement, GemCap could foreclose on its security interest and liquidate or take possession of some or all of these assets, which would harm our business, financial condition and results of operations and could require us to curtail, or even to cease, operations.

GemCap has certain rights upon an event of default under the Loan Agreement that could harm our business, financial condition and results of operations and could require us to curtail or cease or operations.

GemCap has certain rights upon an event of default. Such rights include an increase in the interest rate on any advances made pursuant to the Loan Agreement, the right to accelerate the payment of any outstanding advances made pursuant to the Loan Agreement, the right to directly receive payments made by account debtors and the right to foreclose on our assets, among other rights. The Loan Agreement includes in its definition of an event of default the failure to pay any principal when due within two business days, the termination, winding up, liquidation or dissolution of borrower, the filing of a tax lien by a governmental agency against borrower, and any reduction in ownership of its wholly owned subsidiaries Inpixon USA and Inpixon Federal.

The exercise of any of these rights upon an event of default could substantially harm our financial condition and force us to curtail, or even to cease, our operations.

If we are unable to comply with certain financial and operating restrictions required by the Loan Agreement with GemCap, we may be limited in our business activities and access to credit or may default under the Loan Agreement.

Provisions in the Loan Agreement with GemCap impose restrictions or require prior approval on our ability, and the ability of certain of our subsidiaries to, among other things:

- sell, lease, transfer, convey, or otherwise dispose of any or all of our assets or collateral, except in the ordinary course of business;
- make any loans to any Person, as that term is defined in the Loan Agreement, with the exception of employee loans made in the ordinary course of business;
- declare or pay cash dividends, make any distribution on, redeem, retire or otherwise acquire directly or indirectly, any of its Equity Interests, as defined in the Loan Agreement;
- guarantee the indebtedness of any Person;
- compromise, settle or adjust any claims in any amount relating to any of the collateral;
- incur, create or permit to exist any lien on any of our property or assets;
- engage in new lines of business;
- change, alter or modify, or permit any change, alteration or modification of our organizational documents in any manner that might adversely affect GemCap's rights;
- sell, assign, transfer, discount or otherwise dispose of any accounts or any promissory note payable to us, with or without recourse;
- incur, create, assume, or permit to exist, any indebtedness or liability on account of either borrowed money or the deferred purchase price of property; and
- make any payments of cash or other property to any affiliate.

The Loan Agreement also contains other customary covenants. We may not be able to comply with these covenants in the future. Our failure to comply with these covenants may result in the declaration of an event of default and cause us to be unable to borrow under the Loan Agreement. In addition to preventing additional borrowings under the Loan Agreement, an event of default, if not cured or waived, may result in the acceleration of the maturity of indebtedness outstanding under the Loan Agreement, which would require us to pay all amounts outstanding. If the maturity of our indebtedness is accelerated, we may not have sufficient funds available for repayment or we may not have the ability to borrow or obtain sufficient funds to replace the accelerated indebtedness on terms acceptable to us or at all. Our failure to repay the indebtedness would result in the GemCap foreclosing on all or a portion of our assets and force us to curtail, or even to cease, our operations.

We may be subject to damages resulting from claims that the Company or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Upon completion of any acquisitions by the Company, we may be subject to claims that our acquired companies and their employees may have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of former employers or competitors. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying money claims, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain products, which could severely harm our business.

The loss of our Chief Executive Officer or other key personnel may adversely affect our operations.

The Company's success depends to a significant extent upon the operation, experience, and continued services of certain of its officers, including our CEO, as well as other key personnel. While our CEO and key personnel are employed under employment contracts, there is no assurance we will be able to retain their services. The loss of our CEO or several of the other key personnel could have an adverse effect on the Company. If our CEO or other executive officers were to leave we would face substantial difficulty in hiring a qualified successor and could experience a loss in productivity while any successor obtains the necessary training and experience. Furthermore, we do not maintain "key person" life insurance on the lives of any executive officer and their death or incapacity would have a material adverse effect on us. The competition for qualified personnel is intense, and the loss of services of certain key personnel could adversely affect our business.

Internal system or service failures could disrupt our business and impair our ability to effectively provide our services and products to our customers, which could damage our reputation and adversely affect our revenues and profitability.

Any system or service disruptions, on our hosted Cloud infrastructure or those caused by ongoing projects to improve our information technology systems and the delivery of services, if not anticipated and appropriately mitigated, could have a material adverse effect on our business including, among other things, an adverse effect on our ability to bill our customers for work performed on our contracts, collect the amounts that have been billed and produce accurate financial statements in a timely manner. We are also subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, cyber security threats, natural disasters, power shortages, terrorist attacks or other events, which could cause loss of data and interruptions or delays in our business, cause us to incur remediation costs, subject us to claims and damage our reputation. In addition, the failure or disruption of our communications or utilities could cause us to interrupt or suspend our operations or otherwise adversely affect our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, our future results could be adversely affected.

Customer systems failures could damage our reputation and adversely affect our revenues and profitability.

Many of the systems and networks that we develop, install and maintain for our customers on premise or host on our infrastructure involve managing and protecting personal information and information relating to national security and other sensitive government functions. While we have programs designed to comply with relevant privacy and security laws and restrictions, if a system or network that we develop, install or maintain were to fail or experience a security breach or service interruption, whether caused by us, third-party service providers, cyber security threats or other events, we may experience loss of revenue, remediation costs or face claims for damages or contract termination. Any such event could cause serious harm to our reputation and prevent us from having access to or being eligible for further work on such systems and networks. Our errors and omissions liability insurance may be inadequate to compensate us for all of the damages that we may incur and, as a result, our future results could be adversely affected.

Our financial performance could be adversely affected by decreases in spending on technology products and services by our public sector customers.

Our sales to our public sector customers are impacted by government spending policies, budget priorities and revenue levels. Although our sales to federal, state and local government are diversified across multiple agencies and departments, they collectively accounted for approximately 13% and 12% of 2016 and 2015 net sales, respectively. An adverse change in government spending policies (including budget cuts at the federal level), budget priorities or revenue levels could cause our public sector customers to reduce their purchases or to terminate or not renew their contracts with us, which could adversely affect our business, results of operations or cash flows.

Our business could be adversely affected by the loss of certain vendor partner relationships and the availability of their products.

We purchase products for resale from vendor partners, which include OEMs, software publishers, and wholesale distributors. For the year ended December 31, 2016, approximately 73% of our revenue was from purchases from vendor partners as defined above. We are authorized by vendor partners to sell all or some of their products via direct marketing activities. Our authorization with each vendor partner is subject to specific terms and conditions regarding such things as sales channel restrictions, product return privileges, price protection policies and purchase discounts. In the event we were to lose one of our significant vendor partners, our business could be adversely affected.

We have entered, and expect to continue to enter, into joint venture, teaming and other arrangements, and these activities involve risks and uncertainties. A failure of any such relationship could have material adverse results on our business and results of operations.

We have entered, and expect to continue to enter, into joint venture, teaming and other arrangements. These activities involve risks and uncertainties, including the risk of the joint venture or applicable entity failing to satisfy its obligations, which may result in certain liabilities to us for guarantees and other commitments, the challenges in achieving strategic objectives and expected benefits of the business arrangement, the risk of conflicts arising between us and our partners and the difficulty of managing and resolving such conflicts, and the difficulty of managing or otherwise monitoring such business arrangements. A failure of our business relationships could have material adverse results on our business and results of operations.

Our business and operations expose us to numerous legal and regulatory requirements and any violation of these requirements could harm our business.

We are subject to numerous federal, state and foreign legal requirements on matters as diverse as data privacy and protection, employment and labor relations, immigration, taxation, anticorruption, import/export controls, trade restrictions, internal and disclosure control obligations, securities regulation and anti-competition. Compliance with diverse and changing legal requirements is costly, time-consuming and requires significant resources. We are also focused on expanding our business in certain identified growth areas, such as health information technology, energy and environment, which are highly regulated and may expose us to increased compliance risk. Violations of one or more of these diverse legal requirements in the conduct of our business could result in significant fines and other damages, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations or contractual obligations related to regulatory compliance in connection with the performance of customer contracts could also result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to compete for certain work and allegations by our customers that we have not performed our contractual obligations.

If we do not adequately protect our intellectual property rights, we may experience a loss of revenue and our operations may be materially harmed.

We have not registered copyrights on any of the software we have developed. We rely upon confidentiality agreements signed by our employees, consultants and third parties to protect our intellectual property. We cannot assure you that we can adequately protect our intellectual property or successfully prosecute actual or potential infringement of our intellectual property rights. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. Our failure to protect our intellectual property rights may result in a loss of revenue and could materially adversely affect our operations and financial condition.

Our performance and ability to compete are dependent to a significant degree on our proprietary technology. Our proprietary software is protected by common law copyright laws, as opposed to registration under copyright statutes. Common law protection may be narrower than that which we could obtain under registered copyrights. As a result, we may experience difficulty in enforcing our copyrights against certain third party infringements. As part of our confidentiality-protection procedures, we generally enter into agreements with our employees and consultants and limit access to, and distribution of, our software, documentation and other proprietary information. There can be no assurance that the steps we have taken will prevent misappropriation of our technology or that agreements entered into for that purpose will be enforceable. The laws of other countries may afford us little or no protection of our intellectual property. We also rely on a variety of technology that we license from third parties. There can be no assurance that these third party technology licenses will continue to be available to us on commercially reasonable terms, if at all. The loss of or inability to maintain or obtain upgrades to any of these technology licenses could result in delays in completing software enhancements and new development until equivalent technology could be identified, licensed or developed and integrated. Any such delays would materially and adversely affect our business.

The growth of our business is dependent on increasing sales to our existing clients and obtaining new clients, which, if unsuccessful, could limit our financial performance.

Our ability to increase revenues from existing clients by identifying additional opportunities to sell more of our products and services and our ability to obtain new clients depends on a number of factors, including our ability to offer high quality products and services at competitive prices, the strength of our competitors and the capabilities of our sales and marketing departments. If we are not able to continue to increase sales of our products and services to existing clients or to obtain new clients in the future, we may not be able to increase our revenues and could suffer a decrease in revenues as well.

Our business depends on the continued growth of the market for IT products and services, which is uncertain.

The storage and computing and professional services segments of our business include IT products and services solutions that are designed to address the growing markets for on and off-premises services (including migrations, consolidations, Cloud computing and disaster recovery), technology integration services (including storage and data protection services and the implementation of virtualization solutions) and managed services (including operational support and client support). These markets are continuously changing. Competing technologies and services, reduction in technology refreshes or reductions in corporate spending may reduce the demand for our products and services.

Decreases, or slow growth, in the newspaper publishing industry may negatively impact our results from operation as it relates to our Cloud based applications and analytics for media and publishing.

The newspaper industry as a whole is experiencing challenges to maintain and grow print circulation and revenues. This results from, among other factors, increased competition from other media, particularly the growth of electronic media, and shifting preferences among some consumers to receive all or a portion of their news other than from a newspaper. The customer base for our Cloud based applications and analytics for media and publishing is focused on the newspaper publishing industry and therefore sales from this operating sector will be subject to the future of the newspaper industry.

Our competitiveness depends significantly on our ability to keep pace with the rapid changes in IT. Failure by us to anticipate and meet our clients' technological needs could adversely affect our competitiveness and growth prospects.

We operate and compete in an industry characterized by rapid technological innovation, changing client needs, evolving industry standards and frequent introductions of new products, product enhancements, services and distribution methods. Our success depends on our ability to develop expertise with these new products, product enhancements, services and distribution methods and to implement IT solutions that anticipate and respond to rapid changes in technology, the IT industry, and client needs. The introduction of new products, product enhancements and distribution methods could decrease demand for current products or render them obsolete. Sales of products and services can be dependent on demand for specific product categories, and any change in demand for or supply of such products could have a material adverse effect on our net sales if we fail to adapt to such changes in a timely manner.

We operate in a highly competitive market and we may be required to reduce the prices for some of our products and services to remain competitive, which could adversely affect our results of operations.

Our industry is developing rapidly and related technology trends are constantly evolving. In this environment, we face significant price competition from our competitors. We may be unable to offset the effect of declining average sales prices through increased sales volumes and/or reductions in our costs. Furthermore, we may be forced to reduce the prices of the products and services we sell in response to offerings made by our competitors. Finally, we may not be able to maintain the level of bargaining power that we have enjoyed in the past when negotiating the prices of our services.

We face substantial competition from other national, multi-regional, regional and local value-added resellers and IT service providers, some of which may have greater financial and other resources than we do or that may have more fully developed business relationships with clients or prospective clients than we do. Many of our competitors compete principally on the basis of price and may have lower costs or accept lower selling prices than we do and, therefore, we may need to reduce our prices. In addition, manufacturers may choose to market their products directly to end-users, rather than through IT solutions providers such as us, and this could adversely affect our business, financial condition and results of operations.

Our profitability is dependent on the rates we are able to charge for our products and services. The rates we are able to charge for our products and services are affected by a number of factors, including:

- our clients' perceptions of our ability to add value through our services;
- introduction of new services or products by us or our competitors;
- our competitors' pricing policies;
- our ability to charge higher prices where market demand or the value of our services justifies it;
- procurement practices of our clients; and
- general economic and political conditions.

If we are not able to maintain favorable pricing for our products and services, our results of operations could be adversely affected.

Sales of our IT products and services are subject to quarterly and seasonal variations that may cause significant fluctuations in our operating results, therefore period-to-period comparisons of our operating results may not be reliable predictors of future performance.

The timing of our revenues can be difficult to predict. Our sales efforts involve educating our clients about the use and benefit of the products we sell and our services and solutions, including their technical capabilities and potential cost savings to an organization. Clients typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle, which typically lasts several months, and may last a year or longer. We spend substantial time, effort and money on our sales efforts without any assurance that our efforts will produce any sales during a given period.

In addition, many of our clients spend a substantial portion of their IT budgets in the second half of the year. Other factors that may cause our quarterly operating results to fluctuate include changes in general economic conditions and the impact of unforeseen events. We believe that our revenues will continue to be affected in the future by cyclical trends. As a result, you may not be able to rely on period-to-period comparisons of our operating results as an indication of our future performance.

A delay in the completion of our clients' budget processes could delay purchases of our products and services and have an adverse effect on our business, operating results and financial condition.

We rely on our clients to purchase products and services from us to maintain and increase our earnings, and client purchases are frequently subject to budget constraints, multiple approvals and unplanned administrative, processing and other delays. If sales expected from a specific client are not realized when anticipated or at all, our results could fall short of public expectations and our business, operating results and financial condition could be materially adversely affected.

The profit margins from our IT products and services depend, in part, on the volume of products and services sold. A failure to achieve increases in our profit margins in the future could have a material adverse effect on our financial condition and results of operations.

Given the significant levels of competition that characterize the IT reseller market, it is unlikely that we will be able to increase gross profit margins through increases in sales of IT products alone. Any increase in gross profit margins from this operating sector in the future will depend, in part, on the growth of our higher margin businesses such as IT consulting and professional services. In addition, low margins increase the sensitivity of our results of operations to increases in costs of financing. Any failure by us to maintain or increase our gross profit margins could have a material adverse effect on our financial condition and results of operations.

Any failures or interruptions in our services or systems could damage our reputation and substantially harm our business and results of operations.

Our success depends in part on our ability to provide reliable remote services, technology integration and managed services to our clients. The operations of our IT products and services as well as our Cloud based applications and analytics are susceptible to damage or interruption from human error, fire, flood, power loss, telecommunications failure, terrorist attacks and similar events. We could also experience failures or interruptions of our systems and services, or other problems in connection with our operations, as a result of:

- damage to or failure of our computer software or hardware or our connections;
- errors in the processing of data by our systems;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events;
- increased capacity demands or changes in systems requirements of our clients; and
- errors by our employees or third-party service providers.

Any interruptions in our systems or services could damage our reputation and substantially harm our business and results of operations. While we maintain disaster recovery plans and insurance with coverage we believe to be adequate, claims may exceed insurance coverage limits, may not be covered by insurance or insurance may not continue to be available on commercially reasonable terms.

Some of our services and solutions involve storing and replicating mission-critical data for our clients and are highly technical in nature. If client data is lost or corrupted, our reputation and business could be harmed.

Our IT data center and technology integration services and Software-as-a-Service solutions include storing and replicating mission-critical data for our clients. The process of storing and replicating that data within their data centers or at our facilities is highly technical and complex. If any data is lost or corrupted in connection with the use of our products and services, our reputation could be seriously harmed and market acceptance of our IT solutions could suffer. In addition, our solutions have contained, and may in the future contain, undetected errors, defects or security vulnerabilities. Some errors in our solutions may only be discovered after a solution has been in use by clients. Any errors, defects or security vulnerabilities discovered in our solutions after use by clients could result in loss of revenues, loss of clients, increased service and warranty cost and diversion of attention of our management and technical personnel, any of which could significantly harm our business. In addition, we could face claims for product liability, tort or breach of warranty. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and adversely affect the market's perception of us and our service offerings and solutions.

We do not have long-term recurring revenue generating contracts with our clients that utilize our IT products and services, and such clients may cease providing new purchase orders at any time or reduce the amount of purchases they make that would depress the revenues we receive from our IT products and services and harm our results of operations.

Our operations depend upon our relationships with our clients. Revenues from out IT products and services are typically driven by purchase orders received every month. The majority of revenues from our IT products and services come from one time purchase orders that do not guarantee any future recurring revenues. Approximately 24% of such revenues are recurring and based on contracts that range from 1-5 years for warranty and maintenance support. For these contracts the customer is invoiced one time and pays up front for the full term of the warranty and maintenance contract. Revenue from these contracts is determinable ratably over the contract period with the unearned revenue recorded as deferred revenue and amortized over the contract period. Clients with these type of contacts may cease providing new purchase orders at any time, may elect not to renew such contracts, cancel and request a refund of maintenance/warranty services that have not yet been provided (upon 30 days advance written notice) or reschedule purchases. If clients cease providing us with new purchase orders, diminish the services purchased from us, cancel executed purchase orders or delay future purchase orders, revenues received from the sale of our IT products and services would be negatively impacted, which could have a material adverse effect on our business and results of operations. There is no guarantee that we will be able to retain or generate future revenue from our existing clients or develop relationships with new clients.

We rely on a limited number of key customers, the importance of which may vary dramatically from year to year, and a loss of one or more of these key customers may adversely affect our operating results.

Our top three customers accounted for approximately 40% and 41% of our gross revenue during the year ended December 31, 2016 and 2015, respectively. One customer accounted for 28% of our gross revenue in 2016, and this customer may or may not continue to be a significant contributor to revenue in 2017. The loss of a significant amount of business from one of our major customers would materially and adversely affect our results of operations until such time, if ever, as we are able to replace the lost business. Significant clients or projects in any one period may not continue to be significant clients or projects in other periods. To the extent that we are dependent on any single customer, we are subject to the risks faced by that customer to the extent that such risks impede the customer's ability to stay in business and make timely payments to us.

Consolidation in the industries that we serve or from which we purchase could adversely affect our business.

Some of the clients we serve may seek to achieve economies of scale by combining with or acquiring other companies. If two or more of our current clients combine their operations, it may decrease the amount of work that we perform for these clients. If one of our current clients merges or consolidates with a company that relies on another provider for its consulting, systems integration and technology, or outsourcing services, we may lose work from that client or lose the opportunity to gain additional work. If two or more of our suppliers merge or consolidate operations, the increased market power of the larger company could also increase our product costs and place competitive pressures on us. Any of these possible results of industry consolidation could adversely affect our business.

The loss of any key manufacturer or distributor relationships, or related industry certifications, could have an adverse effect on our business.

As part of our end-to-end IT solutions, we are authorized resellers of the products and services of leading IT manufacturers and distributors. In many cases, we have achieved the highest level of relationship the manufacturer or distributor offers. In addition, our employees hold certifications issued by these manufacturers and by industry associations relating to the configuration, installation and servicing of these products. We differentiate ourselves from our competitors by the range of manufacturers and distributors we represent, the relationship level we have achieved with these manufacturers and distributors and the scope of the manufacturer and industry certifications our employees hold. There can be no assurance that we will be able to retain these relationships with our manufacturers and distributors, that we will be able to retain the employees holding these manufacturer and industry certifications, or that our employees will maintain their manufacturer or industry certifications. The loss of any of these relationships or certifications could have a material adverse effect on our business.

We may experience a reduction in the incentive programs offered to us by our vendors. Any such reduction could have a material adverse effect on our business, results of operations and financial condition.

We receive payments and credits from vendors, including consideration pursuant to volume sales incentive programs and marketing development funding programs. These programs are usually of finite terms and may not be renewed or may be changed in a way that has an adverse effect on us. Vendor funding is used to offset, among other things, inventory costs, cost of goods sold, marketing costs and other operating expenses. Certain of these funds are based on our volume of net sales or purchases, growth rate of net sales or purchases and marketing programs. If we do not grow our net sales or if we are not in compliance with the terms of these programs, there could be a material negative effect on the amount of incentives offered or paid to us by vendors. No assurance can be given that we will continue to receive such incentives or that we will be able to collect outstanding amounts relating to these incentives in a timely manner, or at all. Any sizeable reduction in, the discontinuance of, or a significant delay in receiving or the inability to collect such incentives, particularly related to incentive programs with one of our largest partners, Hewlett-Packard Company, could have a material adverse effect on our business, results of operations and financial condition. If we are unable to react timely to any fundamental changes in the programs of vendors, including the elimination of funding for some of the activities for which we have been compensated in the past, such changes would have a material adverse effect on our business, results of operations and financial condition.

We may need additional cash financing and any failure to obtain cash financing, could limit our ability to grow our business and develop or enhance our service offerings to respond to market demand or competitive challenges.

We expect that we will need to raise funds in order to continue our operations and implement our plans to grow our business. However, if we decide to seek additional capital, we may be unable to obtain financing on terms that are acceptable to us or at all. If we are unable to raise the required cash, our ability to grow our business and develop or enhance our service offerings to respond to market demand or competitive challenges could be limited.

We rely on inventory financing and vendor credit arrangements for our daily working capital and certain operational functions, the loss of which could have a material adverse effect on our future results.

We rely on inventory financing and vendor financing arrangements for daily working capital and to fund equipment purchases for our technology sales business. The loss of any of our inventory financing or vendor credit financing arrangements, a reduction in the amount of credit granted to us by our vendors, or a change in any of the material terms of these arrangements could increase our need for and the cost of working capital and have a material adverse effect on our future results. These credit arrangements are discretionary on the part of our creditors and require the performance of certain operational covenants. There can be no assurance that we will continue to meet those covenants and failure to do so may limit availability of, or cause us to lose, such financing. There can be no assurance that such financing will continue to be available to us in the future on acceptable terms.

If we cannot collect our receivables or if payment is delayed, our business may be adversely affected by our inability to generate cash flow, provide working capital or continue our business operations.

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for products received from us and any work performed by us. The timely collection of our receivables allows us to generate cash flow, provide working capital and continue our business operations. Our clients may fail to pay or delay the payment of invoices for a number of reasons, including financial difficulties resulting from macroeconomic conditions, or lack of an approved budget. An extended delay or default in payment relating to a significant account will have a material and adverse effect on the aging schedule and turnover days of our accounts receivable. If we are unable to timely collect our receivables from our clients for any reason, our business and financial condition could be adversely affected.

If our location based security and detection and context aware marketing products fail to satisfy customer demands or to achieve increased market acceptance our results of operations, financial condition and growth prospects could be materially adversely affected.

The market acceptance of our products, particularly our location based security and detection and context aware marketing products are critical to our continued success. Demand for these products is affected by a number of factors beyond our control, including continued market acceptance, the timing of development and release of new products by competitors, technological change, and growth or decline in the mobile device management market. We expect the proliferation of mobile devices to lead to an increase in the data security demands of our customers, and our products may not be able to scale and perform to meet those demands. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of these products, our business operations, financial results and growth prospects will be materially and adversely affected.

Our inventory management systems and related supply chain tools may not be able to forecast accurately and effectively manage supply of our products. If we ultimately determine that we have excess supply, we may have to reduce our prices and write-down inventory, which in turn could result in lower gross margins. If actual component usage and product demand are lower than the forecast, losses on manufacturing commitments in excess of forecasted demand may be accrued.

Any production interruptions for any reason, such as a natural disaster, epidemic, capacity shortages, or quality problems, at one of our manufacturing partners would negatively affect sales of product lines manufactured by that manufacturing partner and adversely affect our business and operating results.

Defects, errors, or vulnerabilities in our location based security and detection products or services or the failure of such products or services to prevent a security breach, could harm our reputation and adversely impact our results of operations.

Because our location based security products and services are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by customers. Defects may cause such products to be vulnerable to advanced persistent threats (APTs) or security attacks, cause them to fail to help secure information or temporarily interrupt customers' networking traffic. Because the techniques used by hackers to access sensitive information change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques and provide a solution in time to protect customers' data. In addition, defects or errors in our subscription updates or products could result in a failure to effectively update customers' hardware products and thereby leave customers vulnerable to APTs or security attacks.

Any defects, errors or vulnerabilities in our products could result in:

- Expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate, or work-around errors or defects or to address and eliminate vulnerabilities;
- Delayed or lost revenue;
- Loss of existing or potential customers or partners;
- Increased warranty claims compared with historical experience, or increased cost of servicing warranty claims, either of which would adversely affect gross margins; and
- Litigation, regulatory inquiries, or investigations that may be costly and harm our reputation

Our Cloud strategy, including our Software as a Service (SaaS), Platform as a Service (PaaS), Infrastructure as a Service (IaaS) and Data as a Service (DaaS) offerings, may adversely affect our revenues and profitability.

We offer customers a full range of consumption models including the deployment of our products via our Cloud based SaaS, PaaS, IaaS and DaaS offerings. These business models continue to evolve, and we may not be able to compete effectively, generate significant revenues or maintain the profitability of our Cloud offerings. Additionally, the increasing prevalence of Cloud and SaaS delivery models offered by us and our competitors may unfavorably impact the pricing of our on-premises enterprise software offerings and our Cloud offerings, and has a dampening impact on overall demand for our on-premises software product and service offerings, which could reduce our revenues and profitability, at least in the near-term. If we do not successfully execute our Cloud computing strategy or anticipate the Cloud computing needs of our customers, our reputation as a cloud services provider could be harmed and our revenues and profitability could decline.

Our Cloud offerings are generally purchased by customers on a subscription basis and revenues from these offerings are generally recognized ratably over the term of the subscriptions. The deferred revenue that results from sales of our Cloud offerings may prevent any deterioration in sales activity associated with our Cloud offerings from becoming immediately observable in our consolidated statement of operations. This is in contrast to revenues associated with our new software licenses arrangements whereby new software licenses revenues are generally recognized in full at the time of delivery of the related software licenses. We incur certain expenses associated with the infrastructures and marketing of our Cloud offerings in advance of our ability to recognize the revenues associated with these offerings. As customer demand for our Cloud offerings increases, we experience volatility in our reported revenues and operating results due to the differences in timing of revenue recognition between our new software licenses arrangements and Cloud offering arrangements.

Our current research and development efforts may not produce successful products or features that result in significant revenue, cost savings or other benefits in the near future. If we do not realize significant revenue from our research and development efforts, our business and operating results could be adversely affected.

Developing products and related enhancements in our field is expensive. Investments in research and development may not result in significant design improvements, marketable products or features or may result in products that are more expensive than anticipated. We may not achieve the cost savings or the anticipated performance improvements expected, and we may take longer to generate revenue from products in development, or generate less revenue than expected.

Our future plans include significant investments in research and development and related product opportunities. Our management believes that we must continue to dedicate a significant amount of resources to research and development efforts to maintain a competitive position. However, we may not receive significant revenue from these investments in the near future, or these investments may not yield the expected benefits, either of which could adversely affect our business and operating results.

Misuse of our products could harm our reputation.

Our products, particularly our location based security and detection and context aware marketing may be misused by customers or third parties that obtain access to such products. For example, these products could be used to protect information kept by criminals from government agencies. Such use of these products for censorship could result in negative press coverage and negatively affect our reputation.

If the general level of advanced attacks declines, or is perceived by current or potential customers to have declined, this could harm our location based security and detection operating segment, and our financial condition, operating results and growth prospects.

Our location based security and detection operating segment is substantially dependent upon enterprises and governments recognizing that APTs and other security attacks are pervasive and are not effectively prevented by legacy security solutions. High visibility attacks on prominent enterprises and governments have increased market awareness of the problem of APTs and security attacks and help to provide an impetus for enterprises and governments to devote resources to protecting against attacks, such as testing our platform, purchasing it, and broadly deploying it within their organizations. If APTs and other security attacks were to decline, or enterprises or governments perceived that the general level of attacks has declined, our ability to attract new customers and expand its offerings for existing customers could be materially and adversely affected, which would, in turn, have a material adverse effect on our financial condition, results of operations and growth prospects.

If our location based security and detection products do not effectively interoperate with our customers' IT infrastructure, installations could be delayed or cancelled, which would harm our financial condition, operating results and growth prospects.

Our products must effectively interoperate with our customers' existing or future IT infrastructure, which often has different specifications, utilizes multiple protocol standards, deploys products from multiple vendors, and contains multiple generations of products that have been added over time. As a result, when problems occur in a company's infrastructure, it may be difficult to identify the sources of these problems. If we find errors in the existing software or defects in the hardware used in our customers' infrastructure, we may have to modify its software or hardware so that our products will interoperate with the infrastructure of our customers. In such cases, our products may be unable to provide significant performance improvements for applications deployed in the infrastructure of our customers. These issues could cause longer installation times for our products and could cause order cancellations, either of which would adversely affect our business, results of operations and financial condition. In addition, other customers may require products to comply with certain security or other certifications and standards. If our products are late in achieving or fail to achieve compliance with these certifications and standards, or competitors sooner achieve compliance with these certifications and standards, we may be disqualified from selling our products to such customers, or may otherwise be at a competitive disadvantage, either of which would harm our business, results of operations, and financial condition.

Failure to protect our intellectual property rights could adversely affect our financial condition, operating results and growth prospects.

The success of our business depends, in part, on our ability to protect proprietary methods and technologies that we develop under patent and other intellectual property laws of the United States so that we can prevent others from using our inventions and proprietary information. If we or our subsidiaries fail to protect intellectual property rights adequately, competitors might gain access to our technology, and our business might be adversely affected. However, defending our intellectual property rights might entail significant expenses. Any patents issued in the future may not provide us with any competitive advantages, and our patent applications may never be granted. The process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Even if issued, there can be no assurance that these patents will adequately protect our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are complex and often uncertain. Our inability to protect our property rights could adversely affect our financial condition, operating results and growth prospects.

We may not be able to successfully integrate the business and operations of entities that we have acquired or may acquire in the future into our ongoing business operations, which may result in our inability to fully realize the intended benefits of these acquisitions, or may disrupt our current operations, which could have a material adverse effect on our business, financial position and/or results of operations.

We continue to integrate the operations of Lilien, AirPatrol, Shoom and LightMiner into Inpixon USA, and Integrio into Inpixon Federal and this process involves complex operational, technological and personnel-related challenges, which are time-consuming and expensive and may disrupt our ongoing business operations. Furthermore, integration involves a number of risks, including, but not limited to:

- difficulties or complications in combining the companies' operations;
- differences in controls, procedures and policies, regulatory standards and business cultures among the combined companies;
- the diversion of management's attention from our ongoing core business operations;
- increased exposure to certain governmental regulations and compliance requirements;
- the potential loss of key personnel;
- the potential loss of key customers or suppliers who choose not to do business with the combined business;
- difficulties or delays in consolidating the acquired companies' technology platforms, including implementing systems designed to continue to ensure that the Company maintains effective disclosure controls and procedures and internal control over financial reporting for the combined company and enable the Company to continue to comply with U.S. GAAP and applicable U.S. securities laws and regulations;
- unanticipated costs and other assumed contingent liabilities;
- difficulty comparing financial reports due to differing financial and/or internal reporting systems;
- making any necessary modifications to internal financial control standards to comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder; and/or
- possible tax costs or inefficiencies associated with integrating the operations of the combined company.

These factors could cause us to not fully realize the anticipated financial and/or strategic benefits of the acquisitions and the recent reorganization, which could have a material adverse effect on our business, financial condition and/or results of operations.

Even if we are able to successfully operate the businesses of Lilien, Shoom, AirPatrol, LightMiner and Integrio within Inpixon, we may not be able to realize the revenue and other synergies and growth that we anticipate from these acquisitions and the recent reorganization in the time frame that we currently expect, and the costs of achieving these benefits may be higher than what we currently expect, because of a number of risks, including, but not limited to:

- the possibility that the acquisition may not further our business strategy as we expected;
- the possibility that we may not be able to expand the reach and customer base for the acquired companies current and future products as expected;
- the possibility that the carrying amounts of goodwill and other purchased intangible assets may not be recoverable; and

As a result of these risks, the acquisitions and integration may not contribute to our earnings as expected, we may not achieve expected revenue synergies or our return on invested capital targets when expected, or at all, and we may not achieve the other anticipated strategic and financial benefits of the acquisitions and the reorganization.

A significant portion of the purchase price for our acquisition of Lilien, Shoom, AirPatrol, LightMiner and Integrio is allocated to goodwill and intangible assets that are subject to periodic impairment evaluations. An impairment loss could have a material adverse impact on our financial condition and results of operations.

The Company acquired $4.5 million of goodwill and $5.4 million of intangible assets relating to our acquisition of Lilien, $1.2 million of goodwill and $2.8 million of intangible assets relating to our acquisition of Shoom, $7.4 million of goodwill and $13.3 million of intangible assets relating to our acquisition of AirPatrol, $3.5 million of intangible assets relating to our acquisition of LightMiner and $3.8 million of goodwill and $4.4 million of intangible assets relating to our acquisition of Integrio. As required by current accounting standards, we review intangible assets for impairment either annually or whenever changes in circumstances indicate that the carrying value may not be recoverable. The risk of impairment to goodwill is higher during the early years following an acquisition. This is because the fair values of these assets align very closely with what we paid to acquire the reporting units to which these assets are assigned. As a result, the difference between the carrying value of the reporting unit and its fair value (typically referred to as "headroom") is smaller at the time of acquisition. Until this headroom grows over time, due to business growth or lower carrying value of the reporting unit, a relatively small decrease in reporting unit fair value can trigger impairment charges. When impairment charges are triggered, they tend to be material due to the size of the assets involved. Our business would be adversely affected, and impairment of goodwill could be triggered, if any of the following were to occur: higher attrition rates than planned as a result of the competitive environment or our inability to provide products and services that are competitive in the marketplace, lower-than-planned adoption rates by customers, higher-than-expected expense levels to provide services to clients, and changes in our business model that may impact one or more of these variables. During the year ended December 31, 2016 we recorded an impairment charge for goodwill in the amount of $7.4 million.

Our acquisitions may expose us to additional liabilities, and insurance and indemnification coverage may not fully protect us from these liabilities.

Upon completion of acquisitions, we may be exposed to unknown or contingent liabilities associated with the acquired entity, and if these liabilities exceed our estimates, our results of operations and financial condition may be materially and negatively affected.

The risks arising with respect to the historic business and operations of Lilien, Shoom, AirPatrol, LightMiner and Integrio may be different from what we anticipate, which could significantly increase the costs and decrease the benefits of the acquisition and materially and adversely affect our operations going forward.

Although we performed significant financial, legal, technological and business due diligence with respect to Lilien, Shoom, AirPatrol LightMiner and Integrio, we may not have appreciated, understood or fully anticipated the extent of the risks associated with the acquisitions. As mentioned above, we have secured indemnification for certain matters from the former equity holders of Lilien, Shoom, AirPatrol and Integrio in order to mitigate the consequences of breaches of representations, warranties and covenants under the merger agreements and the risks associated with historic operations, including those with respect to compliance with laws, accuracy of financial statements, financial reporting controls and procedures, tax matters and undisclosed liabilities, and certain matters known to us. We believe that the indemnification provisions of the merger agreements, together with the holdback escrow (in the case of AirPatrol, Shoom and LightMiner) and insurance policies that we and Lilien, Shoom, AirPatrol (which all merged into Inpixon USA) and Integrio have in place will limit the economic consequences of the issues we have identified in our due diligence to acceptable levels. Notwithstanding our exercise of due diligence and risk mitigation strategies, the risks of the acquisition and the costs associated with these risks may be greater than we anticipate. We may not be able to contain or control the costs associated with unanticipated risks or liabilities, which could materially and adversely affect our business, liquidity, capital resources or results of operations.

We depend on the U.S. government for a substantial portion of our business and government budget impasses together with changes in government defense spending could have adverse consequences on our financial position, results of operations and business.

A substantial portion of our U.S. revenues from our operations have been from and will continue to be from sales and services rendered directly or indirectly to the U.S. Government. Consequently, our revenues are highly dependent on the Government's demand for computer systems and related services. Our revenues from the U.S. Government largely result from contracts awarded to us under various U.S. Government programs, primarily defense-related programs with the Department of Defense (DoD), as well as a broad range of programs with the FBI, Bureau of Prison, NIH, NASA, Department of Homeland Security, the Intelligence Community and other departments and agencies. Cost cutting including through consolidation and elimination of duplicative organizations and insurance has become a major initiative for DoD. The funding of our programs is subject to the overall U.S. Government budget and appropriation decisions and processes which are driven by numerous factors, including geo-political events and macroeconomic conditions. It is expected that U.S. Government spending on IT will decrease from 6% CAGR during the first decade of the 21st Century to 3%. (*Source*: Market Research Media - U.S. Federal IT Market Forecast 2013-2018). The overall level of U.S. defense spending increased in recent years for numerous reasons, including increases in funding of operations in Iraq and Afghanistan. However, with the winding down of both wars, defense spending levels are becoming increasingly difficult to predict and are expected to be affected by numerous factors. Such factors include priorities of the Administration and the Congress, and the overall health of the U.S. and world economies and the state of governmental finances.

The Budget Control Act of 2011 enacted 10-year discretionary spending caps which are expected to generate over $1 trillion in savings for the U.S. government, a substantial portion of which comes from DoD baseline spending reductions. In addition, the Budget Control Act of 2011 provides for additional automatic spending cuts (referred to as "sequestration") totaling $1.2 trillion over nine years which were implemented beginning in the U.S. government fiscal year ending September 30, 2013 (GFY13). These reduction targets will further reduce DoD and other federal agency budgets. Although the Office of Management and Budget has provided guidance to agencies on implementing sequestration cuts, there remains much uncertainty about how exactly sequestration cuts will be implemented and the impact those cuts will have on contractors supporting the government. We are not able to predict the impact of future budget cuts, including sequestration, on our Company or our financial results. However, we expect that budgetary constraints and concerns related to the national debt will continue to place downward pressure on DoD spending levels and that implementation of the automatic spending cuts without change will reduce, delay or cancel funding for certain of our contracts - particularly those with unobligated balances - and programs and could adversely impact our operations, financial results and growth prospects.

A significant reduction in defense spending could have long-term consequences for our size and structure. In addition, reduction in government priorities and requirements could impact the funding, or the timing of funding, of our programs, which could negatively impact our results of operations and financial condition. In addition, we are involved in U.S. government programs, which are classified by the U.S. government and our ability to discuss these programs, including any risks and disputes and claims associated with and our performance under such programs, could be limited due to applicable security restrictions.

The U.S. government systems integration business is intensely competitive and we may not be able to win government bids when competing against much larger companies, which could reduce our revenues.

Large computer systems integration contracts awarded by the U.S. government are few in number and are awarded through a formal competitive bidding process, including IDIQ, GSA Schedule and other multi-award contracts. Bids are awarded on the basis of price, compliance with technical bidding specifications, technical expertise and, in some cases, demonstrated management ability to perform the contract. There can be no assurance that the Company will win and/or fulfill additional contracts. Moreover, the award of these contracts is subject to protest procedures and there can be no assurance that the Company will prevail in any ensuing legal protest. The Company's failure to secure a significant dollar volume of U.S. government contracts in the future would adversely affect our Inpixon Federal subsidiary.

The U.S. government systems integration business is intensely competitive and subject to rapid change. The Company competes with a large number of systems integrators, hardware and software manufacturers, and other large and diverse companies attempting to enter or expand their presence in the U.S. government market. Many of the existing and potential competitors have greater financial, operating and technological resources than the Company. The competitive environment may require us to make changes in our pricing, services or marketing. The competitive bidding process involves substantial costs and a number of risks, including significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us, or that may be awarded, but for which we do not receive meaningful revenues. Accordingly, our success depends on our ability to develop services and products that address changing needs and to provide people and technology needed to deliver these services and products. To remain competitive, we must consistently provide superior service, technology and performance on a cost-effective basis to our customers. Our response to competition could cause us to expend significant financial and other resources, disrupt our operations, strain relationships with partners, any of which could harm our business and/or financial condition.

Inpixon Federal's financial performance is dependent on our ability to perform on our U.S. government contracts, which are subject to termination for convenience, which could harm our results of operations and financial condition.

Inpixon Federal's financial performance is dependent on our performance under our U.S. government contracts. With the Integrio acquisition our government contract revenue has increased significantly and could represent more than 50% of this revenue in 2017 and beyond. Government customers have the right to cancel any contract at their convenience. An unanticipated termination of, or reduced purchases under, one of the Company's major contracts whether due to lack of funding, for convenience or otherwise, or the occurrence of delays, cost overruns and product failures could adversely impact our results of operations and financial condition. If one of our contracts were terminated for convenience, we would generally be entitled to payments for our allowable costs and would receive some allowance for profit on the work performed. If one of our contracts were terminated for default, we would generally be entitled to payments for our work that has been accepted by the government. A termination arising out of our default could expose us to liability and have a negative impact on our ability to obtain future contracts and orders. Furthermore, on contracts for which we are a subcontractor and not the prime contractor, the U.S. government could terminate the prime contract for convenience or otherwise, irrespective of our performance as a subcontractor. The termination or cancellation of U.S. government contracts, no matter what the reason, could harm our results of operations and financial condition.

Our failure to comply with a variety of complex procurement rules and regulations could result in our being liable for penalties, including termination of our U.S. government contracts, disqualification from bidding on future U.S. government contracts and suspension or debarment from U.S. government contracting that could adversely affect our financial condition.

We must comply with laws and regulations relating to the formation, administration and performance of U.S. government contracts, which affect how we do business with our customers and may impose added costs on our business. U.S. government contracts generally are subject to the Federal Acquisition Regulation (FAR), which sets forth policies, procedures and requirements for the acquisition of goods and services by the U.S. government, department-specific regulations that implement or supplement DFAR, such as the DoD's Defense Federal Acquisition Regulation Supplement (DFARS) and other applicable laws and regulations. We are also subject to the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with certain contract negotiations; the Procurement Integrity Act, which regulates access to competitor bid and proposal information and government source selection information, and our ability to provide compensation to certain former government officials; the Civil False Claims Act, which provides for substantial civil penalties for violations, including for submission of a false or fraudulent claim to the U.S. Government for payment or approval; and the U.S. Government Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based U.S. government contracts. These regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, import and export, security, contract pricing and cost, contract termination and adjustment, and audit requirements. A contractor's failure to comply with these regulations and requirements could result in reductions to the value of contracts, contract modifications or termination, and the assessment of penalties and fines and lead to suspension or debarment, for cause, from government contracting or subcontracting for a period of time. In addition, government contractors are also subject to routine audits and investigations by U.S. government agencies such as the Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA). These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of and a contractor's compliance with its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. During the term of any suspension or debarment by any U.S. government agency, contractors can be prohibited from competing for or being awarded contracts by U.S. government agencies. The termination of any of the Company's significant government contracts or the imposition of fines, damages, suspensions or debarment would adversely affect the Company's business and financial condition.

The U.S. government may adopt new contract rules and regulations or revise its procurement practices in a manner adverse to us at any time.

Our industry has experienced, and we expect it will continue to experience, significant changes to business practices as a result of an increased focus on affordability, efficiencies, and recovery of costs, among other items. U.S. government agencies may face restrictions or pressure regarding the type and amount of services that they may obtain from private contractors. Legislation, regulations and initiatives dealing with procurement reform, mitigation of potential conflicts of interest and environmental responsibility or sustainability, as well as any resulting shifts in the buying practices of U.S. government agencies, such as increased usage of fixed price contracts, multiple award contracts and small business set-aside contracts, could have adverse effects on government contractors, including us. Any of these changes could impair our ability to obtain new contracts or renew our existing contracts when those contracts expire and are subject to a renewed bidding process. Any new contracting requirements or procurement methods could be costly or administratively difficult for us to implement and could adversely affect our future revenues, profitability and prospects.

We may incur cost overruns as a result of fixed priced government contracts, which would have a negative impact on our operations.

Most of our U.S. government contracts are multi-award, multi-year IDIQ task order based contracts, which generally provide for fixed price schedules for products and services, have no pre-set delivery schedules, have very low minimum purchase requirements, are typically competed over among multiple awardees and force us to carry the burden of any cost overruns. Due to their nature, fixed-priced contracts inherently have more risk than cost reimbursable contracts. If we are unable to control costs or if our initials cost estimates are incorrect, we can lose money on these contracts. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts, we may not realize their full benefits. Lower earnings caused by cost overruns and cost controls would have a negative impact on our results of operations. The U.S. government has the right to enter into contract with other suppliers, which may be competitive with the Company's IDIQ contracts. The Company also performs fixed priced contracts under which the Company agrees to provide specific quantities of products and services over time for a fixed price. Since the price competition to win both IDIQ and fixed price contracts is intense and the costs of future contract performance cannot be predicted with certainty, there can be no assurance as to the profits, if any, that the Company will realize over the term of such contracts.

Misconduct of employees, subcontractors, agents and business partners could cause us to lose existing contracts or customers and adversely affect our ability to obtain new contracts and customers and could have a significant adverse impact on our business and reputation.

Misconduct could include fraud or other improper activities such as falsifying time or other records and violations of laws, including the Anti-Kickback Act. Other examples could include the failure to comply with our policies and procedures or with federal, state or local government procurement regulations, regulations regarding the use and safeguarding of classified or other protected information, legislation regarding the pricing of labor and other costs in government contracts, laws and regulations relating to environmental, health or safety matters, bribery of foreign government officials, import-export control, lobbying or similar activities, and any other applicable laws or regulations. Any data loss or information security lapses resulting in the compromise of personal information or the improper use or disclosure of sensitive or classified information could result in claims, remediation costs, regulatory sanctions against us, loss of current and future contracts and serious harm to our reputation. Although we have implemented policies, procedures and controls to prevent and detect these activities, these precautions may not prevent all misconduct, and as a result, we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or misconduct by any of our employees, subcontractors, agents or business partners could damage our reputation and subject us to fines and penalties, restitution or other damages, loss of security clearance, loss of current and future customer contracts and suspension or debarment from contracting with federal, state or local government agencies, any of which would adversely affect our business, reputation and our future results.

We may fail to obtain and maintain necessary security clearances, which may adversely affect our ability to perform on certain U.S. government contracts and depress our potential revenues.

Many U.S. government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain necessary security clearances, we may not be able to win new business, and our existing clients could terminate their contracts with us or decide not to renew them. To the extent we are not able to obtain and maintain facility security clearances or engage employees with the required security clearances for a particular contract, we may not be able to bid on or win new contracts, or effectively rebid on expiring contracts, as well as lose existing contracts, which may adversely affect our operating results and inhibit the execution of our growth strategy.

Our future revenues and growth prospects could be adversely affected by our dependence on other contractors.

If other contractors with whom we have contractual relationships either as a prime contractor or subcontractor eliminate or reduce their work with us, or if the U.S. government terminates or reduces these other contractors' programs, does not award them new contracts or refuses to pay under a contract our financial and business condition may be adversely affected. Companies that do not have access to U.S. government contracts may perform services as our subcontractor and that exposure could enhance such companies' prospect of securing a future position as a prime U.S. government contractor which could increase competition for future contracts and impair our ability to perform on contracts.

We may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract, our hiring of a subcontractor's personnel or the subcontractor's failure to comply with applicable law. Current uncertain economic conditions heighten the risk of financial stress of our subcontractors, which could adversely impact their ability to meet their contractual requirements to us. If any of our subcontractors fail to timely meet their contractual obligations or have regulatory compliance or other problems, our ability to fulfill our obligations as a prime contractor or higher tier subcontractor may be jeopardized. Significant losses could arise in future periods and subcontractor performance deficiencies could result in our termination for default. A termination for default could eliminate a revenue source, expose us to liability and have an adverse effect on our ability to compete for future contracts and task orders, especially if the customer is an agency of the U.S. government.

Sysorex Arabia is currently without contracts and is unable to repay its indebtedness, which could have an adverse impact on our financial condition.

As of December 31, 2016, Sysorex Arabia had minimal cash and its assets are being carried at their estimated realized value of approximately $23,000. Sysorex Arabia had an accumulated deficit balance of approximately $2.1 million. Sysorex Arabia is currently without business. Sysorex Arabia also has aging liabilities due to vendors, employees, social insurance payments, and partners amounting to approximately $2.0 million and owes $946,000 to Inpixon. The failure of Sysorex Arabia's business resulted primarily from the failure of the OCC Data Center project, which has been cancelled. Sysorex Arabia is working with local suppliers on payment plans.

Sysorex Arabia has a judgment in the amount of $800,000 for non-performance by an Inpixon partner. That amount has been paid by the partner and Sysorex Arabia is waiting for the Saudi Courts to release these funds from any claims. Sysorex Arabia has incurred several loans to finance its losses to date and to pay some of its liabilities. In the event that any unsatisfied claims are made against us, as the parent, the claims could have a material adverse effect on our financial condition if not resolved satisfactorily, as Sysorex Arabia is not expected to be able to satisfy its liabilities.

The assets and liabilities of Sysorex Arabia are shown as held for sale as our management decided to close Sysorex Arabia and to shift its business activities to resellers and strategic partners in the region.

Our international business exposes us to geo-political and economic factors, regulatory requirements and other risks associated with doing business in foreign countries.

Our foreign operations pose complex management, foreign currency, legal, tax and economic risks, which we may not adequately address. We have foreign operations in the Middle East and expect to do business in South Asia. These risks differ from and potentially may be greater than those associated with our domestic business.

Our international business is sensitive to changes in the priorities and budgets of international customers and geo-political uncertainties, which may be driven by changes in threat environments and potentially volatile worldwide economic conditions, various regional and local economic and political factors, risks and uncertainties, as well as U.S. foreign policy. Our international sales are subject to U.S. laws, regulations and policies, including the International Traffic in Arms Regulations (ITAR) and the Foreign Corrupt Practices Act (see below) and other export laws and regulations. Due to the nature of our products, we must first obtain licenses and authorizations from various U.S. Government agencies before we are permitted to sell our products outside of the U.S. We can give no assurance that we will continue to be successful in obtaining the necessary licenses or authorizations or that certain sales will not be prevented or delayed. Any significant impairment of our ability to sell products outside of the U.S. could negatively impact our results of operations and financial condition.

Our international sales are also subject to local government laws, regulations and procurement policies and practices which may differ from U.S. government regulations, including regulations relating to import-export control, investments, exchange controls and repatriation of earnings, as well as to varying currency, geo-political and economic risks. Our international contracts may include industrial cooperation agreements requiring specific in-country purchases, manufacturing agreements or financial support obligations, known as offset obligations, and provide for penalties if we fail to meet such requirements. Our international contracts may also be subject to termination at the customer's convenience or for default based on performance, and may be subject to funding risks. We also are exposed to risks associated with using foreign representatives and consultants for international sales and operations and teaming with international subcontractors, partners and suppliers in connection with international programs. As a result of these factors, we could experience award and funding delays on international programs and could incur losses on such programs, which could negatively impact our results of operations and financial condition.

We are also subject to a number of other risks including:

- the absence in some jurisdictions of effective laws to protect our intellectual property rights;
- multiple and possibly overlapping and conflicting tax laws;
- restrictions on movement of cash;
- the burdens of complying with a variety of national and local laws;
- political instability;
- currency fluctuations;
- longer payment cycles;
- restrictions on the import and export of certain technologies;
- price controls or restrictions on exchange of foreign currencies; and
- trade barriers.

Our international operations are subject to special U.S. government laws and regulations, such as the Foreign Corrupt Practices Act, and regulations and procurement policies and practices, including regulations to import-export control, which may expose us to liability or impair our ability to compete in international markets.

Our international operations are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. and other business entities for the purpose of obtaining or retaining business. We have operations and deal with governmental customers in countries known to experience corruption, including certain countries in the Middle East and in the future, the Far East. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees, consultants or contractors that could be in violation of various laws including the FCPA, even though these parties are not always subject to our control. We are also subject to import-export control regulations restricting the use and dissemination of information classified for national security purposes and the export of certain products, services, and technical data, including requirements regarding any applicable licensing of our employees involved in such work.

As a U.S. defense contractor we are vulnerable to security threats and other disruptions that could negatively impact our business.

As a U.S. defense contractor, we face certain security threats, including threats to our information technology infrastructure, attempts to gain access to our proprietary or classified information, and threats to physical security. These types of events could disrupt our operations, require significant management attention and resources, and could negatively impact our reputation among our customers and the public, which could have a negative impact on our financial condition, results of operations and liquidity. We are continuously exposed to cyber-attacks and other security threats, including physical break-ins. Any electronic or physical break-in or other security breach or compromise may jeopardize security of information stored or transmitted through our information technology systems and networks. This could lead to disruptions in mission-critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Although we have implemented policies, procedures and controls to protect against, detect and mitigate these threats, we face advanced and persistent attacks on our information systems and attempts by others to gain unauthorized access to our information technology systems are becoming more sophisticated. These attempts include covertly introducing malware to our computers and networks and impersonating authorized users, among others, and may be perpetrated by well-funded organized crime or state sponsored efforts. We seek to detect and investigate all security incidents and to prevent their occurrence or recurrence. We continue to invest in and improve our threat protection, detection and mitigation policies, procedures and controls. In addition, we work with other companies in the industry and government participants on increased awareness and enhanced protections against cyber security threats. However, because of the evolving nature and sophistication of these security threats, which can be difficult to detect, there can be no assurance that our policies, procedures and controls have or will detect or prevent any of these threats and we cannot predict the full impact of any such past or future incident. We may experience similar security threats to the information and technology systems that we develop, install or maintain under customer contracts. Although we work cooperatively with our customers and other business partners to seek to minimize the impacts of cyber and other security threats, we must rely on the safeguards put in place by those entities. Any remedial costs or other liabilities related to cyber or other security threats may not be fully insured or indemnified by other means. Occurrence of any of these security threats could expose us to claims, contract terminations and damages and could adversely affect our reputation, ability to work on sensitive U.S. Government contracts, business operations and financial results.

Difficult conditions in the global capital markets and the economy generally may materially adversely affect our business and results of operations, and we do not expect these conditions to improve in the near future.

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. Weak economic conditions generally, sustained uncertainty about global economic conditions, concerns about future U.S. government budget impasses or a prolonged or further tightening of credit markets could cause our customers and potential customers to postpone or reduce spending on technology products or services or put downward pressure on prices, which could have an adverse effect on our business, results of operations or cash flows. Concerns over inflation, energy costs, geopolitical issues and the availability of credit, in the U.S. have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices and wavering business and consumer confidence, have precipitated an economic slowdown and a global recession. Domestic and international equity markets have been experiencing heightened volatility and turmoil. These events and the continuing market upheavals may have an adverse effect on our business. In the event of extreme prolonged market events, such as the global economic recovery, we could incur significant losses.

Risks Related to Our Securities

We are eligible to be treated as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an "emerging growth company", as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including (1) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which we refer to as the Sarbanes-Oxley Act, (2) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and (3) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. In addition, as an emerging growth company, we are only required to provide two years of audited financial statements and two years of selected financial data in this report. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, including if the market value of our common stock held by non-affiliates exceeds $700.0 million as of any June 30 before that time or if we have total annual gross revenue of $1.0 billion or more during any fiscal year before that time, in which cases we would no longer be an emerging growth company as of the following December 31 or, if we issue more than $1.0 billion in non-convertible debt during any three-year period before that time, we would cease to be an emerging growth company immediately. 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 not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act 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 stock price may be more volatile.

Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting until the later of our second annual report or the first annual report required to be filed with the Commission following the date we are no longer an "emerging growth company" as defined in the JOBS Act. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal controls in the future.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Our directors and executive officers beneficially own a significant number of shares of our common stock. Their interests may conflict with our outside stockholders, who may be unable to influence management and exercise control over our business.

As of the date of this filing, our executive officers and directors beneficially own approximately 16.5% of our shares of common stock on a fully diluted basis. As a result, our executive officers and directors may be able to: elect or defeat the election of our directors, amend or prevent amendment to our articles of incorporation or bylaws, effect or prevent a merger, sale of assets or other corporate transaction, and control the outcome of any other matter submitted to the shareholders for vote. Accordingly, our outside stockholders may be unable to influence management and exercise control over our business.

We do not intend to pay cash dividends to our stockholders, so it is unlikely that stockholders will receive any return on their investment in our Company prior to selling stock in the Company.

We have never paid any dividends to our common stockholders as a public company. We currently intend to retain any future earnings for funding growth and, therefore, do not expect to pay any cash dividends in the foreseeable future. If we determine that we will pay cash dividends to the holders of our common stock, we cannot assure that such cash dividends will be paid on a timely basis. The success of your investment in the Company will likely depend entirely upon any future appreciation. As a result, you will not receive any return on your investment prior to selling your shares in our Company and, for the other reasons discussed in this "Risk Factors" section, you may not receive any return on your investment even when you sell your shares in our Company.

Anti-Takeover, Limited Liability and Indemnification Provisions

Some provisions of our articles of incorporation and bylaws may deter takeover attempts, which may inhibit a takeover that stockholders consider favorable and limit the opportunity of our stockholders to sell their shares at a favorable price.

Under our articles of incorporation, our Board of Directors may issue additional shares of common or preferred stock. Our Board of Directors has the ability to authorize "blank check" preferred stock without future shareholder approval. This makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us by means of a merger, tender offer, proxy contest or otherwise, including a transaction in which our stockholders would receive a premium over the market price for their shares and/or any other transaction that might otherwise be deemed to be in their best interests, and thereby protects the continuity of our management and limits an investor's opportunity to profit by their investment in the Company. Specifically, if in the due exercise of its fiduciary obligations, the Board of Directors were to determine that a takeover proposal was not in our best interest, shares could be issued by our Board of Directors without stockholder approval in one or more transactions that might prevent or render more difficult or costly the completion of the takeover by:

- diluting the voting or other rights of the proposed acquirer or insurgent stockholder group,

- putting a substantial voting bloc in institutional or other hands that might undertake to support the incumbent Board of Directors, or

- effecting an acquisition that might complicate or preclude the takeover.

Nevada Anti-Takeover Law may discourage acquirers and eliminate a potentially beneficial sale for our stockholders.

We are subject to the provisions of Section 78.438 of the Nevada Revised Statutes concerning corporate takeovers. This section prevents many Nevada corporations from engaging in a business combination with any interested stockholder, under specified circumstances. For these purposes, a business combination includes a merger or sale of more than 5% of our assets, and an interested stockholder includes a stockholder who owns 10% or more of our outstanding voting stock, as well as affiliates and associates of these persons. Under these provisions, this type of business combination is prohibited for three years following the date that the stockholder became an interested stockholder unless:

- the transaction in which the stockholder became an interested stockholder is approved by the Board of Directors prior to the date the interested stockholder attained that status;

- on consummation of the transaction that resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 90% of the voting stock of the corporation outstanding at the time the transaction was commenced, excluding those shares owned by persons who are directors and also officers; or

- on or subsequent to that date, the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least a majority of the outstanding voting stock that is not owned by the interested stockholder.

This statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Our indemnification of our officers and directors may cause us to use corporate resources to the detriment of our stockholders.

Our articles of incorporation eliminate the personal liability of our directors for monetary damages arising from a breach of their fiduciary duty as directors to the fullest extent permitted by Nevada law. This limitation does not affect the availability of equitable remedies, such as injunctive relief or rescission. Our articles of incorporation require us to indemnify our directors and officers to the fullest extent permitted by Nevada law, including in circumstances in which indemnification is otherwise discretionary under Nevada law.

Under Nevada law, we may indemnify our directors or officers or other persons who were, are or are threatened to be made a named defendant or respondent in a proceeding because the person is or was our director, officer, employee or agent, if we determine that the person:

- conducted himself or herself in good faith, reasonably believed, in the case of conduct in his or her official capacity as our director or officer, that his or her conduct was in our best interests, and, in all other cases, that his or her conduct was at least not opposed to our best interests; and

- in the case of any criminal proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

These persons may be indemnified against expenses, including attorneys' fees, judgments, fines, including excise taxes, and amounts paid in settlement, actually and reasonably incurred by the person in connection with the proceeding. If the person is found liable to the corporation, no indemnification will be made unless the court in which the action was brought determines that the person is fairly and reasonably entitled to indemnity in an amount that the court will establish.

Insofar as indemnification for liabilities under the Securities Act may be permitted to directors, officers or persons controlling us under the above provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

The obligations associated with being a public company require significant resources and management attention, which may divert from our business operations.

Following consummation of our initial public offering, we became subject to the reporting requirements of the Exchange Act, and The Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. The Exchange Act requires that we file annual, quarterly and current reports, proxy statements, and other information. The Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. Our Chief Executive Officer and Chief Financial Officer are required to certify that our disclosure controls and procedures are effective in ensuring that material information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We will need to hire additional financial reporting, internal controls and other financial personnel in order to enhance appropriate internal controls and reporting procedures. As a result, we will incur significant legal, accounting and other expenses. Furthermore, the need to establish the corporate infrastructure demanded of a public company may divert management's attention from implementing our growth strategy, which could prevent us from improving our business, results of operations and financial condition. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. However, the measures we take may not be sufficient to satisfy our obligations as a public company. In addition, we cannot predict or estimate the amount of additional costs we may incur in order to comply with these requirements. We anticipate that these costs will materially increase our selling, general and administrative expenses.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting. In connection with the implementation of the necessary procedures and practices related to internal control over financial reporting, we may identify deficiencies. Additionally, in the event we are no longer a smaller reporting company, as defined under the Exchange Act, and we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act of 2002, then we may not be able to obtain the independent registered public accountants' certifications required by that act, which may preclude us from keeping our filings with the SEC current, and interfere with the ability of investors to trade our securities and our shares to continue to be listed on the Nasdaq Capital Market.

If we fail to establish and maintain an effective system of internal controls, we may not be able to report our financial results accurately or prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. With each prospective acquisition we may make we will conduct whatever due diligence is necessary or prudent to assure us that the acquisition target can comply with the internal controls requirements of the Sarbanes-Oxley Act. Notwithstanding our diligence, certain internal controls deficiencies may not be detected. As a result, any internal control deficiencies may adversely affect our financial condition, results of operations and access to capital. We have not performed an in-depth analysis to determine if historical undiscovered failures of internal controls exist, and may in the future discover areas of our internal controls that need improvement.

Public company compliance may make it more difficult to attract and retain officers and directors.

The Sarbanes-Oxley Act and rules implemented by the SEC have required changes in corporate governance practices of public companies. As a public company, these rules and regulations increase our compliance costs and make certain activities more time consuming and costly. As a public company, these rules and regulations may make it more difficult and expensive for us to maintain our director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers, and to maintain insurance at reasonable rates, or at all.

Our stock price may be volatile.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- our ability to execute our business plan and complete prospective acquisitions;
- changes in our industry;
- competitive pricing pressures;
- our ability to obtain working capital financing;
- additions or departures of key personnel;
- limited "public float" in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock;
- sales of our common stock (particularly following effectiveness of this registration statement);
- operating results that fall below expectations;
- regulatory developments;
- economic and other external factors;
- period-to-period fluctuations in our financial results;
- our inability to develop or acquire new or needed technologies;
- the public's response to press releases or other public announcements by us or third parties, including filings with the SEC;
- changes in financial estimates or ratings by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;
- the development and sustainability of an active trading market for our common stock; and
- any future sales of our common stock by our officers, directors and significant stockholders.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

Our shares of common stock may be thinly traded, and the price may not reflect our value, and there can be no assurance that there will be an active market for our shares of common stock either now or in the future.

Our shares of common stock are thinly traded, our common stock is available to be traded and is held by a small number of holders, and the price may not reflect our actual or perceived value. There can be no assurance that there will be an active market for our shares of common stock either now or in the future. The market liquidity will be dependent on the perception of our operating business, among other things. We will take certain steps including utilizing investor awareness campaigns, investor relations firms, press releases, road shows and conferences to increase awareness of our business. Any steps that we might take to bring us to the awareness of investors may require that we compensate consultants with cash and/or stock. There can be no assurance that there will be any awareness generated or the results of any efforts will result in any impact on our trading volume. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business, and trading may be at an inflated price relative to the performance of the Company due to, among other things, the availability of sellers of our shares. If an active market should develop, the price may be highly volatile. Because there is currently a relatively low per-share price for our common stock, many brokerage firms or clearing firms are not willing to effect transactions in the securities or accept our shares for deposit in an account. Many lending institutions will not permit the use of low priced shares of common stock as collateral for any loans.

Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

If our stockholders sell substantial amounts of our common stock in the public market upon the expiration of any statutory holding period under Rule 144, or shares issued upon the exercise of outstanding options or warrants, it could create a circumstance commonly referred to as an "overhang" and, in anticipation of which, the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

In general, a non-affiliated person who has held restricted shares for a period of six months, under Rule 144, may sell into the market our common stock all of their shares, subject to the Company being current in its periodic reports filed with the SEC. As of March 23, 2017, approximately 1,659,183 shares of common stock of the 2,180,559 shares outstanding were free trading.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional shares.

In addition, as of December 31, 2016, there were 287,417 shares subject to outstanding warrants, 366,859 shares subject to outstanding options (including 41,667 outside of our plan), 18,905 shares accrued for the LightMiner acquisition, 100,000 shares subject to the conversion of the convertible preferred stock and 253,333 shares subject to the conversion of the debenture issued to Hillair Capital Investments L.P., and an additional 125,210 shares reserved for future issuance under our Amended and Restated 2011 Employee Stock Incentive Plan that will become, or have already become, eligible for sale in the public market to the extent permitted by any applicable vesting requirements, the lock-up agreements and Rules 144 and 701 under the Securities Act.

If we are unable to satisfy the continued listing requirements of The Nasdaq Stock Market, our common stock could be delisted and the price and liquidity of our common stock may be adversely affected.

Our common stock may lose value and our common stock could be delisted from Nasdaq due to several factors or a combination of factors. To maintain the listing of our common stock on The Nasdaq Stock Market, we are required to meet certain listing requirements. There can be no assurance that we will be able to maintain our listing.

If our common stock is delisted, market liquidity for our common stock could be severely affected and our stockholders' ability to sell their shares of our common stock could be limited. A delisting of our common stock from NASDAQ would negatively affect the value of our common stock. A delisting of our common stock could also adversely affect our ability to obtain financing for our operations and could result in the loss of confidence in our company.

ITEM 1B: UNRESOLVED STAFF COMMENTS

As a smaller reporting company, we are not required to provide this information.

ITEM 2: PROPERTIES

The Company's executive offices consist of approximately 4,377 square feet and are located at 2479 E. Bayshore Road, Suite 195, Palo Alto, CA 94303. In October 2014 the Company entered into a 64-month lease for the facility at a monthly base rent of $14,000. The term of the lease expires January 31, 2020.

Inpixon Federal's offices and warehouse are located at:

- 13800 Coppermine Road, Suite 300, Herndon, VA 20171. This is a shared office lease with a monthly rental of $182. The lease will expire in July 2017. The Company does not intend to renew this lease.
- 2355 Dulles Corner Blvd., Suite 600, Dulles Corner, Herndon, VA 20171. The monthly rent is $29,000 for approximately 11,000 square feet of office space. The lease expires on September 30, 2018.
- 23020 Eaglewood Court, Sterling, VA 20166. This is subleased warehouse space for which we pay $3,000 per month. The sublease expires on July 31, 2018.

Inpixon USA's executive offices are located at:

- 101 Larkspur Landing Circle, Suite 120, Larkspur, CA 94939. The monthly rent is $24,000 for approximately 6,211 square feet of office space under a lease that expires on February 28, 2022.
- 6345 Balboa Boulevard, Suite 247, Encino, CA 91316. The monthly rent was $10,780 until April 1, 2017 and has been reduced to $6,814 per month with 2.5% escalations on the anniversary dates since April 1, 2017, for approximately 5,986 square feet of office space under a lease that expires on July 31, 2017 with a five-year option to extend. The lease has been extended for an additional 48 months from August 1, 2017 through July 31, 2021. We will be relocating these operations to Suite 140, which is approximately 3,169 square feet. We currently pay the landlord a pro rata share of operating costs. Pursuant to the lease extension agreement, the operating expense calculation will change on April 1, 2017 and be reset to a base year of 2017.
- 8171 Maple Lawn Blvd., Suite 310, Maple Lawn, MD 20759. The monthly rent is $14,000 under a lease that expires on December 31, 2018 with a five-year option to extend. We pay the landlord a pro rata share of 6.10% for operating costs. The Company has vacated this property and the office space is currently being subleased for $10,767 per month through December 31, 2018.

Inpixon USA's sales offices are located at:

- 841 Bishop Street, Suite 2208, Honolulu, HI 96813. The monthly base rent is $1,000 under a lease that expires on August 31, 2017. The Company expects to extend this lease for another year.
- 11235 SE 6th Street, Suite 155, Bellevue, WA 98804. The monthly base rent is $6,000 under a lease that expires on April 30, 2018.
- 2175 Salk Avenue, Suite 150, Carlsbad, CA 92008. The monthly base rent is $9,000 under a lease that expires on September 14, 2017. The Company does not intend to renew this lease.

Inpixon Canada Inc. has an office of approximately 6,656 square feet that is located at 2963 Glen Drive, Suites 405 and 400, Coquitlam, BC V3P 2B7. The monthly rent under the lease is comprised of $11,600 CAD plus the pro rata share of the operating costs which approximates $8,000 CAD per month. The lease expires on September 30, 2021 with a five-year option to extend.

We believe that each of our properties is suitable and adequate for the operations conducted therein.

ITEM 3: LEGAL PROCEEDINGS

There are no material pending legal proceedings as defined by Item 103 of Regulation S-K, to which we are a party or of which any of our property is the subject, other than ordinary routine litigation incidental to the Company's business.

There are no proceedings in which any of the directors, officers or affiliates of the Company, or any registered or beneficial holder of more than 5% of the Company's voting securities, is an adverse party or has a material interest adverse to that of the Company.

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

Our common stock currently trades under the symbol "INPX" on the Nasdaq Capital Market and traded under the symbol "SYRX" prior to the March 1, 2017 name change. The following table sets forth the high and low sales prices on Nasdaq during the years ended December 31, 2016 and 2015. All prices reflect the 1-for-15 reverse stock split effected on March 1, 2017.

Period	High	Low
Year Ended December 31, 2016		
October 1, 2016 through December 31, 2016	$ 11.08	$ 2.40
July 1, 2016 through September 30, 2016	$ 8.38	$ 4.95
April 1, 2016 through June 30, 2016	$ 9.60	$ 4.04
January 1, 2016 through March 31, 2016	$ 10.80	$ 7.03
Year Ended December 31, 2015		
October 1, 2015 through December 31, 2015	$ 19.50	$ 8.10
July 1, 2015 through September 30, 2015	$ 30.30	$ 14.85
April 1, 2015 through June 30, 2015	$ 46.04	$ 15.90
January 1, 2015 through March 31, 2015	$ 34.50	$ 16.04

Holders of Record

According to our transfer agent, as of April 11, 2017 we had approximately 588 shareholders of record. This number does not include an indeterminate number of shareholders whose shares are held by brokers in street name. Our stock transfer agent is Corporate Stock Transfer Inc., 3200 Cherry Creek Drive South, Suite 430, Denver, CO 80209.

Dividends

We have not declared or paid any cash dividends on our common stock, and we currently intend to retain future earnings, if any, to finance the expansion of our business, therefore, we do not expect to pay any cash dividends in the foreseeable future. The decision whether to pay cash dividends on our common stock will be made by our board of directors, in their discretion, and will depend on our financial condition, results of operations, capital requirements and other factors that our board of directors considers significant.

Securities Authorized for Issuance under Equity Compensation Plans

For information required by this item with respect to our equity compensation plan, please see Item 11 of this report.

Recent Issuances of Unregistered Securities

On December 19, 2016 the Company issued 3,333 shares of common stock to a consultant under the terms of a consulting services agreement which were fully vested upon date of grant.

On December 23, 2016 the Company issued 3,333 shares of common stock to consultants under the terms of a consulting services agreements which were fully vested upon date of grant.

The shares were issued in transactions that were exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) of the Securities Act, which exempts transactions by an issuer not involving any public offering. The Company relied on the representations made by the consultants. No commissions were paid and no underwriter or placement agent was involved in this transactions. Other transactions that took place during the quarter ended December 31, 2016 pursuant to which we issued unregistered securities have been reported on the Current Reports on Form 8-K we filed with the Securities and Exchange Commission.

ITEM 6: SELECTED FINANCIAL DATA.

As a smaller reporting company we are not required to provide this information.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited financial statements and related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion and analysis here and throughout this Form 10-K contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements, due to a number of factors, including but not limited to, risks described in the section entitled "Risk Factors."

Except where indicated, all share and per share data in this section, as well as the consolidated financial statements, reflect the 1 for 15 reverse stock split of the Company's common stock effected on March 1, 2017.

Overview of Our Business

We provide a number of different technology products and services to private, public and government entities. Our business operates in four segments, namely mobile, IoT and Big Data products, storage and computing, SaaS revenues, and professional services. Our premier product secures, digitizes and optimizes the interior of any premises with indoor positioning and data analytics that provide rich positional information, similar to a global positioning system, and browser-like intelligence for the indoors. Other products and services that we provide include enterprise computing and storage, virtualization, business continuity, data migration, custom application development, networking and information technology, and business consulting services.

Our storage and computing segment revenues are typically driven by purchase orders that are received on a monthly basis. Approximately 36% of the revenues from these storage and computing purchase orders are recurring contracts that range from one to five years for warranty and maintenance support. For these contracts the customer is invoiced one time and pays Inpixon upfront for the full term of the warranty and maintenance contract. Revenue from these contracts is determinable ratably over the contract period with the unearned revenue recorded as deferred revenue and amortized over the contract period. We have a 30-year history and a high repeat customer rate of approximately 55% annually. Our revenues are diversified over hundreds of customers and typically no one customer exceeds 15% of revenues however from time to time a large order from a customer could put it temporarily above 15%. We have one customer that represented approximately 28% of our revenues for the year ending December 31, 2016 but we do not anticipate that this customer will continue to maintain that percentage as our revenues expand across other customers in 2017 especially into the federal government vertical with the Integrio acquisition. Management believes this diversification provides stability to our revenue streams.

Our Software-as-a-Service (SaaS) contracts are typically performed for periods of one or more years and we have a high customer retention rate. Inpixon's SaaS products include: eTearsheets, invoicing, CRM, and other products and services to approximately 792 newspapers in the Cloud. Cloud or SaaS based analytics is a growing market that Inpixon intends to pursue beyond the media vertical that we are in today.

Our mobile, IoT and Big Data sales are expected to grow significantly in 2017; however, sales cycles proved to be longer than we expected in 2016. The long sales cycles result from customer related issues such as budget and procurement processes but also because of the early stages of indoor-locationing technology and the learning curve required for customers to implement such solutions. This is improving with the increased presence and awareness of beacon and wi-fi locationing technologies in the market.

Our professional services group provides consulting services ranging from enterprise architecture design to custom application development to data modeling. We offer a full scope of information technology development and implementation services with expertise in a broad range of IT practices including project design and management, systems integration, outsourcing, independent validation and verification, cyber security and more.

Inpixon has many key vendor, technology, wholesale distribution and strategic partner relationships. These relationships are critical for us to deliver solutions to our customers. We have a variety of vendors and also products that we provide to our customers, and most of these products are purchased through the distribution partners. We also have joint venture partnerships and teaming agreements with various technology and service providers for this segment as well as our other business segments. These relationships range from joint-selling activities to product integration efforts.

In addition our business is required to meet certain regulatory requirements. The federal government agencies who are our customers in particular have a range of regulatory requirements including ITAR certifications, DCAA compliancy in our government contracts and other technical or security clearance requirements as may be required from time to time.

We experienced a net loss of $27.5 million for the year ended December 31, 2016. We cannot assure that we will ever earn revenues sufficient to support our operations, or that we will ever be profitable. In order to continue our operations, we have supplemented the revenues we earned with proceeds from the sale of our equity and debt securities and proceeds from loans and bank credit lines. Furthermore, except as discussed in this report, we have no committed source of financing and we cannot assure that we will be able to raise money as and when we need it to continue our operations. If we cannot raise funds as and when we need them, we may be required to scale back our business operations by reducing expenditures for employees, consultants, business development and marketing efforts, selling assets or one or more segments of our business, or otherwise severely curtailing our operations.

Recent Events

September 2015 Public Offering

On September 25, 2015, the Company entered into an underwriting agreement (the "Underwriting Agreement") with B. Riley & Co., LLC, as representative of the several underwriters named therein (the "Underwriters"), relating to the issuance and sale of 350,000 shares of the Company's common stock, par value $0.001 per share. The price to the public in this offering was $15.00 per share. Under the terms of the Underwriting Agreement, the Company also granted the Underwriters an option, exercisable for 30 days from the closing date, to purchase up to an additional 52,500 shares at the public offering price. The offering was made pursuant to the Company's registration statement on Form S-3 filed with the Securities and Exchange Commission and declared effective May 28, 2015 and a related prospectus supplement filed with the Securities and Exchange Commission.

The offering closed September 30, 2015. After deducting underwriting discounts and commissions and offering expenses, the net proceeds from the offering were approximately $4.7 million. The net proceeds from the offering were used for general corporate purposes, which included business development activities, capital expenditures, working capital and general and administrative expenses.

August 2016 Sale of Securities

On August 9, 2016, the Company entered into a Purchase Agreement with Hillair Capital Investments L.P. pursuant to which it issued and sold (i) an 8% Original Issue Discount Senior Convertible Debenture in an aggregate principal amount of $5,700,000 due on August 9, 2018 and (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock, par value $0.001 per share, for an aggregate purchase price of $5,000,000.

The debenture is due on August 9, 2018 and interest is payable quarterly on February 9, May 9, August 9 and November 9, commencing on May 9, 2017, as well as the dates on which principal payments are made, as described in the agreement in cash, or upon notice to the holder and compliance with certain equity conditions as set forth in the agreement in shares of the Company's common stock. Subject to certain equity conditions, the Company has the option to redeem the debenture before its maturity by payment in cash of 120% or 110% (depending on the timing of the redemption) of the then outstanding principal amount plus accrued interest and other charges. The Company is required to redeem 25% of the initial principal amount of the debenture plus accrued unpaid interest and other charges in November 2017, February 2018, May 2018, and August 2018.

The debenture is convertible into common stock at any time at the option of the holder at a conversion price of $22.50 per share, subject to adjustments provided in the agreement. In addition, under the terms of the agreement if, at any time following the six month anniversary of the original issue date or, in the event the Company sells or grants any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues any shares of common stock or common stock equivalents at an effective price per share that is lower than the conversion price then the conversion price is reduced to equal the lower price. The conversion price will have a floor $7.05 per share.

The Series 1 Convertible Preferred Stock authorized has a stated price of $1,000 per share, par value of $0.001 and the Company is authorized to issue 5,000,0000 shares. The Series 1 Convertible Preferred Stock is not cumulative, has no redemption features outside the control of the Company, has a liquidation preference of $2,250,000 and is subject to certain typical anti-dilution provisions, such as in the event of the payment of a stock dividend or upon the Company effecting a stock split.

The Series 1 Convertible Preferred Stock is convertible at any time by the shareholder at $22.50 per share. In addition, under the terms of the agreement if, at any time following the six month anniversary of the original issue date or, in the event the Company sells or grants any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues any shares of common stock or common stock equivalents at an effective price per share that is lower than the conversion price, then the conversion price is reduced to equal the lower price. The conversion price will have a floor $7.05 per share. The holders of the Company's Series 1 Convertible Preferred Stock have no voting rights.

GemCap Lending Loan Agreement

The Company and its wholly-owned subsidiaries, Inpixon USA and Inpixon Federal (jointly and severally, the "Borrower"), entered into a Loan and Security Agreement (the "Loan Agreement") with GemCap Lending I, LLC, a Delaware limited liability company (the "Lender") dated as of November 14, 2016.

Under the terms of the Loan Agreement, and subject to the satisfaction of certain conditions to funding, the Lender has agreed to make revolving credit loans to the Borrower in an aggregate principal amount which does not exceed 85% of Eligible Accounts (as defined in the Loan Agreement) at any one time outstanding, net of all taxes, discounts, allowances and credits given or claimed, provided that in no event can the aggregate amount of the revolving credit loans outstanding at any time exceed $10 million (subject to certain conditions). All amounts due under the Loan Agreement upon funding will be secured by the assets of the Company.

Borrowings pursuant to the Loan Agreement bear interest at an annual rate equal to the greater of (a) 9.5% and (b) the sum of (i) the "Prime Rate" as reported in the "Money Rates" column of The Wall Street Journal, adjusted as and when such Prime Rate changes, plus (ii) 6%. The interest rate on borrowings is subject to increase by 4% if an event of default has occurred and is continuing.

In connection with the Loan Agreement, the Borrower paid to the Lender a $100,000 closing fee. The Lender will also receive (a) an annual line fee equal to $100,000; (b) an unused line fee equal to 0.5% of the daily average unused portion of the maximum amount of Availability (as defined in the Loan Agreement), calculated on an annualized basis, due and payable monthly; (c) a loan administration and monitoring fee equal to 0.5% of the daily average used portion of Availability calculated on a monthly basis, due and payable monthly; and (d) certain other audit and wire fees.

Upon closing, the Loan Agreement provided the Borrower with a revolving line of credit, the proceeds of which were used to repay in full the existing indebtedness owed to Western Alliance Bank, as successor in interest to Bridge Bank, N.A.; pay certain expenses related to obtaining the revolving line of credit and for general working capital purposes.

GemCap Loan Agreement and Loan Schedule Amendment 1

On December 9, 2016, the Borrower entered into Amendment Number 1 to the Loan Agreement and to the Loan Agreement Schedule (the "Amendment"), to amend the Loan Agreement with the Lender, including:

- Amending the definition of "Borrowing Base" in the Loan Agreement, under which Borrower Base will be calculated at any time as the sum of (i) at any time as the product obtained by multiplying the outstanding amount of all Eligible Accounts (not including and specifically excluding Eligible Unbilled Accounts), net of all taxes, discounts, allowances and credits given or claimed, by up to eighty-five percent (85%), and (ii) (A) for the period from December 9, 2016 through and including January 9, 2017, the product obtained by multiplying the amount of only Eligible Unbilled Accounts net of all taxes, discounts, allowances and credits given or claimed, by up to eighty- five percent (85%), (B) for the period from January 10, 2017 through and including February 8, 2017, the product obtained by multiplying the amount of only Eligible Unbilled Accounts net of all taxes, discounts, allowances and credits given or claimed, by up to seventy percent (70%), (C) for the period from February 9, 2017 through and including March 9, 2017, the product obtained by multiplying the amount of only Eligible Unbilled Accounts net of all taxes, discounts, allowances and credits given or claimed, by up to fifty percent (50%), and (D) from and after March 10, 2017, the product obtained by multiplying the amount of only Eligible Unbilled Accounts net of all taxes, discounts, allowances and credits given or claimed, by zero percent (0%), it being the understanding of Borrower, that on and after March 10, 2017, Lender shall not make advances against Eligible Unbilled Accounts; provided, that, at all times, the aggregate amount of Eligible Unbilled Accounts shall not exceed twenty percent (20%) of the aggregate amount of Eligible Accounts.

- Adding the definition of "Eligible Unbilled Accounts" to the Loan Agreement, which means accounts (i) for which goods are to be provided to an account debtor or work or services are to be performed for an account debtor and the Borrower has not invoiced the account debtor within thirty (30) days after such accounts are first included on the Borrowing Certificate, and (ii) which otherwise satisfy (1), (3), (5) through and including (12) and (14) through and including (22) of the definition of Eligible Accounts as provided in the Loan Agreement.

- Amending the deadline for Borrower to deliver Monthly Financial Statements (as defined in the Loan Schedule) to Lender from not later than twenty (20) days after the end of each calendar month to not later than thirty (30) days after the end of each calendar month.

- Adding "Inventory schedules" to the definition of "Other Weekly Reports" under the Loan Schedule.

In connection with the Amendment, the Lender agreed to (i) waive any default of the Borrower under the Loan Agreement and the Loan Schedule arising from the Borrower's failure to deposit Collections of Accounts (as defined in the Loan Agreement) received by the Borrower in the account designated by the Lender for the period from November 21, 2016 through and including December 6, 2016 and (ii) provide the Borrower with additional availability for unbilled accounts in accordance with the Amendment.

In consideration of the Lender's consent to waive the default and the accommodation to provide additional availability, the Borrower agreed to pay all of the Lender's fees and costs, including the Lender's attorneys' fees and costs, in respect of the transactions regarding the Amendment and an accommodation fee of $50,000.

December 2016 Registered Direct Offering

On December 12, 2016, the Company entered into a Securities Purchase Agreement with certain investors (the "Investors") for the sale by the Company of 333,333 shares (the "Common Shares") of the Company's common stock at a purchase price of $6.00 per share. Concurrently with the sale of the Common Shares, pursuant to the Purchase Agreement the Company also sold warrants to purchase up to 250,000 shares of common stock (the "Warrants"). The aggregate gross proceeds for the sale of the Common Shares and Warrants was approximately $2.0 million. Subject to certain ownership limitations, the Warrants will be exercisable on the 6-month anniversary of the issuance date at an exercise price equal to $6.75 per share of common stock (the "Exercise Price"), subject to adjustments as provided under the terms of the Warrants. The Warrants are exercisable for five and a half years from the initial issuance date.

The net proceeds to the Company from the transactions, after deducting the placement agent's fees and expenses but before paying the Company's estimated offering expenses, and excluding the proceeds, if any, from the exercise of the Warrants was approximately $1.8 million. The Company intends to use the net proceeds from the transactions for general corporate purposes, which may include business development activities, capital expenditures, working capital and general and administrative expenses.

The Common Shares (but not the Warrants or shares issuable upon exercise of the Warrants) were offered and sold by the Company pursuant to a prospectus supplement dated as of December 12, 2016, which was filed with the Securities and Exchange Commission, in connection with a takedown from the Company's effective shelf registration statement on Form S-3, which was filed with the Securities and Exchange Commission on May 14, 2016 and subsequently declared effective on May 28, 2016 (File No. 333-204159), and a related prospectus dated as of May 28, 2016 contained in such registration statement.

Company Name Change and Stock Split

On February 27, 2017, the Company, then known as Sysorex Global, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Inpixon, its wholly-owned Nevada subsidiary formed solely for the purpose of changing the Company's corporate name from Sysorex Global to Inpixon (the "Name Change"). In accordance with the Merger Agreement, effective as of March 1, 2017 (the "Effective Date"), the subsidiary was merged with and into the Company with the Company as the surviving corporation (the "Merger"). In accordance with Section 92A.180 of the Nevada Revised Statutes, stockholder approval of the Merger was not required.

As part of the Company's Name Change, each of the Company's subsidiaries also amended their corporate charters to change their names from Sysorex USA, Sysorex Government Services, Inc., and Sysorex Canada Corp. to Inpixon USA, Inpixon Federal, Inc., and Inpixon Canada, Inc., respectively, effective as of March 1, 2017.

Also on the Effective Date, the Company filed a Certificate of Amendment to its Articles of Incorporation (the "Amendment") with the Secretary of State of the State of Nevada to effect a 1-for-15 reverse stock split (the "Reverse Stock Split") of the Company's common stock. Pursuant to the Amendment, effective as of the Effective Date, every 15 shares of the issued and outstanding common stock were converted into one share of common stock, without any change in the par value per share. The Reverse Stock Split was approved by the Company's stockholders at its 2016 annual meeting of stockholders held on November 8, 2016.

The common stock began trading on a Reverse Stock Split-adjusted basis on the NASDAQ Capital Market at the opening of trading on March 1, 2017. In connection with the Reverse Stock Split and the Name Change, the common stock also commenced trading under a new NASDAQ symbol, "INPX," and a new CUSIP number, 45790J107, at such time.

JOBS Act

Pursuant to Section 107 of the JOBS Act, emerging growth companies may delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected to opt out of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles, or GAAP. In connection with the preparation of our consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2 of the audited financial statements for the years ended December 31, 2016 and 2015. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. There have been no changes to estimates during the periods presented in the filing. Historically changes in management estimates have not been material.

Revenue Recognition

We provide IT solutions and services to customers with revenues currently derived primarily from the sale of third-party hardware and software products, software, assurance, licenses and other consulting services, including maintenance services. The products and services we sell, and the manner in which they are bundled, are technologically complex and the characterization of these products and services requires judgment in order to apply revenue recognition policies. For all of these revenue sources, we determine whether we are the principal or the agent in accordance with Accounting Standards Codification Topic, 605-45 Principal Agent Considerations.

We allocate the total arrangement consideration to the deliverables based on an estimated selling price of our products and services and report revenues containing multiple deliverable arrangements under ASC 605-25 "Revenue Arrangements with Multiple Deliverables" ("ASC-605-25"). These multiple deliverable arrangements primarily consist of the following deliverables: third-party computer hardware, third-party software, hardware and software maintenance (a.k.a. support), and third-party services. We determine the estimated selling price using cost plus a reasonable margin for each deliverable, which was based on our established policies and procedures for providing customers with quotes, as well as historical gross margins for our products and services. From time to time our personnel are contracted to perform installation and services for the customer. In situations where we bundle all or a portion of the separate elements, Vendor Specific Objective Evidence ("VSOE") is determined based on prices when sold separately. Our revenue recognition policies vary based upon these revenue sources and the mischaracterization of these products and services could result in misapplication of revenue recognition polices.

We recognize revenue when the following criteria are met (1) persuasive evidence of an arrangement exists; (2) shipment (software or hardware) or fulfillment (maintenance) has occurred and applicable services have been rendered, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Generally, these criteria are met upon shipment to customers with respect to the sales of hardware and software products. With respect to our maintenance and other service agreements, this criteria is met once the service has been provided. Revenue from the sales of our services on time and material contracts is recognized based on a fixed hourly rate as direct labor hours are expended. We recognize revenue for sales of all services on a fixed fee ratably over the term of the arrangement as such services are provided. The Company evaluates whether the revenues it receives from the sale of hardware and software products, licenses, and services, including maintenance and professional consulting services, should be recognized on a gross or net basis on a transaction by transaction basis. We maintain primary responsibility for the materials and procedures utilized to service our customers, even in connection with the sale of third party-products and maintenance services as we are responsible for the fulfillment and acceptability of the products and services purchased by our customers. In addition, the nature of the products sold to our customers are such that they need configuration in order to be utilized properly for the purposes intended by the customer and therefore we assume certain responsibility for product staging, configuration, installation, modification, and integration with other client systems, or retain general inventory risk upon customer return or rejection. Our customers rely on us to develop the appropriate solutions and specifications applicable to their specific systems and then integrate any such required products or services into their systems. As described above, we are responsible for the day to day maintenance and warranty services provided in connection with all of our existing customer relationships, whether such services are ultimately provided directly by the Company and its employees or by the applicable third party service provider. As of the date of this filing, after an evaluation of all of our existing customer relationships, we have concluded that we are the primary obligor to all of our existing customers and therefore recognize all revenues on a gross basis.

Long-lived Assets

We account for our long-lived assets in accordance with Accounting Standards Codification ("ASC") 360, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("ASC 360"), which requires that long-lived assets be evaluated whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. Some of the events or changes in circumstances that would trigger an impairment test include, but are not limited to:

- significant under-performance relative to expected and/or historical results (negative comparable sales growth or operating cash flows for two consecutive years);
- significant negative industry or economic trends;
- knowledge of transactions involving the sale of similar property at amounts below our carrying value; or
- our expectation to dispose of long-lived assets before the end of their estimated useful lives, even though the assets do not meet the criteria to be classified as "held for sale."

Long-lived assets are grouped for recognition and measurement of impairment at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. The impairment test for long-lived assets requires us to assess the recoverability of our long-lived assets by comparing their net carrying value to the sum of undiscounted estimated future cash flows directly associated with and arising from our use and eventual disposition of the assets. If the net carrying value of a group of long-lived assets exceeds the sum of related undiscounted estimated future cash flows, we would be required to record an impairment charge equal to the excess, if any, of net carrying value over fair value.

When assessing the recoverability of our long-lived assets, which include property and equipment and finite-lived intangible assets, we make assumptions regarding estimated future cash flows and other factors. Some of these assumptions involve a high degree of judgment and also bear a significant impact on the assessment conclusions. Included among these assumptions are estimating undiscounted future cash flows, including the projection of comparable sales, operating expenses, capital requirements for maintaining property and equipment and residual value of asset groups. We formulate estimates from historical experience and assumptions of future performance, based on business plans and forecasts, recent economic and business trends, and competitive conditions. In the event that our estimates or related assumptions change in the future, we may be required to record an impairment charge. Based on our evaluation we did not record a charge for impairment for the years ended December 31, 2016 and, 2015.

We evaluate the remaining useful lives of long-lived assets and identifiable intangible assets whenever events or circumstances indicate that a revision to the remaining period of amortization is warranted. Such events or circumstances may include (but are not limited to): the effects of obsolescence, demand, competition, and/or other economic factors including the stability of the industry in which we operate, known technological advances, legislative actions, or changes in the regulatory environment. If the estimated remaining useful lives change, the remaining carrying amount of the long-lived assets and identifiable intangible assets would be amortized prospectively over that revised remaining useful life. We have determined that there were no events or circumstances during the years ended December 31, 2016 and 2015 which would indicate a revision to the remaining amortization period related to any of our long lived assets. Accordingly, we believe that the current estimated useful lives of long-lived assets reflect the period over which they are expected to contribute to future cash flows and are therefore deemed appropriate.

Goodwill and Indefinite-lived Assets

We have recorded goodwill and other indefinite-lived assets in connection with our acquisitions of Lilien, Shoom, AirPatrol, LightMiner and Integrio. Goodwill, which represents the excess of acquisition cost over the fair value of the net tangible and intangible assets of the acquired company, is not amortized. Indefinite-lived intangible assets are stated at fair value as of the date acquired in a business combination. Our goodwill balance and other assets with indefinite lives are evaluated for potential impairment during the fourth quarter of each year and in certain other circumstances. The evaluation of impairment involves comparing the current fair value of the business to the recorded value, including goodwill. To determine the fair value of the business, we utilize both the income approach, which is based on estimates of future net cash flows, and the market approach, which observes transactional evidence involving similar businesses. As discussed further in Note 12 to the "Notes to Consolidated Financial Statements" during the fourth quarter of the year ended December 31, 2016 we recognized a $7.4 million non-cash goodwill impairment charge related to our Mobile IoT & Big Data Products reporting unit.

Deferred Income Taxes

In accordance with ASC 740 "Income Taxes" ("ASC 740"), management routinely evaluates the likelihood of the realization of its income tax benefits and the recognition of its deferred tax assets. In evaluating the need for any valuation allowance, management will assess whether it is more likely than not that some portion, or all, of the deferred tax asset may not be realized. Ultimately, the realization of deferred tax assets is dependent upon the generation of future taxable income during those periods in which temporary differences become deductible and/or tax credits and tax loss carry-forwards can be utilized. In performing its analyses, management considers both positive and negative evidence including historical financial performance, previous earnings patterns, future earnings forecasts, tax planning strategies, economic and business trends and the potential realization of net operating loss carry-forwards within a reasonable timeframe. To this end, management considered (i) that we have had historical losses in the prior years and cannot anticipate generating a sufficient level of future profits in order to realize the benefits of our deferred tax asset; (ii) tax planning strategies; and (iii) the adequacy of future income as of and for the year ended December 31, 2016, based upon certain economic conditions and historical losses through December 31, 2016. After consideration of these factors management deemed it appropriate to establish a full valuation allowance.

A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in the Company's tax filings that do not meet these recognition and measurement standards. As of December 31, 2016 and 2015, no liability for unrecognized tax benefits was required to be reported. The guidance also discusses the classification of related interest and penalties on income taxes. The Company's policy is to record interest and penalties on uncertain tax positions as a component of income tax expense. No interest or penalties were recorded during the years ended December 31, 2016 and 2015.

Allowance for Doubtful Accounts

We maintain our reserves for credit losses at a level believed by management to be adequate to absorb potential losses inherent in the respective balances. We assign an internal credit quality rating to all new customers and update these ratings regularly, but no less than annually. Management's determination of the adequacy of the reserve for credit losses for our accounts and notes receivable is based on the age of the receivable balance, the customer's credit quality rating, an evaluation of historical credit losses, current economic conditions, and other relevant factors.

As of December 31, 2016 and 2015, allowance for credit losses included an allowance for doubtful accounts of approximately $378,000 and $285,000, respectively, due to the aging of the items greater than 120 days outstanding and other potential non-collections.

Business Combinations

We account for business combinations using the acquisition method of accounting, and accordingly, the assets and liabilities of the acquired business are recorded at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair value is recorded as goodwill. Any changes in the estimated fair values of the net assets recorded for acquisitions prior to the finalization of more detailed analysis, but not to exceed one year from the date of acquisition, will change the amount of the purchase price allocable to goodwill. Any subsequent changes to any purchase price allocations that are material to our consolidated financial results will be adjusted. All acquisition costs are expensed as incurred and in-process research and development costs are recorded at fair value as an indefinite-lived intangible asset and assessed for impairment thereafter until completion, at which point the asset is amortized over its expected useful life. Separately recognized transactions associated with business combinations are generally expensed subsequent to the acquisition date. The application of business combination and impairment accounting requires the use of significant estimates and assumptions.

Upon acquisition, the accounts and results of operations are consolidated as of and subsequent to the acquisition date and are included in our Consolidated Financial Statements from the acquisition date.

Stock-Based Compensation

We account for equity instruments issued to non-employees in accordance with accounting guidance which requires that such equity instruments are recorded at their fair value on the measurement date, which is typically the date the services are performed.

We account for equity instruments issued to employees in accordance with accounting guidance that requires that awards are recorded at their fair value on the date of grant and are amortized over the vesting period of the award. We recognize compensation costs over the requisite service period of the award, which is generally the vesting term of the equity instrument issued.

The Black-Scholes option valuation model is used to estimate the fair value of the options or the equivalent security granted. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options or warrants. The expected volatility is estimated based on the average of historical volatilities for industry peers.

The principal assumptions used in applying the Black-Scholes model along with the results from the model were as follows:

	December 31, 2016	December 31, 2015
Risk-free interest rate	1.35% to 1.47%	1.73% to 2.27%
Expected life of option grants	7 years	7 years
Expected volatility of underlying stock	47.47% to 49.02%	39.4% to 51.45%
Dividends	-	-

Operating Segments

The Company operates in the following business segments:

- Mobile, IoT & Big Data Products: This segment currently includes our Inpixon product (formerly AirPatrol and Lightminer but now integrated as one). Inpixon's Indoor Positioning and Data Analytics is based on a unique and proprietary sensor technology that finds all accessible cellular, Wi-Fi and Bluetooth signals and then uses a lightning fast data mining engine to deliver visibility and business intelligence based on the industry.

- Storage and Computing: This segment includes third party hardware, software and related maintenance/warranty products and services that Inpixon resells. It includes but is not limited to products for enterprise computing; storage; virtualization; networking; etc.

- SaaS Revenues: These are Software-as-a-Services (SaaS) or internet based hosted services including the Shoom product line and other data science services.

- Professional Services: These are general IT services including but not limited to: custom application/software design; architecture and development; project management; C4I system consulting; strategic outsourcing; staff augmentation; data center design and operations services; data migration services and other non-SaaS services.

Results of Operations

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

The following table sets forth selected consolidated financial data as a percentage of our revenue and the percentage of period-over-period change:

	Years ended				
	December 31, 2016		December 31, 2015		
(in thousands, except percentages)	Amount	% of Revenues	Amount	% of Revenues	% Change
Product Revenues	$ 37,510	71%	$ 51,381	77%	(27)%
Services Revenues	$ 15,657	29%	$ 15,576	23%	1%
Cost of net revenues - Products	$ 29,025	55%	$ 40,763	61%	(29)%
Cost of net revenues - Services	$ 9,215	17%	$ 6,865	10%	34%
Gross profit	$ 14,927	28%	$ 19,329	29%	(23)%
Operating expenses	$ 38,650	73%	$ 30,741	46%	26%
Loss from operations	$ (23,723)	(45)%	$ (11,412)	(17)%	108%
Net loss	$ (27,503)	(52)%	$ (11,729)	(18)%	134%
Net loss attributable to stockholders	$ (27,114)	(51)%	$ (11,719)	(18)%	131%

Revenues

Revenues for the year ended December 31, 2016 were $53.2 million compared to $67.0 million for the comparable period in the prior year. The decrease of $13.8 million, or approximately 20.6%, is primarily associated with a decline in revenues earned by the storage and computing segment. Revenue earned by mobile, IoT & Big Data products and services for the year ended December 31, 2016 was $1.6 million compared to $1.7 million for the prior year period. Revenue earned by storage and computing products and services was $36.1 million for the year ended December 31, 2016 as compared to $50.0 million for the prior year period. SaaS revenue was $3.3 million during the year ended December 31, 2016 as compared to $3.7 million during the prior year period. Professional services revenue was $12.2 million during the year ended December 31, 2016 and $11.6 million during the prior year period. Revenues declined during the year ended December 31, 2016 because of the challenges the Value-Added Reseller (VAR) industry is facing with customers moving to Cloud services; refreshing technology less frequently as products improve and more SaaS based solutions in the market place. These industry wide factors impacted our Storage & Computing and Professional Services segment significantly in 2016. We have taken steps to address this decline by diversifying our customer base to now include federal government customers with the Integrio acquisition. Federal government customers are not making these changes as quickly and the expanded customer base will allow us to grow these segments.

Cost of Revenues

Cost of revenues for the year ended December 31, 2016 was $38.2 million compared to $47.6 million for the comparable period in the prior year. This decrease of $9.4 million, or approximately 19.7%, was primarily attributable to lower sales. Mobile, IoT & Big Data products cost of net revenues was $553,000 for the year ended December 31, 2016 as compared to $510,000 for the prior year period. Storage and computing cost of net revenues was $28.5 million for the year ended December 31, 2016, and $40.3 million for the prior year period. SaaS cost of net revenues was $938,000 during the year ended December 31, 2016 and $824,000 during the prior year period. Professional services cost of net revenues was $8.3 million during the year ended December 31, 2016 and $6.0 million during the prior year period.

The gross profit margin for the year ended December 31, 2016 was 28% compared to 29% for the year ended December 31, 2015. This decrease in margin is based on the sales mix. Mobile, IoT & Big Data products gross margins for the year ended December 31, 2016 and 2015 were 66% and 69%, respectively. Gross margins for the storage and computing segment for the year ended December 31, 2016 and 2015 were 21% and 19%, respectively. Gross margins for SaaS revenues for the year ended December 31, 2016 and 2015 were 71% and 78%, respectively. Gross margins for professional services revenues for the year ended December 31, 2016 and 2015 were 32% and 48%, respectively.

Operating Expenses

Operating expenses for the year ended December 31, 2016 were $38.7 million and $30.7 million for the comparable period ended December 31, 2015. This increase of $8.0 million includes a $1.6 million increase in research and development costs associated with new product development, a $1.1 million increase in general and administrative costs primarily attributable to an increase in amortization of internally developed software and stock-based compensation, a non-cash goodwill impairment charge of $7.4 million, a $0.5 million increase in acquisition related costs associated with the Integrio acquisition, a $0.4 million increase in the amortization of intangibles offset by a $3.0 million decrease in sales and marketing expenses related to the decrease in sales in the period.

Loss From Operations

Loss from operations for the year ended December 31, 2016 was $23.7 million as compared to $11.4 million for the comparable period in the prior year. This increase of $12.3 million was primarily attributable to a decrease in gross profit of approximately $4.4 million and an increase in operating expenses of approximately $7.9 million which includes a non-cash goodwill impairment charge of $7.4 million.

Other Income/Expense

Other income/expense consisted primarily of interest expense, reserve for recoverability of note receivable, loss on the disposition of assets and change in the fair value of shares to be issued. Interest expenses for the years ended December 31, 2016 and 2015 were $1,743,000 and $448,000, respectively. The increase of approximately $1.3 million was primarily attributable to interest attributable to the August 2016 Senior Convertible Debenture and a higher revolving line of credit balance. For the year ended December 31, 2016, other income/expense included a $1,077,000 reserve for recoverability of note receivable, a $338,000 expense for AirPatrol pre-acquisition obsolete inventory offset by $72,000 of interest income.

Provision for Income Taxes

There was no provision for income taxes for the years ended December 31, 2016 and 2015 as the Company was in a net taxable loss position. Deferred tax assets resulting from such losses are fully reserved as of December 31, 2016 and 2015 since, at present the Company has no history of taxable income and it is more likely than not that such assets will not be realized.

Net Loss Attributable To Non-Controlling Interest

Net loss attributable to non-controlling interest for the years ended December 31, 2016 and December 31, 2015 were $389,000 and $10,000, respectively. This increase in loss of $379,000 was attributable to an increased loss incurred at Sysorex Arabia due to reserve related to the settlement of obligations related to the wind down of the entity.

Net Loss Attributable To Stockholders of Inpixon

Net loss attributable to stockholders of Inpixon for the year ended December 31, 2016 was $27.1 million compared to $11.7 million for the comparable period in the prior year. This increase in loss of $15.4 million was attributable to the changes described for the various reporting captions discussed above.

Non-GAAP Financial information

EBITDA

EBITDA is defined as net income (loss) before interest, provision for (benefit from) income taxes, and depreciation and amortization. Adjusted EBITDA is used by our management as the matrix in which it manages the business. It is defined as EBITDA plus adjustments for other income or expense items, non-recurring items and non-cash stock-based compensation.

Adjusted EBITDA for the year ended December 31, 2016 was a loss of $9.8 million compared to a loss of $3.4 million for the prior year period.

The following table presents a reconciliation of net income/loss attributable to stockholders of Inpixon, which is our GAAP operating performance measure, to Adjusted EBITDA for the year ended December 31, 2016 and 2015 (in thousands):

	For the Years Ended December 31,	
	2016	**2015**
Net loss attributable to stockholders	$ (27,114)	$ (11,719)
Adjustments:		
Non-recurring one-time charges:		
Provision for doubtful accounts	685	1,206
Reserve for recoverability of note receivable	1,077	--
Costs associated with public offering	4	46
Acquisition transaction/financing costs	876	355
Severance	55	307
(Gain)/Loss on the settlement of obligations	(1,541)	85
Change in the fair value of shares to be issued	(13)	(211)
Change in the fair value of derivative liability	(51)	--
Stock-based compensation - compensation and related benefits	1,377	1,424
Interest expense	1,743	448
Impairment of goodwill	7,400	--
Depreciation and amortization	5,662	4,647
Adjusted EBITDA	$ (9,840)	$ (3,412)

We rely on Adjusted EBITDA, which is a non-GAAP financial measure for the following:

- To review and assess the operating performance of our Company as permitted by Accounting Standards Codification Topic 280, Segment Reporting;
- To compare our current operating results with corresponding periods and with the operating results of other companies in our industry;
- As a basis for allocating resources to various projects;
- As a measure to evaluate potential economic outcomes of acquisitions, operational alternatives and strategic decisions; and
- To evaluate internally the performance of our personnel.

We have presented Adjusted EBITDA above because we believe it conveys useful information to investors regarding our operating results. We believe it provides an additional way for investors to view our operations, when considered with both our GAAP results and the reconciliation to net income (loss). By including this information we can provide investors with a more complete understanding of our business. Specifically, we present Adjusted EBITDA as supplemental disclosure because of the following:

- We believe Adjusted EBITDA is a useful tool for investors to assess the operating performance of our business without the effect of interest, income taxes, depreciation and amortization and other non-cash items including stock based compensation, amortization of intangibles, change in the fair value of shares to be issued, change in the fair value of derivative liability, impairment of goodwill and one time charges including gain/loss on the settlement of obligations, severance costs, provision for doubtful accounts, acquisition costs and the costs associated with the public offering.

- We believe that it is useful to provide to investors with a standard operating metric used by management to evaluate our operating performance; and

- We believe that the use of Adjusted EBITDA is helpful to compare our results to other companies.

Even though we believe Adjusted EBITDA is useful for investors, it does have limitations as an analytical tool. Thus, we strongly urge investors not to consider this metric in isolation or as a substitute for net income (loss) and the other consolidated statement of operations data prepared in accordance with GAAP. Some of these limitations include the fact that:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- Adjusted EBITDA does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

- Adjusted EBITDA does not reflect income or other taxes or the cash requirements to make any tax payments; and

- Other companies in our industry may calculate Adjusted EBITDA differently than we do, thereby potentially limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business or as a measure of performance in compliance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and providing Adjusted EBITDA only as supplemental information.

Proforma Non-GAAP Net Loss per Share

Basic and diluted net loss per share for the twelve months ended December 31, 2016 was ($15.61) compared to ($8.30) for the prior year period. This increase was attributable to the changes discussed in our results of operations.

Proforma non-GAAP net income (loss) per share is used by our Company's management as an evaluation tool as it manages the business and is defined as net income (loss) per basic and diluted share adjusted for non-cash items including stock based compensation, amortization of intangibles and one time charges including gain on the settlement of obligations, severance costs, provision for doubtful accounts, change in the fair value of shares to be issued, acquisition costs and the costs associated with the public offering.

Proforma non-GAAP net loss per basic and diluted common share for the twelve months ended December 31, 2016 was ($7.44) compared to a loss of ($3.20) per share for the prior year period.

The following table presents a reconciliation of net loss per basic and diluted share, which is our GAAP operating performance measure, to proforma non-GAAP net loss per share for the periods reflected (in thousands, except per share data):

(thousands, except per share data)	Years Ended December 31, 2016	2015
Net loss attributable to stockholders	$ (27,114)	$ (11,719)
Adjustments:		
Non-recurring one-time charges:		
Provision for doubtful accounts	685	1,206
Reserve for recoverability of note receivable	1,077	--
Costs associated with public offering	4	46
Acquisition transaction/financing costs	876	355
Severance	55	307
(Gain)/Loss on the settlement of obligations	(1,541)	85
Change in the fair value of shares to be issued	(13)	(211)
Change in the fair value of derivative liability	(51)	--
Stock-based compensation - compensation and related benefits	1,377	1,424
Impairment of goodwill	7,400	--
Amortization of intangibles	4,328	3,994
Proforma non-GAAP net loss	$ (12,917)	$ (4,513)
Proforma non-GAAP net loss per basic and diluted common share	$ (7.44)	$ (3.20)
Weighted average basic and diluted common shares outstanding	1,737,120	1,412,094

We rely on proforma non-GAAP net loss per share, which is a non-GAAP financial measure:

- To review and assess the operating performance of our Company as permitted by Accounting Standards Codification Topic 280, Segment Reporting;
- To compare our current operating results with corresponding periods and with the operating results of other companies in our industry;
- As a measure to evaluate potential economic outcomes of acquisitions, operational alternatives and strategic decisions; and
- To evaluate internally the performance of our personnel.

We have presented proforma non-GAAP net loss per share above because we believe it conveys useful information to investors regarding our operating results. We believe it provides an additional way for investors to view our operations, when considered with both our GAAP results and the reconciliation to net income (loss), and that by including this information we can provide investors with a more complete understanding of our business. Specifically, we present proforma non-GAAP net loss per share as supplemental disclosure because:

- We believe proforma non-GAAP net loss per share is a useful tool for investors to assess the operating performance of our business without the effect of non-cash items including stock based compensation, amortization of intangibles and one time charges including gain on the settlement of obligations, severance costs, provision for doubtful accounts, change in the fair value of shares to be issued, acquisition costs and the costs associated with the public offering.
- We believe that it is useful to provide to investors a standard operating metric used by management to evaluate our operating performance; and
- We believe that the use of proforma non-GAAP net loss per share is helpful to compare our results to other companies.

Liquidity and Capital Resources as of December 31, 2016

Our current capital resources and operating results as of and through December 31, 2016, consist of:

1) an overall working capital deficit of $21.0 million;

2) cash of $1.8 million;

3) the credit facility for up to $10 million which we borrow against based on eligible assets with a maturity date of November 14, 2018 of which $6.7 million is utilized; and

4) net cash used in operating activities of $2.8 million.

We believe our total working capital deficit of $21.0 million does not represent a severe impediment to our operations and growth when its principal components are separately identified and analyzed and the anticipated growth of our business is taken into account. The breakdown of our overall working capital deficit is as follows (in thousands):

Working Capital	Current Assets	Current Liabilities	Net
Cash	$ 1,821	$ --	$ 1,821
Accounts receivable / accounts payable	11,788	23,027	(11,239)
Notes and other receivables	362	--	362
Prepaid licenses and contracts / deferred revenue	13,321	15,043	(1,722)
Short term debt	--	6,887	(6,887)
Other	2,852	6,210	(3,358)
Net	$ 30,144	$ 51,167	$ (21,023)

Deferred revenue exceeds the related prepaid contracts by $1.7 million and other liabilities exceed other assets by $3.4 million. These deficits are expected to be funded by our anticipated cash flow from operations, as described below, over the next twelve months. We do not believe that the credit facility, with a balance of $6.7 million at December 31, 2016 will have a material adverse effect on our liquidity in the next twelve months as the credit facility principal balance is not due until November 2018.

Net cash used in operating activities during the year ended December 31, 2016 of $2.8 million consists of net loss of $27.5 million less non-cash expenses of $15.4 million and net cash provided of $9.3 million in changes in operating assets and liabilities. We expect net cash from operations to increase during 2017 as:

1) Our services are growing and becoming a larger part of our sales mix. These services generate gross margins of 40-60% and will be a larger contribution to our cash flow in the future.

2) Inpixon was awarded two large multiple-award government IDIQ Contracts in 2015 (NASA SEWP and NIH CIO-CS) that enable Inpixon to capture task orders issued by any government agency under these contract vehicles. The Company has captured task orders under the NASA SEWP contract and believes that it will be successful in securing additional task orders under both of these contracts, however there are no assurances that additional task orders under the contracts will ultimately be awarded to the Company. If such task orders are secured, then these contracts will provide the opportunity to increase our revenue and cash flows.

3) Inpixon is generating revenue from new versions of its Inpixon product line that will contribute to operating cash flow.

The Company's capital resources as of December 31, 2016, availability on the $10.0 million line of credit (of which $6.7 million is utilized as of December 31, 2016), higher margin business line expansion and recent contract awards, may not be sufficient to fund planned operations during 2017. The Company also has an effective registration statement on Form S-3 which will allow it to raise additional capital from the sale of its securities, subject to certain limitations for registrants with a market capitalization of less than $75 million. The information in this Form 10-K concerning the Company's Form S-3 registration statement does not constitute an offer of any securities for sale. If these sources do not provide the capital necessary to fund the Company's operations during the next twelve months, the Company may need to curtail certain aspects of its expansion activities or consider other means of obtaining additional financing, such as through the sale of assets or of a business segment, although there is no guarantee that the Company could obtain the financing necessary to continue its operations.

Our consolidated financial statements as of December 31, 2016 have been prepared under the assumption that we will continue as a going concern for the next twelve months from the date the financial statements are issued. Our independent registered public accounting firm has issued a report as of December 31, 2016 that includes an explanatory paragraph referring to our recurring and continuing losses from operations and expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Management's plans and assessment of the probability that such plans will mitigate and alleviate any substantial doubt about the Company's ability to continue as a going concern, is dependent upon the ability to obtain additional equity or debt financing, attain further operating efficiency, reduce expenditures, and, ultimately, to generate sufficient levels of revenue, which together represent the principal conditions that raise substantial doubt. Our consolidated financial statements as of December 31, 2016 do not include any adjustments that might result from the outcome of this uncertainty.

Liquidity and Capital Resources – GemCap Lending

See the discussion above in the section titled "Recent Events – GemCap Lending Loan Agreement" for information concerning this loan.

As of December 31, 2016, the principal amount outstanding under the Loan Agreement was $6.7 million.

Liquidity and Capital Resources as of December 31, 2016 Compared With December 31, 2015

The Company's net cash flows used in operating, investing and financing activities for the year ended December 31, 2016 and 2015 and certain balances as of the end of those periods are as follows (in thousands):

	Years Ended December 31,	
	2016	**2015**
Net cash used in operating activities	$ (2,785)	$ (8,201)
Net cash used in investing activities	(2,665)	(1,550)
Net cash provided by financing activities	3,190	10,534
Effect of foreign exchange rate changes on cash	21	49
Net increase in cash	$ (2,239)	$ 832

	December 31, 2016	**December 31, 2015**
Cash and cash equivalents	$ 1,821	$ 4,060
Working capital (deficit)	$ (21,023)	$ (4,238)

Operating Activities for the year ended December 31, 2016

Net cash used in operating activities during the years ended December 31, 2016 and 2015 were $2.8 million and $8.2 million, respectively. The net negative cash flows related to the year ended December 31, 2016 consisted of the following (in thousands):

Net loss	$ (27,503)
Non-cash income and expenses	15,440
Net change in operating assets and liabilities	9,278
Net cash used in operating activities	$ (2,785)

The non-cash income and expense of $15.4 million consisted primarily of the following (in thousands):

$ 5,661	Depreciation and amortization expenses (including amortization of intangibles) primarily attributable to the Lilien, Shoom, AirPatrol, LightMiner and Integrio operations, which were acquired effective March 1, 2013, August 31, 2013, April 16, 2014, April 24, 2015 and November 21, 2016, respectively
7,400	Impairment of goodwill
1,077	Reserve for note receivable
1,377	Stock-based compensation expense attributable to warrants and options issued as part of Company operations and for the AirPatrol acquisition
(1,541)	Gain on settlement of obligations related to Integrio vendor liabilities
491	Amortization of debt discount
749	Reserve for settlement of bond related to the wind down of Sysorex Arabia
93	Provision for doubtful accounts
133	Other
$ 15,440	Total non-cash expenses

The net use of cash in the change in operating assets and liabilities aggregated $9.3 million and consisted primarily of the following (in thousands):

$ 2,968	Decrease in accounts receivable and other receivables
(232)	Increase in prepaid licenses and maintenance contracts
(949)	Increase in inventory and other assets
6,907	Increase in accounts payable
594	Increase in accrued liabilities and other liabilities
(10)	Decrease in deferred revenue
$ 9,278	Net use of cash in the changes in operating assets and liabilities

Operating Activities for the year ended December 31, 2015

Net cash flows used in operating activities during the year ended December 31, 2015 was $8.2 million and consisted of the following (in thousands):

$ (11,729)	Net loss
6,414	Non-cash income and expenses
(2,886)	Net change in operating assets and liabilities
$ (8,201)	Net cash used in operating activities

The non-cash income and expense of $6.4 million consisted primarily of the following (in thousands):

$	4,647	Depreciation and amortization expenses (including amortization of intangibles) primarily attributable to the Lilien, Shoom, AirPatrol and LightMiner operations, which were acquired effective March 1, 2013, August 31, 2013, April 16, 2014 and April 24, 2015, respectively
	1,424	Stock-based compensation expense attributable to warrants and options issued as part of Company operations and for the AirPatrol acquisition
	1,032	Provision for doubtful accounts
	(695)	Treasury shares received upon settlement of escrow
	6	Other
$	6,414	Total non-cash expenses

The net use of cash in the change in operating assets and liabilities aggregated $2.9 million and consisted primarily of the following (in thousands):

$	(5,066)	Increase in accounts receivable and other receivables
	(744)	Increase in prepaid licenses and maintenance contracts
	(586)	Increase in inventory and other assets
	1,944	Increase in accounts payable
	439	Increase in accrued liabilities and other liabilities
	1,127	Increase in deferred revenue
$	(2,886)	Net use of cash in the changes in operating assets and liabilities

Cash Flows from Investing Activities as of December 31, 2016 and 2015

Net cash flows used in investing activities during 2016 was $2.7 million compared to net cash flows used in investing activities during 2015 of $1.6 million. Cash flows related to investing activities during the year ended December 31, 2016 include $526,000 for the purchase of property and equipment, $1.6 million investment in capitalized software, $753,000 related to the acquisition of Integrio, offset by $189,000 of cash acquired in the Integrio acquisition. The cash flows related to investing activities during the year ended December 31, 2015 included $355,000 for the purchase of property and equipment, $1.2 million investment in capitalized software and $19,000 for the purchase of LightMiner.

Cash Flows from Financing Activities as of December 31, 2016 and 2015

Net cash flows from financing activities during the years ended December 31, 2016 and 2015 were $3.2 million and $10.5 million, respectively. The positive cash flows related to the year ended December 31, 2016 were primarily comprised of $5.0 million of proceeds from the August 2016 securities offering, net proceeds of $1.7 million from the December 2016 capital raise, offset by repayments to the credit line of $1.9 million, $1.6 million repayment of the term loan and $70,000 repayment of notes payable. The positive cash flows related to the year ended December 31, 2015 were primarily comprised of $4.7 million advances from the credit line, $2 million advance from the term loan and $4.7 million from the September 2015 capital raise offset by a $764,000 repayment of the term loan and $71,000 repayment of notes payable.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet guarantees, interest rate swap transactions or foreign currency contracts. We do not engage in trading activities involving non-exchange traded contracts.

Recently Issued Accounting Pronouncements

For a discussion of recently issued accounting pronouncements, please see Note 2 to our financial statements, which are included in this report beginning on page F-1.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide this information.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INPIXON

INDEX TO FINANCIAL STATEMENTS

ANNUAL FINANCIAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Inpixon and Subsidiaries

We have audited the accompanying consolidated balance sheets of Inpixon and Subsidiaries (formerly known as Sysorex Global and Subsidiaries) (the "Company") as of December 31, 2016 and 2015**,** and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Inpixon and Subsidiaries (formerly known as Sysorex Global and Subsidiaries), as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has recurring losses from operations and expects to continue to have losses in the foreseeable future. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter,

/s/ Marcum llp

Marcum llp
New York, NY
April 17, 2017

INPIXON AND SUBSIDIARIES

(f/k/a SYSOREX GLOBAL AND SUBSIDIARIES)

CONSOLIDATED BALANCE SHEETS

(In thousands, except number of shares and par value data)

	December 31,	
	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 1,821	$ 4,060
Accounts receivable, net	11,788	12,209
Notes and other receivables	362	1,340
Inventory	1,061	755
Prepaid licenses and maintenance contracts	13,321	7,509
Assets held for sale	23	772
Prepaid assets and other current assets	1,768	1,967
Total Current Assets	30,144	28,612
Prepaid licenses and maintenance contracts, non-current	5,169	6,586
Property and equipment, net	1,385	1,392
Software development costs, net	2,058	1,281
Intangible assets, net	17,691	17,161
Goodwill	9,028	13,166
Other assets	998	517
Total Assets	$ 66,473	$ 68,715

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

INPIXON AND SUBSIDIARIES

(f/k/a SYSOREX GLOBAL AND SUBSIDIARIES)

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands, except number of shares and par value data)

	December 31, 2016	December 31, 2015
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 23,027	$ 9,320
Accrued liabilities	4,169	2,992
Deferred revenue	15,043	9,095
Short-term debt, net	6,887	9,417
Liabilities held for sale	2,041	2,026
Total Current Liabilities	51,167	32,850
Long Term Liabilities		
Deferred revenue, non-current	5,960	7,666
Long-term debt, net	4,047	1,226
Other liabilities	371	542
Acquisition liability - Integrio	1,648	--
Acquisition liability - LightMiner	567	3,475
Total Liabilities	63,760	45,759
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock - $0.001 par value; 5,000,000 shares authorized; 0 issued and outstanding	--	--
Convertible Series 1 Preferred Stock - $1,000.00 stated value; 5,000,000 shares authorized; 2,250 and 0 issued and outstanding at December 31, 2016 and 2015, respectively. Liquidation preference of $2,250,000 and $0 at December 31, 2016 and 2015, respectively.	1,340	--
Common stock - $0.001 par value; 50,000,000 shares authorized; 2,171,886 and 1,687,324 issued and 2,155,964 and 1,671,402 outstanding at December 31, 2016 and 2015, respectively	33	25
Additional paid-in capital	64,117	58,226
Treasury stock, at cost, 15,922 shares	(695)	(695)
Due from Sysorex Consulting Inc.	(666)	(666)
Accumulated other comprehensive income	52	31
Accumulated deficit (excluding $2,442 reclassified to additional paid in capital in quasi-reorganization)	(59,473)	(32,359)
Stockholders' Equity Attributable to Inpixon	4,708	24,562
Non- controlling Interest	(1,995)	(1,606)
Total Stockholders' Equity	2,713	22,956
Total Liabilities and Stockholders' Equity	$ 66,473	$ 68,715

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

INPIXON AND SUBSIDIARIES

(f/k/a SYSOREX GLOBAL AND SUBSIDIARIES)

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the Years Ended December 31,	
	2016	2015
Revenues		
Products	$ 37,510	$ 51,381
Services	15,657	15,576
Total Revenues	53,167	66,957
Cost of Revenues		
Products	29,025	40,763
Services	9,215	6,865
Total Cost of Revenues	38,240	47,628
Gross Profit	14,927	19,329
Operating Expenses		
Research and development	2,277	635
Sales and marketing	8,500	11,531
General and administrative	15,269	14,226
Acquisition related costs	876	355
Impairment of goodwill	7,400	--
Amortization of intangibles	4,328	3,994
Total Operating Expenses	38,650	30,741
Loss from Operations	(23,723)	(11,412)
Other Income (Expense)		
Interest expense	(1,743)	(448)
Other income/(expense)	(266)	25
Change in fair value of derivative liability	51	--
Loss on the settlement of obligation	--	(85)
Reserve for the recoverability of note receivable	(1,077)	--
Change in fair value of shares to be issued	13	211
Total Other Income (Expense)	(3,022)	(297)
Net Loss from Continuing Operations	(26,745)	(11,709)
Net Loss from Discontinued Operations, Net of Tax	(758)	(20)
Net Loss	(27,503)	(11,729)
Net Loss Attributable to Non-controlling Interest	(389)	(10)
Net Loss Attributable to Stockholders of Inpixon	$ (27,114)	$ (11,719)
Net Loss Per Basic and Diluted Common Share		
Loss from continuing operations attributable to common stockholders	$ (15.40)	$ (8.29)
Loss from discontinued operations, net of tax	$ (0.21)	$ (0.01)
Net Loss Per Basic and Diluted Common Share	$ (15.61)	$ (8.30)
Weighted Average Shares Outstanding		
Basic and Diluted	1,737,120	1,412,094

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

INPIXON AND SUBSIDIARIES

(f/k/a SYSOREX GLOBAL AND SUBSIDIARIES)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	For the Years Ended December 31,	
	2016	2015
Net Loss	$ (27,503)	$ (11,729)
Unrealized foreign exchange gain from cumulative translation adjustments	21	49
Comprehensive Loss	$ (27,482)	$ (11,680)

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

INPIXON AND SUBSIDIARIES

(f/k/a SYSOREX GLOBAL AND SUBSIDIARIES)

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016

(In thousands, except per share data)

	Series 1 Convertible Preferred Stock		Common Stock		Additional Paid-In	Treasury Stock		Due from Sysorex	Accumulated Other Comprehensive	Accumulated	Non-Controlling	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Shares	Amount	Consulting, Inc.	Income (Loss)	Deficit	Interest	Equity
Balance - January 1, 2015	-	$ -	1,313,817	$ 20	$ 52,121	-	$ -	$ (666)	$ (18)	$ (20,640)	$ (1,596)	$ 29,221
Common shares issued for services	--	--	23,416	--	455	--	--	--	--	--	--	455
Stock options granted to employees and consultants for services	--	--	--	--	958	--	--	--	--	--	--	958
Warrants granted to consultants for services	--	--	--	--	12	--	--	--	--	--	--	12
Returned shares from AirPatrol holdback	--	--	--	--	--	(15,922)	(695)	--	--	--	--	(695)
Common shares issued for options exercised	--	--	91	--	--	--	--	--	--	--	--	--
Common shares issued for net cash proceeds from a public offering	--	--	350,000	5	4,680	--	--	--	--	--	--	4,685
Cumulative translation adjustment	--	--	--	--	--	--	--	--	49	--	--	49
Net loss	--	--	--	--	--	--	--	--	--	(11,719)	(10)	(11,729)
Balance - December 31, 2015	--	$ --	1,687,324	$ 25	$ 58,226	(15,922)	$ (695)	$ (666)	$ 31	$ (32,359)	$ (1,606)	$ 22,956
Series 1 redeemable convertible preferred stock issued	2,250	1,340	--	--	--	--	--	--	--	--	--	1,340
Common shares issued for services	--	--	13,000	--	71	--	--	--	--	--	--	71
Issuance of LightMiner acquisition shares	--	--	102,895	2	2,894	--	--	--	--	--	--	2,896
Stock options granted to employees for services	--	--	--	--	1,306	--	--	--	--	--	--	1,306
Reclassification of warrants to derivative liabilities	--	--	--	--	(209)	--	--	--	--	--	--	(209)
Issuance of common stock for Integrio acquisition	--	--	35,333	1	100	--	--	--	--	--	--	101
Common shares and warrants issued for cash	--	--	333,333	5	1,729	--	--	--	--	--	--	1,734
Cumulative translation adjustment	--	--	--	--	--	--	--	--	21	--	--	21
Net loss	--	--	--	--	--	--	--	--	--	(27,114)	(389)	(27,503)
Balance - December 31, 2016	2,250	$ 1,340	2,171,885	$ 33	$ 64,117	(15,922)	$ (695)	$ (666)	$ 52	$ (59,473)	$ (1,995)	2,713

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

INPIXON AND SUBSIDIARIES

(f/k/a SYSOREX GLOBAL AND SUBSIDIARIES)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Years Ended December 31,	
	2016	2015
Cash Flows from Operating Activities		
Net loss	$ (27,503)	$ (11,729)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,333	653
Amortization of intangible assets	4,328	3,994
Impairment of goodwill	7,400	--
Stock based compensation	1,377	1,424
Change in fair value of shares to be issued	(13)	(211)
Change in fair value of derivative liability	(51)	--
Amortization of deferred financing costs	--	23
Amortization of debt discount	491	--
Compensation expense, note receivable related party	--	90
Provision for doubtful accounts	93	1,032
Reserve for settlement of bond	749	--
Reserve for note receivable	1,077	--
Amortization of technology	133	--
Other	64	19
(Gain)/Loss on settlement of obligations	(1,541)	85
Treasury shares received upon settlement of escrow	--	(695)
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	2,968	(5,066)
Inventory	(305)	(145)
Other current assets	67	(510)
Prepaid licenses and maintenance contracts	(232)	(744)
Other assets	(711)	69
Accounts payable	6,907	1,944
Accrued liabilities	623	586
Deferred revenue	(10)	1,127
Other liabilities	(29)	(147)
Total Adjustments	24,718	3,528
Net Cash Used in Operating Activities	(2,785)	(8,201)
Cash Flows Used in Investing Activities		
Purchase of property and equipment	(525)	(355)
Investment in capitalized software	(1,576)	(1,176)
Investment in LightMiner	--	(19)
Cash acquired in Integrio Technologies acquisition	189	--
Cash paid for the acquisition of Integrio Technologies	(753)	--
Net Cash Flows Used in Investing Activities	(2,665)	(1,550)
Cash Flows provided by Financing Activities		
Advances (repayment) of lines of credit	(1,863)	4,682
Advances from term loan	--	2,000
Repayment of term loan	(1,611)	(764)
Proceeds from debenture and convertible preferred stock	5,000	--
Net proceeds from the issuance of common stock and warrants	1,734	--
Advances to related party	(3)	--
Advances from related party	3	2
Net proceeds from issuance of common stock	--	4,685
Repayment of notes payable	(70)	(71)
Net Cash (Used In) Provided by Financing Activities	3,190	10,534
Effect of Foreign Exchange Rate on Changes on Cash	21	49
Net (Decrease) Increase in Cash and Cash Equivalents	(2,239)	832
Cash and Cash Equivalents - Beginning of period	4,060	3,228
Cash and Cash Equivalents - End of period	$ 1,821	$ 4,060
Supplemental Disclosure of cash flow information:		
Cash paid for:		
Interest	$ 837	$ 426
Income Taxes	$ --	$ --

Non-cash investing and financing activities				
Reclassification of warrants to derivative liabilities	$	(209)	$	--
Fees paid and original issue discount related to the issuance of debt	$	2,356	$	--
Shares issued for settlement of LightMiner debt	$	2,896	$	--
Issuance of shares for Integrio Acquisition	$	101	$	--
Acquisition of LightMiner: (Note 3)				
Assumption of assets other than cash (property and equipment)	$	--	$	225
Assumption of assets - developed technology and export license	$	--	$	3,479
Acquisition of Integrio Technologies: (Note 4)				
Assumption of assets other than cash	$	15,124	$	--
Assumption of liabilities	$	(15,313)	$	--

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

INPIXON AND SUBSIDIARIES
(f/k/a SYSOREX GLOBAL AND SUBSIDIARIES)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 1 - Organization and Nature of Business and Going Concern

Inpixon f/k/a Sysorex Global, through its wholly-owned subsidiaries, Inpixon USA f/k/a Sysorex USA, Inpixon Federal, Inc. f/k/a Sysorex Government Services, Inc. ("Inpixon Federal"), Inpixon Canada, Inc. f/k/a Sysorex Canada Corp. ("Inpixon Canada") and the majority-owned subsidiary, Sysorex Arabia LLC ("Sysorex Arabia") (unless otherwise stated or the context otherwise requires, the terms "Inpixon" "we," "us," "our" and the "Company" refer collectively to Inpixon and the above subsidiaries), provides Big Data analytics and location based products and related services for the cyber-security and Internet of Things markets. The Company is headquartered in California, and has subsidiary offices in Virginia, Maryland, Oregon, Hawaii, State of Washington, California, Vancouver, Canada and Riyadh, Saudi Arabia.

On April 24, 2015, and as more fully described in Note 3, the Company completed the acquisition of substantially all of the assets of LightMiner Systems, Inc. which is in the business of developing and commercializing in-memory SQL databases. On November 21, 2016, and as more fully described in Note 4, the Company completed the acquisition of substantially all of the assets and certain liabilities of Integrio Technologies, LLC which is in the U.S. Federal Government IT contracts business.

As of December 31, 2016, the Company has a working capital deficiency of approximately $21.0 million. For the year ended December 31, 2016, the Company incurred a net loss of approximately $27.5 million and utilized cash in operations of approximately $2.8 million. The aforementioned factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of asset amounts or the classification of liabilities that might be necessary should the Company be unable to continue as a going concern within one year after the date the financial statements are issued.

On August 9, 2016, the Company entered into a Securities Purchase Agreement with Hillair Capital Investments L.P. pursuant to which it issued and sold (i) an 8% Original Issue Discount Senior Convertible Debenture in an aggregate principal amount of $5,700,000 due on August 9, 2018 and (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock, par value $0.001 per share (the "Preferred Stock", together with the Debenture, the "Securities"), for an aggregate purchase price of $5,000,000 (the "Transaction"). The Company also has a credit facility for up to $10 million which we borrow against based on eligible assets of which approximately $6.7 million is utilized. The credit facility has a maturity date of November 14, 2018. During the third quarter of 2016 the Company implemented a cost cutting program that would reduce operating expenses by approximately $1.8 million on an annual basis.

The Company's capital resources as of December 31, 2016, including increased credit facility, net proceeds from our stock offering, convertible debenture offering, and recent contract awards, including prepayments anticipated to be received may not be sufficient to fund planned operations during 2017. While the Company also has an effective registration statement on Form S-3 which will allow it to raise additional capital from the sale of its securities, subject to certain limitations for registrants with a market capitalization of less than $75 million, if additional financing is needed we anticipate such financing will come from an increase in our credit facility rather than through a sale of equity, however, our decision will be based on our capital requirements and the terms of the various types of financing that will be available to us when we need it. The information in these consolidated financial statements concerning the Company's Form S-3 registration statement does not constitute an offer of any securities for sale. If these sources do not provide the capital necessary to fund the Company's operations during the next twelve months, the Company may need to further reduce costs and curtail certain aspects of our expansion activities or consider other means of obtaining additional financing, such as through a sale of its assets or a business segment, although there is no guarantee that the Company could obtain the financing necessary to continue its operations.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared using the accounting records of Inpixon and its wholly-owned subsidiaries in 2016, Inpixon USA, Inpixon Federal, Inpixon Canada and its majority-owned subsidiary, Sysorex Arabia. All material inter-company balances and transactions have been eliminated.

The Company owns 50.2% of Sysorex Arabia. As of December 31, 2016 there is $23,000 reported as assets held for sale and $2,041,000 as liabilities held for sale. The Company's Board of Directors authorized management on October 29, 2015 to close its Saudi Arabia legal entity at an appropriate time and manner as business activities have been shifted to resellers and strategic partners in the region. During the years ended December 31, 2016 and 2015 Sysorex Arabia had immaterial operations. The Company plans to close down the Sysorex Arabia entity during the year ended December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with 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 each of the reporting periods. Actual results could differ from those estimates. The Company's significant estimates consist of:

- The valuation of the assets and liabilities acquired of Lightminer and Integrio Technologies, LLC as described in Note 3 and Note 4, respectively, as well as the valuation of the Company's common shares issued in the transaction;
- The valuation of stock-based compensation;
- The allowance for doubtful accounts;
- The valuation allowance for the deferred tax asset; and
- Impairment of long-lived assets and goodwill.

Business Combinations

The Company accounts for business combinations under Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 805 "Business Combinations" using the acquisition method of accounting, and accordingly, the assets and liabilities of the acquired business are recorded at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair value is recorded as goodwill. All acquisition costs are expensed as incurred. Upon acquisition, the accounts and results of operations are consolidated as of and subsequent to the acquisition date.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, checking accounts, money market accounts and temporary investments with maturities of three months or less when purchased. As of December 31, 2016 and 2015 the Company had no cash equivalents.

Note 2 - Summary of Significant Accounting Policies (continued)

Restricted Cash

In connection with certain transactions, the Company may be required to deposit assets, including cash or investment shares, in escrow accounts. The assets held in escrow are subject to various contingencies that may exist with respect to such transactions. Upon resolution of those contingencies or the expiration of the escrow period, some or all the escrow amounts may be used and the balance released to the Company. As of December 31, 2016 the Company had $280,000 deposited in escrow as restricted cash for the Shoom acquisition, of which any amounts not subject to claims shall be released to the Shoom Stockholders, on a pro-rata basis, on each of the next (4) anniversary dates of the Closing Date. $70,000 of that amount is current and included in Prepaid Assets and Other Current Assets and $210,000 is non-current and included in Other Assets on the balance sheet. As of December 31, 2015 the Company had $350,000 deposited in escrow of which $70,000 was part of Prepaid Assets and Other Current Assets and the non-current portion of $282,000 was part of Other Assets on the consolidated balance sheet.

Accounts Receivable, net and Allowance for Doubtful Accounts

Accounts receivables are stated at the amount the Company expects to collect. The Company recognizes an allowance for doubtful accounts to ensure accounts receivables are not overstated due to un-collectability. Bad debt reserves are maintained for various customers based on a variety of factors, including the length of time the receivables are past due, significant one-time events and historical experience. An additional reserve for individual accounts is recorded when the Company becomes aware of a customer's inability to meet its financial obligation, such as in the case of bankruptcy filings, or deterioration in the customers' operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted. The Company has recorded an allowance for doubtful accounts of $378,000 and $285,000 as of December 31, 2016 and 2015, respectively.

Inventory

Inventory is stated at the lower of cost or market utilizing the first-in, first-out method. The Company continually analyzes its slow-moving, excess and obsolete inventories. Based on historical and projected sales volumes and anticipated selling prices, the Company establishes reserves. If the Company does not meet its sales expectations, these reserves are increased. Products that are determined to be obsolete are written down to net realizable value. As of December 31, 2016 and 2015, the Company deemed any such allowance nominal.

Deferred Financing Costs

Cost incurred in conjunction with the credit line has been capitalized and will be amortized to interest expense using the straight line method, which approximates the interest rate method, over the term of the credit line and is included as a component of other assets. The Company incurred $341,000 of deferred financing costs and amortized $14,000 of those costs during the year ended December 31, 2016. As of December 31, 2016 accumulated amortization approximated $14,000. During the year ended December 31, 2015 the Company amortized $23,000 of remaining deferred financing costs from the $144,000 incurred in the year ended December 31, 2013. Costs incurred with our debt financings have been presented as a direct deduction from the carrying amount of the debt obligation, consistent with debt discounts.

Prepaid Licenses and Maintenance Contracts

Prepaid licenses and maintenance contracts represent payments made by the Company directly to the manufacturer. The Company acts as the principal and the primary obligor in the transaction and amortizes the capitalized costs ratably over the term of the contract to cost of revenues, generally one to five years.

Property and Equipment, net

Property and equipment are recorded at cost less accumulated depreciation and amortization. The Company depreciates its property and equipment for financial reporting purposes using the straight-line method over the estimated useful lives of the assets, which range from 3 to 7 years. Leasehold improvements are amortized over the lesser of the useful life of the asset, or the initial lease term. Expenditures for maintenance and repairs, which do not extend the economic useful life of the related assets, are charged to operations as incurred, and expenditures, which extend the economic life, are capitalized. When assets are retired, or otherwise disposed of, the costs and related accumulated depreciation or amortization are removed from the accounts and any gain or loss on disposal is recognized.

Note 2 - Summary of Significant Accounting Policies (continued)

Intangible Assets

Intangible assets primarily consist of developed technology, customer lists/relationships, non-compete agreements, export license and trade names/trademarks. They are amortized ratably over a range of one to seven years which approximates customer attrition rate and technology obsolescence. The Company assesses the carrying value of its intangible assets for impairment each year. Based on its assessments, the Company did not incur any impairment charges for the years ended December 31, 2016 and 2015.

Goodwill

Purchased goodwill is not amortized, but instead are tested for impairment annually or when indicators of impairment exist. Goodwill impairment testing involves a comparison of the estimated fair value of reporting units to the respective carrying amount, which may be performed utilizing either a qualitative or quantitative assessment. A reporting unit is defined as an operating segment or one level below an operating segment (also known as a component). If the estimated fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the estimated fair value, then a second step is performed to determine the amount of impairment, if any. An impairment charge is the amount by which the carrying amount of goodwill exceeds the estimated implied fair value of goodwill. We estimate the implied fair value of goodwill as the excess of the estimated fair value of the reporting unit over the estimated fair value of its identifiable net assets. This is the same manner we use to recognize goodwill from a business combination. Goodwill impairment testing involves judgment, including the identification of reporting units, the estimation of the fair value of each reporting unit and, if necessary, the estimation of the implied fair value of goodwill. We have multiple operating segments, which are the same as our reportable segments. These operating segments are comprised of divisions (components), for which discrete financial information is available. Components are aggregated into reporting units for purposes of goodwill impairment testing to the extent that they share similar economic characteristics.

Fair value can be determined using market, income or cost-based approaches. Our determination of estimated fair value of the reporting units is based on a combination of the income-based and market-based approaches. Under the income-based approach, we use a discounted cash flow model in which cash flows anticipated over several future periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate risk-adjusted rate of return. We use our internal forecasts to estimate future cash flows and include an estimate of long-term growth rates based on our most recent views of the long-term outlook for each reporting unit. Actual results may differ materially from those used in our forecasts. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective reporting units and in our internally-developed forecasts. Under the market-based approach, we determine fair value by comparing our reporting units to similar businesses or guideline companies whose securities are actively traded in public markets. To further confirm fair value, we compare the aggregate fair value of our reporting units to our total market capitalization. Estimating the fair value of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. The use of alternate estimates and assumptions or changes in the industry or peer groups could materially affect the determination of fair value for each reporting unit and potentially result in goodwill impairment. We performed annual impairment testing in fiscal 2016 and 2015 and, with the exception of our Mobile, IoT & Big Data Products division which was fully impaired in fiscal 2016, we concluded that there were no other impairments of goodwill, as the estimated fair value of each of the remaining reporting units exceeded its carrying value. As discussed further in Note 12 of the "Notes to Consolidated Financial Statements", during the fourth quarter of fiscal 2016 we recognized a $7.4 million non-cash goodwill impairment charge (net of tax). The impairment charge was primarily precipitated by the continued decline in stock price in the latter part of the year, accumulated losses in AirPatrol and the stepped up needs for liquidity more than expected in conjunction with the acquisition and integration of Integrio.

Software Development Costs

The Company develops and utilizes internal software for the processing of data provided by its customers. Costs incurred in this effort are accounted for under the provisions of FASB ASC 350-40, Internal Use Software and ASC 985-20, Software – Cost of Software to be Sold, Leased or Marketed, whereby direct costs related to development and enhancement of internal use software is capitalized, and costs related to maintenance are expensed as incurred. The Company capitalizes its direct internal costs of labor and associated employee benefits that qualify as development or enhancement. These software development costs are amortized over the estimated useful life which management has determined ranges from one to five years.

Research and Development

Research and development costs consist primarily of professional fees and compensation expense. All research and development costs are expensed as incurred.

Impairment of Long-Lived Assets

The Company assesses the recoverability of its long-lived assets, including property and equipment and intangible assets, when there are indications that the assets might be impaired. When evaluating assets for potential impairment, the Company compares the carrying value of the asset to its estimated undiscounted future cash flows. If an asset's carrying value exceeds such estimated cash flows (undiscounted and with interest charges), the Company records an impairment charge for the difference.

Based on its assessments, the Company did not record any impairment charges for the years ended December 31, 2016 and 2015.

Note 2 - Summary of Significant Accounting Policies (continued)

Income Taxes

The Company accounts for income taxes using the asset and liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rate is recognized in income or expense in the period that the change is effective. Income tax benefits are recognized when it is probable that the deduction will be sustained. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will either expire before the Company is able to realize the benefit, or that future deductibility is uncertain.

Non-Controlling Interest

The Company has a 50.2% equity interest in Sysorex Arabia as of December 31, 2016 and 2015. The portion of the Company's deficiency attributable to this third-party non-controlling interest was approximately $2.0 million and $1.6 million as of December 31, 2016 and 2015, respectively.

Deferred Rent Expense

The Company has operating leases which contain predetermined increases and rent holidays in the rentals payable during the term of such leases. For these leases, the aggregate rental expense over the lease term is recognized on a straight-line basis over the lease term. The difference between the expense charged to operations in any year and the amount payable under the lease during that year is recorded as deferred rent expense on the Company's balance sheet, which will reverse to the statement of operations over the lease term.

Foreign Currency Translation

Assets and liabilities related to the Company's foreign operations are calculated using the Saudi Riyal and Canadian Dollar and are translated at end-of-period exchange rates, while the related revenues and expenses are translated at average exchange rates prevailing during the period. Translation adjustments are recorded as a separate component of consolidated stockholders' equity and were an income of $21,000 and an income of $49,000 for the years ended December 31, 2016 and 2015, respectively. Gains or losses resulting from transactions denominated in foreign currencies are included in other income (expense) in the consolidated statements of operations. The Company engages in foreign currency denominated transactions with customers that operate in functional currencies other than the U.S. dollar. Aggregate foreign currency net transaction losses were not material for the years ended December 31, 2016 and 2015, respectively.

Comprehensive Income (Loss)

The Company reports comprehensive income (loss) and its components in its consolidated financial statements. Comprehensive loss consists of net loss, foreign currency translation adjustments and unrealized gains and losses from marketable securities, affecting stockholders' equity that, under US GAAP, are excluded from net loss.

Revenue Recognition

The Company provides IT solutions and services to customers and derives revenues primarily from the sale of third-party hardware and software products, software, assurance, licenses and other consulting services, including maintenance services and recognizes revenue once the following four criteria are met: (1) persuasive evidence of an arrangement exists, (2) the price is fixed and determinable, (3) shipment (software and hardware) or fulfillment (maintenance) has occurred, and (4) there is reasonable assurance of collection of the sales proceeds (the "Revenue Recognition Criteria"). In addition, the Company also records revenues in accordance with Accounting Standards Codification ("ASC") Topic 605-45 "Principal Agent Consideration" ("ASC 605-45"). The Company evaluates the sales of products and services on a case by case basis to determine whether the transaction should be recorded gross or net, including, but not limited to, assessing whether or not the Company: 1) is the primary obligor in the transaction; 2) has inventory risk with respect to the products and/or services sold; 3) has latitude in pricing; and 4) changes the product or performs part of the services sold. The Company evaluates whether revenues received from the sale of hardware and software products, licenses, and services, including maintenance and professional consulting services, should be recognized on a gross or net basis on a transaction by transaction basis. As of December 31, 2016, the Company has determined that all revenues received should be recognized on a gross basis in accordance with applicable standards.

Note 2 - Summary of Significant Accounting Policies (continued)

Cooperative reimbursements from vendors, which are earned and available, are recorded during the period the related transaction has occurred. Cooperative reimbursements are recorded as a reduction of cost of sales in accordance with ASC Topic 605-50 "Accounting by a Customer (including reseller) for Certain Consideration Received from a Vendor." Provisions for returns are estimated based on historical collections and credit memo analysis for the period. The Company receives Marketing Development Funds (MDF) from vendors based on quarterly or annual sales performance to promote the marketing of vendor products and services. The Company must file claims with vendors for these cooperative reimbursements by providing invoices and receipts for marketing expenses. Reimbursements are recorded as a reduction of marketing expenses and other applicable selling, general and administrative expenses ratably over the period in which the expenses are expected to occur. The Company receives vendor rebates which are recorded to cost of sales.

The Company also enters into sales transactions whereby customer orders contain multiple deliverables, and reports its multiple deliverable arrangements under ASC 605-25 "Revenue Arrangements with Multiple Deliverables" ("ASC-605-25"). These multiple deliverable arrangements primarily consist of the following deliverables: the Company's design, configuration, installation, integration, warranty/maintenance and consulting services; and third-party computer hardware, software and warranty maintenance services. In situations where the Company bundles all or a portion of the separate elements, Vendor Specific Objective Evidence ("VSOE") is determined based on prices when sold separately. For the years ended December 31, 2016 and 2015 revenues recognized as a result of customer contracts requiring the delivery of multiple elements was $19.7 million and $33.7 million, respectively.

Hardware, Software and Licensing Revenue Recognition

Generally, the Revenue Recognition Criteria are met with respect to the sales of hardware and software products when they are shipped to the customer. The delivery of products to our customers occurs in a variety of ways, including (i) as a physical product shipped from the Company's warehouse, (ii) via drop-shipment by a third-party vendor, or (iii) via electronic delivery with respect to software licenses. The Company leverages drop-ship arrangements with many of its vendors and suppliers to deliver products to customers without having to physically hold the inventory at its warehouse. In such arrangements, the Company negotiates the sale price with the customer, pays the supplier directly for the product shipped, bears credit risk of collecting payment from its customers and is ultimately responsible for the acceptability of the product and ensuring that such product meets the standards and requirements of the customer. As a result, the Company recognizes the sale of the product and the cost of such upon receiving notification from the supplier that the product has shipped. Vendor rebates and price protection are recorded when earned as a reduction to cost of sales or merchandise inventory, as applicable. Vendor product price discounts are recorded when earned as a reduction to cost of sales.

Maintenance and Professional Services Revenue Recognition

With respect to sales of our maintenance, consulting and other service agreements including our digital advertising and electronic services, the Revenue Recognition Criteria is met once the service has been provided. Revenue on time and material contracts is recognized based on a fixed hourly rate as direct labor hours are expended. The fixed rate includes direct labor, indirect expenses, and profits. Materials, or other specified direct costs, are reimbursed as actual costs and may include markup. Anticipated losses are recognized as soon as they become known. For the three and twelve months ended December 31, 2016 and 2015, the Company did not incur any such losses. These amounts are based on known and estimated factors. Revenues from time and material or firm fixed price long-term and short-term contracts are derived principally with various United States government agencies and commercial customers.

Note 2 - Summary of Significant Accounting Policies (continued)

The Company recognizes revenue for sales of all services billed as a fixed fee ratably over the term of the arrangement as such services are provided. Billings for such services that are made in advance of the related revenue recognized are recorded as deferred revenue and recognized as revenue ratably over the billing coverage period. Amounts received as prepayments for services to be rendered are recognized as deferred revenue. Revenue from such prepayments is recognized when the services are provided.

The Company's storage and computing segment maintenance services agreements permit customers to obtain technical support from the Company and/or the manufacturer and to update, at no additional cost, to the latest technology when new software updates are introduced and available during the period that the maintenance agreement is in effect. Since the Company assumes certain responsibility for product staging, configuration, installation, modification, and integration with other client systems, or retains general inventory risk upon customer return or rejection and is most familiar with the customer and its required specifications, it generally serves as the initial contact with the customer with respect to any storage and computing maintenance services required and therefore will perform all or part of the required service.

Typically, the Company sells maintenance contracts for a separate fee with initial contractual periods ranging from one to three years with renewal for additional periods thereafter. The Company generally bills maintenance fees in advance and records the amounts received as deferred revenue with respect to any portion of the fee for which services have not yet been provided. The Company recognizes the related revenue ratably over the term of the maintenance agreement as services are provided. In situations where the Company bundles all or a portion of the maintenance fee with products, VSOE for maintenance is determined based on prices when sold separately.

Customers that have purchased maintenance/warranty services have a right to cancel and receive a refund of the amounts paid for unused services at any time during the service period upon advance written notice to the Company. Cancellation and refund privileges with respect to maintenance/warranty services lapse as to any period during the term of the agreement for which such services have already been provided. Customers do not have the right to a refund of paid fees for maintenance/warranty services that the Company has earned and recognized as revenue. Invoices issued for maintenance/warranty services not yet rendered are recorded as deferred revenue and then recognized as revenue ratably over the service period. As a result (1) the warranty and maintenance service fees payable by each customer are separately accounted for in each customer purchase order as a separate line item, and (2) upon the Company's receipt and acceptance of a request for refund of maintenance/warranty services not yet provided, the Company's obligation to perform any additional maintenance/warranty services will end. Sales are recorded net of discounts and returns.

Shipping and Handling Costs

Shipping and handling costs are expensed as incurred as part of cost of revenues. These costs were deemed to be nominal during each of the reporting periods.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs, which are included in selling, general and administrative expenses, were deemed to be nominal during each of the reporting periods.

Stock-Based Compensation

The Company accounts for options granted to employees by measuring the cost of services received in exchange for the award of equity instruments based upon the fair value of the award on the date of grant. The fair value of that award is then ratably recognized as expense over the period during which the recipient is required to provide services in exchange for that award.

Note 2 - Summary of Significant Accounting Policies (continued)

Options and warrants granted to consultants and other non-employees are recorded at fair value as of the grant date and subsequently adjusted to fair value at the end of each reporting period until such options and warrants vest, and the fair value of such instruments, as adjusted, is expensed over the related vesting period.

The Company incurred stock-based compensation charges, net of estimated forfeitures of $1.4 million for each of the years ended December 31, 2016 and 2015 which is included in general and administrative expenses. The following table summarizes the nature of such charges for the periods then ended (in thousands):

	Years Ended December 31,	
	2016	2015
Compensation and related benefits	$ 1,306	$ 956
Professional and legal fees	71	468
Totals	$ 1,377	$ 1,424

Net Loss Per Share

The Company computes basic and diluted earnings per share by dividing net loss by the weighted average number of common shares outstanding during the period. Basic and diluted net loss per common share were the same since the inclusion of common shares issuable pursuant to the exercise of options and warrants in the calculation of diluted net loss per common shares would have been anti-dilutive.

The following table summarizes the number of common shares and common share equivalents excluded from the calculation of diluted net loss per common share for the years ended December 31, 2016 and 2015:

	Years Ended December 31,	
	2016	2015
Options	366,859	316,870
Warrants	287,417	37,417
Shares accrued but not issued	18,905	122,800
Convertible preferred stock	100,000	--
Convertible debenture	253,333	--
Totals	1,026,514	477,087

Preferred Stock

The Company applies the accounting standards for distinguishing liabilities from equity under U.S. GAAP when determining the classification and measurement of its convertible preferred stock. Preferred shares subject to mandatory redemption are classified as liability instruments and are measured at fair value. Conditionally redeemable preferred shares (including preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control) are classified as temporary equity. At all other times, preferred shares are classified as permanent equity.

Note 2 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and short term debt. The Company determines the estimated fair value of such financial instruments presented in these financial statements using available market information and appropriate methodologies. These financial instruments, except for short term debt, are stated at their respective historical carrying amounts which approximate fair value due to their short term nature. Short-term debt approximates market value based on similar terms available to the Company in the market place.

Segment Reporting

In accordance with ASC 280 "Segment Reporting", operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. Our chief decision maker, as defined under the FASB's guidance, is the Chief Executive Officer. It is determined that the Company operates in four business segments and three geographic segments, Saudi Arabia, Canada and the United States.

Reclassification

Certain accounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the presentation in the current year's financial statements. These reclassifications have no effect on previously reported earnings.

Derivative Liabilities

During the year ended December 31, 2016, the Company issued a convertible debenture that included reset provisions considered to be down-round protection. In addition the company issued a warrant that includes a fundamental transaction clause which provided for the warrant holder to be paid in cash the fair value of the warrants as computed under a black scholes valuation model. The Company determined that the conversion feature and warrants are derivative instruments pursuant to FASB ASC 815 "Derivatives and Hedging." The accounting treatment of derivative financial instruments requires that the Company bifurcate the conversion feature and record it as a liability at fair value and the fair value of the warrants were computed as defined in the agreement. The instruments are marked-to-market at fair value as of each balance sheet date. Any change in fair value is recorded as a change in the fair value of derivative liabilities for each reporting period. The fair value of the conversion feature was determined using the Binomial Lattice model. The Company reassesses the classification at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification. As of December 31, 2016 the fair value of the derivative liability was $210,000 and included in accrued liabilities.

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in ASC 605 - Revenue Recognition and most industry-specific guidance throughout the ASC. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. To allow entities additional time to implement systems, gather data and resolve implementation questions, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, in August 2015, to defer the effective date of ASU No. 2014-09 for one year, which is fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its financial statements or disclosures. In addition, the FASB issued ASU 2016-08 in March 2016, to help provide interpretive clarifications on the new guidance in ASC Topic 606. The Company is currently evaluating the accounting, transition, and disclosure requirements of the standard to determine the impact, if any, on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption permitted. The adoption of ASU No. 2014-15 impacted disclosure in the Company's financial statements, but did not have any impact on the Company's financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs, ("ASU 2015-03"). This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The adoption of ASU 2015-03 did not have a material impact on the Company's financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," ("ASU 2015-11"). ASU 2015-11 amends the existing guidance to require that inventory should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out or the retail inventory method. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2015–11 on its financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The FASB issued ASU 2015-17 as part of its ongoing Simplification Initiative, with the objective of reducing complexity in accounting standards. The amendments in ASU 2015-17 require entities that present a classified balance sheet to classify all deferred tax liabilities and assets as a noncurrent amount. This guidance does not change the offsetting requirements for deferred tax liabilities and assets, which results in the presentation of one amount on the balance sheet. Additionally, the amendments in ASU 2015-17 align the deferred income tax presentation with the requirements in International Accounting Standards (IAS) 1, Presentation of Financial Statements. The amendments in ASU 2015-17 are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company does not anticipate that the adoption of ASU 2015-17 will have a material impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases. ASU 2016-02 will also require new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating ASU 2016-02 and its impact on its financial statements.

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers - Principal versus Agent Considerations." This update provides clarifying guidance regarding the application of ASU No. 2014-09 - Revenue from Contracts with Customers when another party, along with the reporting entity, is involved in providing a good or a service to a customer. In these circumstances, an entity is required to determine whether the nature of its promise is to provide that good or service to the customer (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). The amendments in the Update clarify the implementation guidance on principal versus agent considerations. The update is effective, along with ASU 2014-09, for annual and interim periods beginning after December 15, 2017. The company is evaluating it's impact on it's financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718)" ("ASU 2016-09"). ASU 2016-09 requires an entity to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating ASU 2016-09 and its impact on its financial statements or disclosures.

On May 9, 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2016-12"). ASU 2016-12 provides clarifying guidance in a few narrow areas and adds some practical expedients to the guidance. The effective date and transition requirements for this ASU are the same as the effective date and transition requirements for ASU 2014-09. The Company is evaluating the effect of ASU 2014-09, if any, on its financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which addresses the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows with respect to eight specific cash flow issues. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The amendments should be applied using a retrospective transition method to each period presented, if practical. Early adoption is permitted, including the interim period, and any adjustments should be reflected as of the beginning of the fiscal period. The Company is currently evaluating ASU 2016-15 and its impact on its financial statements or disclosures.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)", which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows, and as a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. An entity with a material balance of restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted and the new guidance must be applied retroactively to all periods presented. The company is evaluating the new guidance's impact on its financial statements.

In January 2017, the FASB issued ASU 2017-01 "Business Combinations (Topic 805): Clarifying the Definition of a Business", which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is evaluating the impact this pronouncement will have on the consolidated financial statement and disclosures.

Note 2 - Summary of Significant Accounting Policies (continued)

In January 2017, the Financial Accounting Standard Board (the "FASB") issued Accounting Standards Update (ASU) 2017-04: "Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which removes Step 2 from the goodwill impairment test. It is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment test performed with a measurement date after January 1, 2017. The Company is currently evaluating the standard to determine the impact of its adoption on the consolidated financial statements.

Reverse Stock Split

The board of directors was authorized by the Company's stockholders to effect a 1 for 15 reverse stock split of its common stock which was effective March 1, 2017. The financial statements and accompanying notes give effect to the 1 for 15 reverse stock split as if it occurred at the beginning of the first period presented.

Subsequent Events

The Company evaluates events and/or transactions occurring after the balance sheet date and before the issue date of the condensed consolidated financial statements to determine if any of those events and/or transactions requires adjustment to or disclosure in the consolidated financial statements.

Note 3 - LightMiner Systems, Inc. Asset Acquisition

On April 24, 2015, in accordance with the terms and conditions of an asset purchase agreement, the Company completed the acquisition of substantially all of the assets of LightMiner Systems, Inc. ("LightMiner"), which is in the business of developing and commercializing in-memory SQL databases for manipulation. At closing, the Company paid $19,000 in cash to the owner of approximately 19% of LightMiner's outstanding securities prior to closing (the "Owner") and agreed to issue to LightMiner or its designees upon the one year anniversary of the closing, shares of the Company's common stock in an amount equal to the quotient of (A) $3,200,000 divided by (B) the Sysorex Weighted Average Price (as defined below) as of the fifth trading day prior to the First Anniversary, less a hold back of Seller Stock Consideration having an aggregate value of $567,150, as determined by the Sysorex Weighted Average Price, for the purpose of satisfying indemnification obligations of LightMiner. The Sysorex Weighted Average Price means the volume-weighted daily average of the price of the Company's Common Stock for the twenty (20) trading days immediately prior to the date of determination; however, the price may not be less than $30.00 per share.

The Company also agreed to issue to the Owner (i) on the first anniversary of the date of closing, an aggregate of 127,000 restricted shares of the Company's common stock with a fair value of $286,000 at the date of closing and (ii) an option to purchase up to 100,000 shares of Company's common stock in accordance with the terms and conditions of the Company's 2011 Employee Stock Incentive Plan, as amended, pursuant to an at-will employment offer letter. In addition, the Company agreed to issue to another pre-acquisition principal of LightMiner additional shares of the Company's common stock equal to $200,000 divided by the Sysorex Weighted Average Price, however the price may not be less than $30.00 per share.

The Company evaluated the common stock to be issued in accordance with ASC 815 "Derivatives and Hedging". Accordingly, the common stock to be issued is recorded as a liability at fair value as of each reporting date and marked to market through earnings. The number of shares to be issued under this arrangement was limited to a price of not less than $30.00 per share.

The Company acquired LightMiner to provide analytics to its indoor positioning customers. LightMiner's in-memory columnar database is optimized for speed which now allows Inpixon to process very large volumes of data rapidly and deliver real-time or near real-time alerts and/or information to its customers. LightMiner is now integrated with Inpixon's indoor positioning technology formerly known as AirPatrol and is sold together.

The total recorded purchase price for the transaction was $3,705,000 which consisted of the cash paid of $19,000 and $3,686,000 representing the value of the stock to be issued upon the one year anniversary of the closing.

Assets Acquired (in thousands):

Fixed Assets	$	225
Export License		14
Developed Technology		3,466
Total Purchase Price	$	3,705

On August 2, 2016 the Company issued 102,895 shares of common stock for the settlement of $2,896,000 of the amount payable. As of December 31, 2016 the fair value of $567,000 remained accrued and in escrow which represented 18,905 shares of common stock. Subsequent to December 31, 2016 the escrow was released and the Company issued the shares to settle the liability.

Note 4 - Integrio Technologies, LLC Asset Acquisition

On November 14, 2016, the Company and its wholly-owned subsidiary, Sysorex Government Services, Inc. (collectively, the "Buyer"), entered into an Asset Purchase Agreement with Integrio Technologies, LLC ("Integrio") and Emtec Federal, LLC, a wholly-owned subsidiary of Integrio, (collectively, the "Seller") which are in the business of providing IT integration and engineering services to customers, primarily government agencies. The transaction closed on November 21, 2016. The consideration paid for the assets included an aggregate of (A) $1,800,000 in cash, of which $1,400,000 minus the Seller's Cash On Hand (as defined in the Purchase Agreement) and certain amounts payable to creditors of the Seller were paid upon the closing of the Acquisition (the "Closing") and $400,000 will be paid in two annual installments of $200,000 each on the respective anniversary dates of the Closing, subject to certain set offs and recoupment by Buyer; (B) 35,333 unregistered restricted shares of the Company's voting common stock valued at $22.50 per share; (C) the aggregate amount of certain specified assumed liabilities; and (D) up to an aggregate of $1,200,000 in earnout payments, of which up to $400,000 shall be payable to the Seller per year for the three years following the Closing. Inpixon acquired these assets to pursue its previously stated strategy to expand its business into the federal government sector because of the large long-term contracts that the government sector offers. Inpixon started with bidding on government contracts directly and this acquisition provided an opportunity to accelerate this expansion. In addition, the acquisition allows Inpixon to offset the revenue softening in the commercial vertical for this business segment that it experienced in 2016.

The total recorded purchase price for the transaction was $2,332,000 which consisted of the cash paid at Closing of $753,000, $400,000 cash that will be paid in two annual installments of $200,000 each on the respective anniversary dates of the Closing, $1,078,000 in contingent earnout payments and $101,000 representing the fair value of the stock issued upon closing.

The purchase price is allocated as follows (in thousands):

Assets Acquired:	
Cash	$ 189
Accounts receivable	2,365
Other receivables	377
Prepaid assets	4,164
Fixed assets	64
Other assets	34
Customer Relationships	1,873
Supplier Relationships	2,985
Goodwill (A)	3,261
	15,312
Liabilities Assumed:	
Accounts payable	$ 8,341
Accrued liabilities	344
Deferred revenue	4,252
Other long term liabilities	43
	12,980
Total Purchase Price	$ 2,332

(A) The goodwill will be deductible for tax purposes once the contingent and assumed liabilities are settled.

Note 5 – Proforma Financial Information

The following unaudited proforma financial information presents the consolidated results of operations of the Company and Integrio for the years ended December 31, 2016 and 2015, as if the acquisition of Integrio had occurred on January 1, 2015 instead of November 21, 2016. The proforma information does not necessarily reflect the results of operations that would have occurred had the entities been a single company during those periods. The financial information for LightMiner was deminimis.

	For the Years Ended December 31,	
(in thousands, except share amounts)	2016	2015
Revenues	$ 103,955	$ 149,155
Net Loss Attributable to Common Shareholder	$ (27,276)	$ (12,775)
Weighted Average Number of Common Shares Outstanding, Basic and Diluted	1,772,454	1,447,330
Loss Per Common Share - Basic and Diluted	$ (15.39)	$ (8.83)

Note 6 – Related Party

Due from Related Parties

Non-interest bearing amounts due on demand from a related party were $666,000 as of December 31, 2016 and 2015, and consist primarily of amounts due from Sysorex Consulting, Inc. (SCI). Subsequent to December 31, 2014, SCI is no longer a direct shareholder or investor in the Company. The amounts due from SCI as of December 31, 2016 and 2015 have been classified in and as a reduction of stockholders' equity. Subsequent to December 31, 2016 the Company is in negotiations with SCI for the repayment and settlement of this receivable through the purchase of Sysorex India, a wholly owned subsidiary of SCI. The Company cannot provide assurance it will be successful in the consummation of the arrangement.

Consulting Services Ordering Agreement Amendment

On March 25, 2016 but effective as of March 16, 2016, the Company entered into an Amendment No. 3 to its Consulting Services Ordering Agreement with Mr. A Salam Qureishi, who served as Chairman of the Board and a Director of the Company (the "Consultant") until September 30, 2016 (the "Amended Agreement"), pursuant to which the Company agreed to pay the Consultant a fee of $20,000 per month for all consulting services performed during the term of the Consulting Services Ordering Agreement. In addition, the Amended Agreement provided for an extension of the original term of the Consulting Services Ordering Agreement for an additional nine months from March 31, 2016 to December 31, 2016. For the years ended December 31, 2016 and 2015 the Company recorded a charge of $270,000 and $360,000, respectively.

Note 7 - Notes and Other Receivables

Notes and other receivables at December 31, 2016 and 2015 consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Notes receivable	$ --	$ 900
Other receivables	362	440
Total Notes and Other Receivables	$ 362	$ 1,340

Note Receivable

On July 17, 2014, the Company loaned $900,000 to a third party pursuant to the terms of a promissory note. The promissory note accrues interest at a rate of 8% per annum. The Company and the third party are negotiating an extension of the note. A recoverability reserve has been placed against the receivable and accrued interest as of December 31, 2016.

Other Receivables

Other receivables primarily consist of receivables for cooperative reimbursements from vendors; marketing development funds from vendors; interest receivables; and revenue earned under contracts in advance of billings.

Note 8 - Inventory

Inventory at December 31, 2016 and 2015 consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Raw materials	$ 326	$ 153
Work in process	238	64
Finished goods	497	538
Total Inventory	**$ 1,061**	**$ 755**

Note 9 - Property and Equipment, net

Property and equipment at December 31, 2016 and 2015 consisted of the following (in thousands):

	As of December 31,	
	2016	2015
Computer and office equipment (1)	$ 2,662	$ 1,528
Furniture and fixtures (1)	378	274
Leasehold improvements	53	68
Software	163	253
Total	3,256	2,123
Less: accumulated depreciation and amortization (1)	(1,871)	(731)
Total Property and Equipment, Net	**$ 1,385**	**$ 1,392**

(1) Includes assets under capital lease arrangements (see Note 16).

Depreciation and amortization expense was $543,000 and $480,000 for the years ended December 31, 2016 and 2015, respectively.

Note 10 - Software Development Costs

Capitalized software development costs as of December 31, 2016 and 2015 consisted of the following (in thousands):

	As of December 31,	
	2016	2015
Capitalized software development costs	$ 3,044	$ 1,468
Accumulated amortization	(986)	(187)
Software development costs, net	**$ 2,058**	**$ 1,281**

The weighted average remaining amortization period for the Company's software development costs is 3.146 years.

Amortization expense for internally-developed and externally marketed computer software was $790,000 and $173,000 for the years ended December 31, 2016 and 2015, respectively.

Future amortization expense on the computer software is anticipated to be as follows (in thousands):

Years Ending December 31,	Amount
2017	$ 870
2018	578
2019	230
2020	208
2021	172
Total	**$ 2,058**

Note 11 - Intangible Assets

Intangible assets at December 31, 2016 and 2015 consisted of the following (in thousands):

Amortized Intangible Assets	Gross Carrying Amount December 31,		Accumulated Amortization December 31,	
	2016	2015	2016	2015
Trade Name/Trademarks	$ 4,030	$ 4,030	$ (2,396)	$ (1,517)
Customer Relationships	6,623	4,750	(2,705)	(2,054)
Supplier Relationships	2,985	--	(83)	--
Developed Technology	15,696	15,696	(6,503)	(3,915)
Non-compete Agreements	400	400	(364)	(240)
Export License - LMS	13	13	(5)	(2)
Totals	**$ 29,747**	**$ 24,889**	**$ (12,056)**	**$ (7,728)**

During the year ended December 31, 2016 the Company through the acquisition of Integrio has added approximately $1,426,000 of customer relationships and approximately $2,985,000 of supplier relationships These assets were determined to have a life of 6 and 3 years, respectively.

Aggregate Amortization Expense:

Aggregate amortization expense for the years ended December 31, 2016 and 2015 were $4,328,000 and $3,994,000, respectively.

Future amortization expense on intangibles assets is anticipated to be as follows (in thousands):

Years Ending December 31,	Amount
2017	5,013
2018	4,616
2019	4,533
2020	2,450
2021	793
2022	287
Total	**$ 17,691**

The weighted average remaining amortization periods for the Company's trade names/trademarks, customer relationships, supplier relationships, developed technology, non-compete agreements, and export license are 0.37, 0.93, 0.48, 2.06, 0, and 0 years, respectively.

Note 12 - Goodwill

The following table summarizes the changes in the carrying amount of Goodwill, by segment and in total for the years ended December 31, 2016 and 2015 (in thousands):

	Mobile, IoT & Big Data Products	Storage and Computing	SaaS Revenues	Consolidated
Balance as of December 31, 2015	$ 7,400	$ 4,543	$ 1,223	$ 13,166
Goodwill acquired, net of purchase price adjustment	--	3,262	--	3,262
Goodwill impairment (level 3 fair value adjustment)	(7,400)	--	--	(7,400)
Balance at December 31, 2016	$ --	$ 7,805	$ 1,223	$ 9,028

The increase in the Storage and Computing segment goodwill during the year ended December 31, 2016 was in connection with the Integrio acquisition. Goodwill in connection with this acquisition primarily represents the expected benefits from synergies of integrating this business, the existing workforce of the acquired entity, and expected growth from new customers and new products. See Note 4 for further discussion on this acquisition. During the fourth quarter of 2016, we recognized a $7.4 million impairment charge for our Mobile, IoT & Big Data products division.

Note 13 - Discontinued Operations

As of December 31, 2015, the Company's management decided to close its Saudi Arabia legal entity as business activities and operations have been strategically shifted according to the business plan of the Company.

In accordance with ASC topic 360 "Property, Plant and Equipment", the Company has elected to classify the assets and liabilities as discontinued assets and liabilities in the accompanying consolidated financial statements.

The major categories of assets and liabilities held for sale in the consolidated balance sheets at December 31, 2016 and 2015 (in thousands):

	December 31, 2016	December 31, 2015
Assets		
Accounts receivable, net	1	1
Notes and other receivables	8	8
Other assets	14	763
Total Current Assets	23	772
Other assets	--	--
Total Assets	$ 23	$ 772
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 178	$ 178
Accrued liabilities	904	888
Deferred revenue	236	236
Due to related party	1	2
Short-term debt	722	722
Total Current Liabilities	2,041	2,026
Long Term Liabilities	--	--
Total Liabilities	$ 2,041	$ 2,026

The Company has entered into surety bonds with a financial institution in Saudi Arabia which guaranteed performance on certain contracts. Deposits for surety bonds amounted to $0 and $749,000 (which was a significant portion of the loss from discontinued operations) as of December 31, 2016 and 2015, respectively. During the year ended December 31, 2016 a reserve was placed against the deposit balance due to the uncertainty of when the bond will be released. Deposits are included on the consolidated balance sheets in assets held for sale during the year ended December 31, 2015.

The Company did not recognize any depreciation or amortization expense related to discontinued operations during the years ended December 31, 2016 or 2015. There were no significant capital expenditures or non-cash operating or investing activities of discontinued operations during the periods presented. The operations of Sysorex Arabia were insignificant for the years ended December 31, 2016 and 2015.

Note 13 - Discontinued Operations (continued)

End of Service Indemnity Provision

In accordance with local labor laws, Sysorex Arabia LLC is required to accrue benefits payable to the employees of the Company at the end of their services with the Company. For the years ended December 31, 2016 and 2015, no amounts were required to be accrued under this provision.

Note 14 - Deferred Revenue

Deferred revenue as of December 31, 2016 and 2015 consisted of the following:

	December 31, 2016	December 31, 2015
Deferred Revenue, Current		
Maintenance agreements	$ 14,873	$ 9,025
Service agreements	170	70
Total Deferred Revenue, Current	15,043	9,095
Deferred Revenue, Non-Current		
Maintenance agreements	5,960	7,666
Total Deferred Revenue	**$ 21,003**	**$ 16,761**

The fair value of the deferred revenue approximates the services to be rendered.

Note 15 – Debt

Debt as of December 31, 2016 and 2015 consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Short-Term Debt		
Notes payable	$ 170	$ 170
Revolving line of credit (A)	6,717	8,580
Term loan (B)	--	667
Total Short-Term Debt	**$ 6,887**	**$ 9,417**
Long-Term Debt		
Notes payable	$ 212	$ 282
Term loan, non-current portion (B)	--	944
Senior secured convertible debenture, less debt discount of $1,865 (C)	3,835	--
Total Long-Term Debt	**$ 4,047**	**$ 1,226**

Note 15 – Debt (continued)

(A) Revolving Lines of Credit

Western Alliance Revolving Line of Credit

On May 4, 2015 (effective as of April 29, 2015), the Company and Bridge Bank entered into Amendment 4 to Bridge Bank's Business Financing Agreement ("BFA") dated March 15, 2013 to add the Company, Sysorex Federal, AirPatrol and Shoom as borrowers under the agreement (collectively, the "Borrowers"), amend certain financial covenants, increase the credit limit to $10.0 million and provide for a second term loan of $2 million which was scheduled to mature on April 29, 2018.

Effective as of September 30, 2015 the Borrowers, entered into Amendment 5 (the "Amendment"), dated October 7, 2015, to the BFA, with Western Alliance Bank, as successor in interest ("Western Alliance") to Bridge Bank. Pursuant to Amendment 5, Western Alliance assumed the rights and obligations of Bridge Bank as successor in interest to Bridge Bank and as the lender under the Agreement. The Amendment also amended certain financial covenants of the Borrowers required by the Agreement.

Western Alliance Amendment

On March 25, 2016, Inpixon, together with Inpixon USA and Inpixon Federal (collectively, the "Borrowers") entered into an amendment and waiver (the "Amendment") to the BFA with Western Alliance (the "Lender"), pursuant to which the Lender waived any non-compliance by the Borrowers with respect to the minimum adjusted EBITDA requirements as of December 31, 2015. In addition, the Lender and the Borrowers agreed that the adjusted EBITDA for the six months ended March 31, 2016 would not be less than $(2,200,000) and on or before April 30, 2016, the Borrowers and Lender were to agree to additional financial covenants for the fiscal quarters ended June 30, 2016, September 30, 2016 and December 31, 2016. The Lender agreed to extend the April 30, 2016 deadline and the parties negotiated the additional financial covenants in Amendments No. 6 and No. 7 (as described below).

Western Alliance Amendment No. 6

On June 3, 2016, the Borrowers entered into Amendment No. 6 to Business Financing Agreement and Forbearance Agreement (the "Amendment") with Western Alliance Bank, as successor in interest to Bridge Bank National Association (the "Lender"). Pursuant to the Amendment, the Lender agreed to (i) amend the Financing Agreement dated March 15, 2013 (the "Original Agreement") as described below, (ii) forbear from the exercise of its rights and remedies under the Original Agreement until June 30, 2016, subject to compliance by the Borrowers with certain other conditions as set forth in the Amendment, and (iii) waive certain defaults of the Borrowers, including the Borrowers' failure to repay over advances, as defined in the Original Agreement.

Material changes made to the Original Agreement by the Amendment included, but were not limited to: (i) agreement by the Lender to allow the Company to finance a receivable from a customer outside of the United States for a limited period of time; (ii) modification of the date for the repayment of the Term Advance to June 30, 2016; (iii) agreement by the Borrowers to maintain, beginning on June 30, 2016, an Asset Coverage Ratio of not less than 1.25 to 1; and (iv) revisions to the definition of certain terms that are included in the Original Agreement and providing definitions for certain terms that are included in the Amendment.

Western Alliance Financing Agreement Amendment No. 7

On August 5, 2016, the Borrowers entered into Amendment No. 7 to Business Financing Agreement with Western Alliance Bank, as successor in interest to Bridge Bank National Association (the "Lender"). Pursuant to the 7th Amendment the Lender agreed to (among other things), (1) waive any non-compliance by the Borrowers with respect to any defaults and consented to the sale to an institutional investor of (i) an 8% Original Issue Discount Senior Convertible Debenture in an aggregate principal amount of $5,700,000 due on August 9, 2018 and (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock for an aggregate purchase price of $5,000,000 (the "Transaction") and (2) the Borrowers agreed to pay the outstanding principal amount of the Term Advance upon the earlier of the closing of the Transaction and August 10, 2016. In addition, the Company agreed to pay a fee of $200,000 in lieu of issuing an additional warrant to the Lender and agreed to negotiate in good faith to further amend the Agreement to provide for certain financial covenants for periods after August 31, 2016.

Note 15 – Debt (continued)

GemCap Lending Loan Agreement

The Company and its wholly-owned subsidiaries, Inpixon USA and Inpixon Federal (jointly and severally, the "Borrower"), entered into a Loan and Security Agreement (the "Loan Agreement") with GemCap Lending I, LLC, a Delaware limited liability company (the "Lender") dated as of November 14, 2016.

Under the terms of the Loan Agreement, and subject to the satisfaction of certain conditions to funding, the Lender has agreed to make revolving credit loans to the Borrower in an aggregate principal amount which does not exceed 85% of Eligible Accounts (as defined in the Loan Agreement) at any one time outstanding, net of all taxes, discounts, allowances and credits given or claimed, provided that in no event can the aggregate amount of the revolving credit loans outstanding at any time exceed $10 million (subject to certain conditions). All amounts due under the Loan Agreement upon funding will be secured by the assets of the Company.

Borrowings pursuant to the Loan Agreement bears interest at an annual rate equal to the greater of (a) 9.5% and (b) the sum of (i) the Prime Rate, adjusted as and when such Prime Rate changes, plus (ii) 6%. The interest rate on borrowings is subject to increase by 4% if an event of default has occurred and is continuing. The Loan Agreement includes in its definition of an event of default the failure to pay any principal when due within two business days, the termination, winding up, liquidation or dissolution of borrower, the filing of a tax lien by a governmental agency against borrower, and any reduction in ownership of its wholly owned subsidiaries Inpixon USA and Inpixon Federal.

In connection with the Loan Agreement, the Borrower paid to the Lender a $100,000 closing fee. The Lender will also receive (a) an annual line fee equal to $100,000; (b) an unused line fee equal to 0.5% of the daily average unused portion of the maximum amount of Availability (as defined in the Loan Agreement), calculated on an annualized basis, due and payable monthly; (c) a loan administration and monitoring fee equal to 0.5% of the daily average used portion of Availability calculated on a monthly basis, due and payable monthly; and (d) certain other audit and wire fees.

Upon closing, the Loan Agreement provided the Borrower with a revolving line of credit, the proceeds of which were used to repay in full the existing indebtedness owed to Western Alliance Bank, as successor in interest to Bridge Bank, N.A. and to pay certain expenses related to obtaining the revolving line of credit and for general working capital purposes.

GemCap Loan Agreement and Loan Schedule Amendment 1

On December 9, 2016, the Borrower entered into that certain Amendment Number 1 to the Loan and Security Agreement and to the Loan Agreement Schedule (the "Amendment"), to amend the Loan Agreement and Loan Agreement Schedule (the "Loan Schedule"), both dated as of November 14, 2016, with the Lender including:

- Amending the definition of "Borrowing Base" in the Loan Agreement, under which Borrower Base will be calculated at any time as the sum of (i) at any time as the product obtained by multiplying the outstanding amount of all Eligible Accounts (not including and specifically excluding Eligible Unbilled Accounts), net of all taxes, discounts, allowances and credits given or claimed, by up to eighty-five percent (85%), and (ii) (A) for the period from December 9, 2016 through and including January 9, 2017, the product obtained by multiplying the amount of only Eligible Unbilled Accounts net of all taxes, discounts, allowances and credits given or claimed, by up to eighty- five percent (85%), (B) for the period from January 10, 2017 through and including February 8, 2017, the product obtained by multiplying the amount of only Eligible Unbilled Accounts net of all taxes, discounts, allowances and credits given or claimed, by up to seventy percent (70%), (C) for the period from February 9, 2017 through and including March 9, 2017, the product obtained by multiplying the amount of only Eligible Unbilled Accounts net of all taxes, discounts, allowances and credits given or claimed, by up to fifty percent (50%), and (D) from and after March 10, 2017, the product obtained by multiplying the amount of only Eligible Unbilled Accounts net of all taxes, discounts, allowances and credits given or claimed, by zero percent (0%), it being the understanding of Borrower, that on and after March 10, 2017, Lender shall not make advances against Eligible Unbilled Accounts; provided, that, at all times, the aggregate amount of Eligible Unbilled Accounts shall not exceed twenty percent (20%) of the aggregate amount of Eligible Accounts.

Note 15 – Debt (continued)

- Adding the definition of "Eligible Unbilled Accounts" to the Loan Agreement, which means accounts (i) for which goods are to be provided to an account debtor or work or services are to be performed for an account debtor and the Borrower has not invoiced the account debtor within thirty (30) days after such accounts are first included on the Borrowing Certificate, and (ii) which otherwise satisfy (1), (3), (5) through and including (12) and (14) through and including (22) of the definition of Eligible Accounts as provided in the Loan Agreement.

- Amending the deadline for Borrower to deliver Monthly Financial Statements (as defined in the Loan Schedule) to Lender from not later than twenty (20) days after the end of each calendar month to not later than thirty (30) days after the end of each calendar month.

- Adding "Inventory schedules" to the definition of "Other Weekly Reports" under the Loan Schedule.

In connection with the Amendment, Lender agreed to (i) waive any default of Borrower under the Loan Agreement and the Loan Schedule arising from Borrower's failure to deposit Collections of Accounts (as defined in the Loan Agreement) received by Borrower in the account designated by Lender for the period from November 21, 2016 through and including December 6, 2016 and (ii) provide Borrower with additional availability for unbilled accounts in accordance with the Amendment.

In consideration of Lender's consent to waive the default and accommodation to provide additional availability, Borrower agreed to pay all of Lender's fees and costs including Lender's attorneys' fees and costs in respect of the transactions regarding the Amendment and an accommodation fee of $50,000.

(B) ***Western Alliance Term Loan***

On May 4, 2015 (effective as of April 29, 2015), the Company and Western Alliance Bank f/k/a Bridge Bank entered into Amendment 4 to the BFA dated March 15, 2013 which provided for a second term loan of $2 million which matures on April 29, 2018 of which $167,000 was used to pay off the balance of the initial term loan. The term loan accrued interest at Western Alliance's prime rate plus 2%. At December 31, 2015 the interest rate was 5.5%. The Company was required to make payments of $56,000 on the term loan on the first day of each month commencing on May 1, 2015 until the loan amount was paid in full. The balance due on the term loan was scheduled to be paid in full during the year ending December 31, 2018. In accordance with Amendment 7 of the Western Alliance banking arrangements as described above , the term loan was paid in full in August 2016 with the closing of the sale to an institutional lender of a convertible debenture, as described below.

(C) ***Convertible Debenture and Preferred Stock Financing***

On August 9, 2016, the Company entered into a Purchase Agreement with Hillair Capital Investments L.P. pursuant to which it issued and sold (i) an 8% Original Issue Discount Senior Convertible Debenture in an aggregate principal amount of $5,700,000 due on August 9, 2018 and (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock, par value $0.001 per share (the "Preferred Stock", together with the Debenture, the "Securities"), for an aggregate purchase price of $5,000,000. The original issue discount of $700,000 has been included as a component of the debt discount. The Company allocated the fair value of the debt and preferred stock under a relative fair value methodology.

Note 15 – Debt (continued)

The debenture is due on August 9, 2018 and interest is payable quarterly on February 9, May 9, August 9 and November 9, commencing on May 9, 2017, as well as the dates on which principal payments are made, as described in the debenture in cash, or upon notice to the holder and compliance with certain equity conditions as set forth in the debenture in shares of the Company's common stock. The debenture is convertible any time at the option of the holder at a conversion price of $22.50 per share, subject to adjustments provided in the debenture. Subject to certain equity conditions, the Company has the option to redeem the debenture before its maturity by payment in cash of 120% or 110% (depending on the timing of the redemption) of the then outstanding principal amount plus accrued interest and other charges. The Company is required to redeem 25% of the initial principal amount of the debenture plus accrued unpaid interest and other charges in November 2017, February 2018, May 2018, and August 2018.

The debenture is convertible into common stock at any time by the holder at $22.50 per share. In addition, under the terms of the debenture if, at any time following the six month anniversary of the original issue date or, in the event the Company sells or grants any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues any shares of common stock or common stock equivalents at an effective price per share that is lower than the conversion price then the conversion price is reduced to equal the lower price. The Company included approximately $189,000 of related debt issuance cost, which was primarily professional fees, as a component of the debt discount which will be amortized to interest over the term of the debt.

The Company evaluated the embedded conversion feature within the debenture in accordance with FASB ASC 815 "Derivatives and Hedging." The conversion price was deemed to have a reset provision with down round protection and was recorded as a derivative liability. The Company calculated the fair value of $51,000 for the embedded conversion feature using the Binomial Lattice Model which was recorded as a discount to the debenture using the residual method. The debt discount is charged to interest expense ratably over the term of the debenture and the derivative liability will be marked to market through earnings at the end of each reporting period. For the year ended December 31, 2016 the Company recorded amortization of the debt discount of $491,000.

The weighted-average assumptions used to apply this pricing model were as follows:

Risk-free interest rate	0.71%
Expected life of the debt	2 years
Expected volatility	49%
Dividends assumption	$ --

The expected volatility was calculated using comparable companies, the risk free interest rate was obtained from US Treasury rates for the applicable period and the dividend assumption was $0 as the Company historically has not declared any dividends and does not expect to.

The proceeds from the sale of the Securities were and are used for the repayment of the outstanding balance on the Company's term loan with Western Alliance Bank, as successor in interest to Bridge Bank National Association in an amount equal to approximately $1.4 million, the repayment of accounts payable of at least $1 million, business development activities, capital expenditures, working capital and general and administrative expenses.

Note 16 - Capital Lease Obligations

During the year ended December 31, 2014, the Company entered into a lease arrangement for furniture with Madison Funding. The lease term is from March 2014 through February 2019. Monthly minimum lease payments are $3,000 and the lease required a security deposit of $14,000. The Company exercised the buy-out option and the lease was paid in full on January 27, 2016.

During the year ended December 31, 2014, the Company entered into a lease arrangement for equipment with Cambridge TelCom Services, Inc. The lease term is from November 2014 through April 2019. Monthly minimum lease payments are $13,000.

Note 16 - Capital Lease Obligations (continued)

The following is an analysis of the property under capital leases included in property and equipment (see Note 9) (in thousands):

	As of December 31,	
	2016	2015
Furniture and fixtures	$ --	$ 127
Accumulated depreciation	--	(45)
Net furniture and fixtures	$ --	$ 82
Computer and office equipment	$ 649	$ 649
Accumulated depreciation	(281)	(151)
Net computer and office equipment	$ 368	$ 498

Depreciation expense for leased property and equipment for the years ended December 31, 2016 and 2015 were $130,000 and $156,000, respectively.

Future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2016 (in thousands):

Years Ending December 31,	Equipment
2017	161
2018	161
2019	54
Total Minimum Lease Payments	376
Less: Imputed interest	(32)
Capital Lease Obligations (A)	**$ 344**

(A) Capital lease obligations are included on the Consolidated Balance Sheets in Accrued liabilities for the current portion due and Other liabilities for the non-current portion due as of December 31, 2016.

Note 17 - Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of preferred stock with a par value of $0.001 per share with rights, preferences, privileges and restrictions as to be determined by the Company's Board of Directors. There were 2,250 and 0 shares of preferred stock issued and outstanding as of December 31, 2016 and 2015, respectively.

Note 18 - Equity Raise

September 2015 Equity Raise

On September 25, 2015, the Company entered into an underwriting agreement with B. Riley & Co., LLC, as representative of the several underwriters named therein, relating to the issuance and sale of 350,000 shares of the Company common stock, par value $0.001 per share. The price to the public in this offering was $15.00 per share. Under the terms of the Underwriting Agreement, the Company also granted the Underwriters an option, exercisable for 30 days from the closing date, to purchase up to an additional 52,500 shares at the public offering price. The offering was made pursuant to the Company's registration statement on Form S-3 (Registration Statement No. 333-204159) filed with the Securities and Exchange Commission and declared effective May 28, 2015 and a related prospectus supplement filed with the Securities and Exchange Commission.

The offering closed September 30, 2015. After deducting underwriting discounts and commissions and offering expenses, the net proceeds from the offering were approximately $4.7 million.

Note 18 - Equity Raise (continued)

December 2016 Equity Raise

On December 12, 2016, the Company entered into a Securities Purchase Agreement with certain investors (the "Investors") for the sale by the Company of 333,333 shares (the "Common Shares") of the Company's common stock, par value $0.001 per share (the "Common Stock"), at a purchase price of $6.00 per share. Concurrently with the sale of the Common Shares, pursuant to the Purchase Agreement the Company also sold warrants to purchase up to 250,000 shares of Common Stock (the "Warrants"). The aggregate gross proceeds for the sale of the Common Shares and Warrants was approximately $2.0 million. Subject to certain ownership limitations, the Warrants will be exercisable on the 6-month anniversary of the issuance date at an exercise price equal to $6.75 per share of Common Stock (the "Exercise Price"), subject to adjustments as provided under the terms of the Warrants. The Warrants are exercisable for five and a half years from the initial issuance date. The warrants included a fundamental transaction clause which provided for the warrant holder to be paid in cash upon an event as defined in the warrant. The cash payment is to be computed under a Black-Scholes valuation model for the unexercised portion of the warrant. Accordingly under ASC 815 Derivatives and Hedging the warrants were deemed to be derivative liability and are marked to market at each reporting period.

The net proceeds to the Company from the transactions, after deducting the placement agent's fees and expenses but before paying the Company's estimated offering expenses, and excluding the proceeds, if any, from the exercise of the Warrants was approximately $1.8 million. The Company used the net proceeds from the transaction for general corporate purposes, which included business development activities, capital expenditures, working capital and general and administrative expenses.

The Common Shares (but not the Warrants or shares issuable upon exercise of the Warrants) were offered and sold by the Company pursuant to a prospectus supplement dated as of December 12, 2016, which was filed with the Securities and Exchange Commission (the "SEC"), in connection with a takedown from the Company's effective shelf registration statement on Form S-3, which was filed with the SEC on May 14, 2016 and subsequently declared effective on May 28, 2016 (File No. 333-204159), and a related prospectus dated as of May 28, 2016 contained in such Registration Statement.

Note 19 - Common Stock

On July 1, 2015, the Company issued 91 shares of common stock to employees who had exercised employee stock options in a cashless exercise.

On September 30, 2015, and as more fully described in Note 18, the Company issued 350,000 of common stock at $15.00 per share for proceeds of approximately $4.7 million, after deducting the underwriting discounts, fees and commissions.

During the year ended December 31, 2015, the Company issued 23,416 shares of common stock for services which were fully vested upon the date of grant. The Company recorded an expense of $455,000 for the fair value of those shares.

During the year ended December 31, 2016, the Company issued 13,000 shares of common stock for services which were fully vested upon the date of issuance. The Company recorded an expense of $371,000 for the fair value of those shares.

During the year ended December 31, 2016, the Company issued an aggregate of 102,895 shares of common stock for the settlement of $2,895,000 of amounts accrued in accordance with the terms of the LightMiner Asset Purchase Agreement, dated April 24, 2015. As of December 31, 2016 the fair value of $567,000 was accrued and held in escrow which represented 18,905 shares of common stock. Subsequent to December 31, 2016 the escrow was released and the Company issued the shares for settlement of the liability.

Note 19 - Common Stock (continued)

On December 12, 2016, and as more fully described in Note 18, the Company issued 333,333 of common stock at $6.00 per share for proceeds of approximately $1.8 million, after deducting the underwriting discounts, fees and commissions.

On November 21, 2016, and as more fully described in Note 4, the Company issued 35,333 shares of restricted common stock in connection with the purchase of Integrio Technologies, LLC. The Company recorded the $101,000 value of the shares as part of the purchase price of the assets during the year ended December 31, 2016.

Note 20 - Convertible Series 1 Preferred Stock

On August 9, 2016, the Company entered into a Securities Purchase Agreement pursuant to which it issued and sold (i) an 8% Original Issue Discount Senior Convertible Debenture in an aggregate principal amount of $5,700,000 and (ii) 2,250 shares of newly created Series 1 Convertible Preferred Stock for an aggregate purchase price of $5,000,000. (See Note 15) The Company allocated the fair value of the debt and preferred stock under a relative fair value methodology.

The Series 1 Convertible Preferred Stock authorized has a stated price of $1,000 per share, par value of $0.001. The Series 1 Convertible Preferred Stock is not cumulative, has no redemption features outside the control of the Company and has a liquidation preference of $2,250,000 and is subject to certain typical anti-dilution provisions, such as stock dividend or stock splits.

The Series 1 Convertible Preferred Stock is convertible at any time by the shareholder. The number of shares of common stock to be issued is computed by dividing the Stated Value of the share of Preferred Stock, defined as $15,000, by the Conversion Price, defined as $22.50. In addition under the terms of the agreement if, at any time following the six month anniversary of the original issue date or, in the event the Company sells or grants any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues any shares of common stock or common stock equivalents at an effective price per share that is lower than the conversion price, then the conversion price is reduced to equal the lower price. The holders of the Company's Series 1 Convertible Preferred Stock have no voting rights. Because the conversion option associated with the Series 1 Convertible Preferred Stock is clearly and closely related to the host instrument, the conversion option does not require bifurcation and classification as a derivative liability.

Note 21 - Stock Options

In September 2011, the Company adopted the 2011 Employee Stock Incentive Plan which provides for the granting of incentive and non-statutory common stock options and stock based incentive awards to employees, non-employee directors, consultants and independent contractors. The plan was amended and restated in May 2014. Incentive stock options are granted at exercise prices not less than 100% of the estimated fair market value of the underlying common stock at date of grant. The exercise price per share for incentive stock options may not be less than 110% of the estimated fair value of the underlying common stock on the grant date for any individual possessing more that 10% of the total outstanding common stock of the Company. Unless terminated sooner by the Board of Directors, this Plan will terminate on August 31, 2021.

Options granted under the Company's plan vest over periods ranging from immediately to four years and are exercisable over periods not exceeding ten years. The aggregate number of shares that may be awarded under the Company's plan as of December 31, 2016 is 450,402. As of December 31, 2016 83,543 options were available for future grant.

During the three months ended March 31, 2015, the Company granted options for the purchase of 15,767 shares of common stock to employees of the Company. These options vest pro-rata over 48 months and have a life of ten years and an exercise price of $23.40 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the awards was determined to be $162,000. The fair value of the common stock as of the grant date was determined to be $23.40 per share.

During the three months ended June 30, 2015, the Company granted options for the purchase of 43,367 shares of common stock to employees of the Company. These options vest pro-rata over 48 months and have a life of ten years and exercise prices that ranged from $32.10 to $34.80 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the awards was determined to be $654,000. The fair value of the common stock as of the grant date was determined to range from $32.10 to $34.80 per share.

During the three months ended September 30, 2015, the Company granted options for the purchase of 90,529 shares of common stock to employees of the Company. These options vest pro-rata over 48 months and have a life of ten years and exercise prices that ranged from $23.70 to $26.25 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the awards was determined to be $1,243,000. The fair value of the common stock as of the grant date was determined to range from $23.70 to $26.25 per share.

Note 21 - Stock Options (continued)

During the three months ended December 31, 2015, the Company granted options for the purchase of 28,100 shares of common stock to employees of the Company. These options are one hundred percent vested or vest pro-rata over 48 months, have a life of ten years and exercise prices that ranged from $10.05 to $14.85 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the awards was determined to be $199,000. The fair value of the common stock as of the grant date was determined to range from $10.05 to $14.85 per share.

During the three months ended March 31, 2016, the Company granted options for the purchase of 6,833 shares of common stock to employees of the Company. These options vest pro-rata over 48 months and have a life of ten years and an exercise price of $7.80 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the awards was determined to be $27,000. The fair value of the common stock as of the grant date was determined to be $7.80 per share.

During the three months ended June 30, 2016, the Company granted options for the purchase of 75,460 shares of common stock to employees of the Company. These options vest pro-rata over 48 months and have a life of ten years and an exercise price of $7.80 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the awards was determined to be $292,000. The fair value of the common stock as of the grant date was determined to be $7.80 per share.

During the three months ended September 30, 2016, the Company granted options for the purchase of 23,167 shares of common stock to employees of the Company. These options vest pro-rata over 48 months and have a life of ten years and an exercise price of $7.05 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the awards was determined to be $81,000. The fair value of the common stock as of the grant date was determined to be $7.05 per share.

During the year ended December 31, 2016 and 2015 the Company recorded a charge of $1,377,000 and $1,424,000, respectively, for the amortization of employee stock options.

As of December 31, 2016, the fair value of non-vested options totaled $2,262,000 which will be amortized to expense over the weighted average remaining term of 1.33 years.

The fair value of each employee option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. Key weighted-average assumptions used to apply this pricing model during the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Risk-free interest rate	1.35-1.47 %	1.73-2.27 %
Expected life of option grants	7 years	7 years
Expected volatility of underlying stock	47.47%-49.02 %	39.4%-51.45 %
Dividends assumption	$ --	$ --

The expected stock price volatility for the Company's stock options was determined by the historical volatilities for industry peers and used an average of those volatilities. The Company attributes the value of stock-based compensation to operations on the straight-line single option method. Risk free interest rates were obtained from U.S. Treasury rates for the applicable periods. The dividends assumptions was $0 as the Company historically has not declared any dividends and does not expect to.

Note 21 - Stock Options (continued)

The following table summarizes the changes in options outstanding during the years ended December 31, 2016 and 2015:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	183,969	$ 39.30	$ 14,820
Granted	177,763	25.65	--
Exercised	(188)	--	--
Expired	(8,694)	--	--
Forfeitures	(35,980)	--	--
Outstanding at December 31, 2015	316,870	$ 30.00	$ 1,815
Granted	105,460	7.64	--
Exercised	--	--	--
Expired	(28,500)	--	--
Forfeitures	(26,971)	--	--
Outstanding at December 31, 2016	366,859	$ 24.87	$ (116,726)
Exercisable at December 31, 2015	108,536	$ 28.20	$ 1,815
Exercisable at December 31, 2016	158,120	$ 29.99	$ (62,454)

Note 22 - Warrants

On November 17, 2015, the Company granted warrants for the purchase of 3,333 shares of common stock to a consultant. The warrants were fully vested upon grant, have a three year life and an exercise price of $15.00 per share. The Company valued the warrants using the Black-Scholes option valuation model and the fair value of the award was determined to be $11,400.

On December 12, 2016, the Company granted warrants for the purchase of 250,000 shares of common stock in connection with a securities purchase agreement and as more fully described in Note 18. The warrants are exercisable on the 6-month anniversary of the issuance date at an exercise price equal to $6.75 per share of common stock, subject to adjustments as provided under the terms of the warrants.

Note 22 - Warrants (continued)

The following table summarizes the changes in warrants outstanding during the years ended December 31, 2016 and 2015:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	34,084	$ 30.60	--
Granted	3,333	15.00	--
Exercised	--	--	--
Outstanding at December 31, 2015	37,417	$ 29.24	$ --
Granted	250,000	6.75	--
Exercised	--	--	--
Outstanding at December 31, 2016	287,417	$ 9.68	$ --
Exercisable at December 31, 2015	37,417	--	--
Exercisable at December 31, 2016	37,417	--	--

Note 23 - Income Taxes

The domestic and foreign components of income (loss) before income taxes from continuing operations for the years ended December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Domestic	$ (24,847)	$ (13,691)
Foreign	(1,885)	1,963
Loss from Continuing Operations before Provision for Income Taxes	$ (26,732)	$ (11,728)

Note 23 - Income Taxes (continued)

The income tax provision (benefit) for the years ended December 31, 2016 and 2015 consists of the following (in thousands):

	2016	2015
Foreign		
Current	$ -	$ -
Deferred	(1,295)	1,786
U.S. federal		
Current	-	-
Deferred	(5,247)	(5,706)
State and Local		
Current	(1)	--
Deferred	(1,845)	(1,073)
	(8,388)	(4,993)
Change in valuation allowance	8,387	4,993
Income Tax Provision	$ (1)	$ -

The reconciliation between the U.S. statutory federal income tax rate and the Company's effective rate for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
U.S. federal statutory rate	34.0%	34.0%
State income taxes, net of federal benefit	3.4	6.3
Impairment of goodwill	(9.4)	
Incentive stock options	(1.0)	(2.3)
State rate change and other	1.1	(0.2)
US-Foreign income tax rate difference	(0.6)	1.3
Other permanent items	3.9	3.5
Change in valuation allowance	(31.4)	(42.6)
Effective Rate	0.0%	0.0%

As of December 31, 2016 and 2015, the Company's deferred tax assets consisted of the effects of temporary differences attributable to the following:

(in 000s)	2016	2015
Deferred Tax Asset		
Net operating loss carryovers	$ 18,293	$ 13,149
Deferred revenue	4,663	2,732
Stock based compensation	556	606
Deb debenture	130	--
Research credits	159	159
Accrued compensation	296	130
Reserves	846	--
Other	887	228
Total Deferred Tax Asset	25,830	17,004
Less: valuation allowance	(19,472)	(11,085)
Deferred Tax Asset, Net of Valuation Allowance	$ 6,358	$ 5,919

Deferred Tax Liabilities	2016	2015
Intangible assets	$ (5,312)	$ (4,917)
Fixed assets	(312)	(209)
Other	(12)	(80)
Prepaid maintenance	(20)	(145)
Capitalized research	(702)	(568)
Total deferred tax liabilities	(6,358)	(5,919)
Net Deferred Tax Asset (Liability)	$ --	$ --

As of December 31, 2016 and 2015, the Company had approximately $41.1 million and $32.3 million, respectively, of U.S. federal and state net operating loss ("NOL") carryovers available to offset future taxable income. These NOLs, if not utilized, begin expiring in the year 2023.

In accordance with Section 382 of the Internal Revenue Code, deductibility of the Company's net operating loss carryover may be subject to an annual limitation in the event of a change of control, as defined by the regulations. On April 18, 2014, the Company acquired 100% of the outstanding capital stock of AirPatrol Corporation. As of April 18, 2014, AirPatrol had approximately $17.2 million of U.S. federal and state NOL carryovers available to offset future taxable income. In accordance with Section 382, these NOL carryovers are subject to an annual limitation of approximately $978,000. The Company also performed a preliminary evaluation as to whether a change of control has taken place and concluded that Softlead, Inc. experienced a change of ownership upon the completion of the reverse merger transaction in July 2011. It is estimated that Softlead's NOLs are subject to an annual limitation of $331,000 for NOLs generated up through the date of the reverse merger in July 2011.

As of December 31, 2016 and 2015, the Company had approximately $1,233,000 and $1,199,000 respectively of Saudi Arabian NOL carryovers available to offset future taxable income. Although the carryover period is unlimited, only 25% of taxable income in any given year may be offset by the Company's NOL carryovers. As of December 31, 2016 and 2015, AirPatrol Canada, which was acquired on April 18, 2014 as part of the AirPatrol Merger Agreement, had approximately $7,405,000 and $3,924,000 respectively, of Canadian NOL carryovers available to offset future taxable income. These NOLs, if not utilized, begin expiring in the year 2026. As of December 31, 2015 the Company's management decided to close its Saudi Arabia legal entity. This may impact our carry forward of the NOL upon the completion of our plans.

No provision was made for U.S. taxes on the undistributed earnings of AirPatrol Canada, as such earnings are considered to be permanently reinvested. Such earnings have been, and will continue to be, reinvested, but could become subject to additional tax, if they were remitted as dividends, loaned to the Company, or if the Company should sell its stock in AirPatrol Canada. It is not practicable to determine the amount of additional tax, if any, that might be payable on the undistributed foreign earnings.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realization of deferred tax assets, management considers, whether it is "more likely than not", that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible.

ASC 740, "Income Taxes" requires that a valuation allowance be established when it is "more likely than not" that all, or a portion of, deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. After consideration of all the information available, management believes that uncertainty exists with respect to future realization of its deferred tax assets and has, therefore, established a full valuation allowance as of December 31, 2016 and 2015. As of December 31, 2016 and December 31, 2015, the change in valuation allowance was $8,387,000 and $4,993,000, respectively.

ASC 740 also clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company is required to file income tax returns in the United States (federal), Canada, Saudi Arabia and in various state jurisdictions in the United States. Based on the Company's evaluation, it has been concluded that there are no material uncertain tax positions requiring recognition in the Company's financial statements for the years ended December 31, 2016 and 2015.

The Company's policy for recording interest and penalties associated with unrecognized tax benefits is to record such interest and penalties as interest expense and as a component of selling, general and administrative expense, respectively. There were no amounts accrued for interest or penalties for the years ended December 31, 2016 and 2015. Management does not expect any material changes in its unrecognized tax benefits in the next year.

The Company operates in multiple tax jurisdictions and, in the normal course of business, its tax returns are subject to examination by various taxing authorities. Such examinations may result in future assessments by these taxing authorities. The Company is subject to examination by U.S. tax authorities beginning with the year ended December 31, 2013. In general, the Canadian Revenue Authority may reassess taxes four years from the date the original notice of assessment was issued. The tax years that remain open and subject to Canadian reassessment are 2012- 2016. The Company is also subject to examination in Saudi Arabia for five years following the filing of the income tax return.

Note 24 – Fair Value

The Company measures the fair value of financial assets and liabilities based on the guidance of ASC 820 "Fair Value Measurements and Disclosures" ("ASC 820") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes 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. ASC 820 describes three levels of inputs that may be used to measure fair value:

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

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quotable prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar valuation techniques that use significant unobservable inputs.

Financial instruments, including accounts receivable, accounts payable, and deferred revenues are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The Company's other financial instruments include debt payable, the carrying value of which approximates fair value, as the notes bear terms and conditions comparable to market for obligations with similar terms and maturities, as well as warrant and embedded conversion liabilities that are accounted for at fair value on a recurring basis as of December 31, 2016, by level within the fair value hierarchy (in thousands):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Embedded Conversion Feature	$ --	$ --	$ 1	$ 1
Warrant liability	--	--	209	209
Derivative liability – December 31, 2016	$ --	$ --	$ 210	$ 210

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. The Company's level 3 liabilities shown in the above table consist of warrants that contain a cashless exercise feature that provides for their net share settlement at the option of the holder. Settlement at fair value upon the occurrence of a fundamental transaction would be computed using the Black Scholes Option Pricing Model.

Assumptions utilized in the valuation of Level 3 liabilities are described as follows:

	For the Year Ended December 31, 2016
Risk-free interest rate	2.10%
Expected life of option grants	5 years
Expected volatility of underlying stock	47.09%
Dividends assumption	$ --

Note 24 – Fair Value (continued)

The expected stock price volatility for the Company's stock options was determined by the historical volatilities for industry peers and used an average of those volatilities. Risk free interest rates were obtained from U.S. Treasury rates for the applicable periods. The expected term used is the contractual life of the instrument being valued. The dividends assumptions was $0 as the Company historically has not declared any dividends and does not expect to.

The following table presents the fair value reconciliation of Level 3 liabilities measured at fair value during the year ended December 31, 2016 (in thousands):

	Warrant Liability	Embedded Conversion Feature	Total Derivative Liabilities
Balance at January 1, 2016	$ --	$ --	$ --
Included in Debt Discount	--	52	52
Reclassification of warrants to derivative liabilities	209	--	209
Change in fair value of derivative	--	(51)	(51)
Balance at December 31, 2016	**$ 209**	**$ 1**	**$ 210**

Note 25 - Credit Risk and Concentrations

Financial instruments that subject the Company to credit risk consist principally of trade accounts receivable and cash and cash equivalents. The Company performs certain credit evaluation procedures and does not require collateral for financial instruments subject to credit risk. The Company believes that credit risk is limited because the Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowances is limited.

The Company maintains cash deposits with financial institutions, which, from time to time, may exceed federally insured limits. Cash is also maintained at foreign financial institutions for its Canadian subsidiary and its majority-owned Saudi Arabia subsidiary. Cash in foreign financial institutions as of December 31, 2016 and 2015 was immaterial. The Company has not experienced any losses and believes it is not exposed to any significant credit risk from cash.

The following table sets forth the percentages of revenue derived by the Company from those customers which accounted for at least 10% of revenues during the years ended December 31, 2016 and 2015 (in thousands):

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	$	%	$	%
Customer A	11,650	28%	16,705	25%
Customer B	--	--	7,492	11%

As of December 31, 2016, Customer C represented approximately 29%, Customer A represented approximately 18%, and Customer B represented approximately 14% of total accounts receivable. As of December 31, 2015, Customer A represented approximately 12%, Customer E represented approximately 12%, Customer G represented approximately 12% and Customer B represented approximately 11% of total accounts receivable.

As of December 31, 2016, one vendor represented approximately 43% of total gross accounts payable. Purchases from this vendor during the year ended December 31, 2016 were $16.3 million. As of December 31, 2015, two vendors represented approximately 40% and 22% of total gross accounts payable. Purchases from this vendor during the year ended December 31, 2015 were $24.6 million and $2.8 million.

For the year ended December 31, 2016, one vendor represented approximately 50% of total purchases. For the year ended December 31, 2015, two vendors represented approximately 56% and 11% of total purchases.

Note 26 - Segment Reporting and Foreign Operations

The Company operates in the following business segments:

- Mobile, IoT & Big Data Products: This segment currently includes our Inpixon product (formerly AirPatrol and Lightminer but now integrated as one). Inpixon's indoor positioning and data analytics is based on a unique and proprietary sensor technology that finds all accessible cellular, Wi-Fi and Bluetooth signals and then uses a lightning fast data mining engine to deliver visibility and business intelligence based on the industry.

- Storage and Computing: This segment includes third party hardware, software and related maintenance/warranty products and services that Inpixon resells. It includes but is not limited to products for enterprise computing; storage; virtualization; networking; etc.

- SaaS Revenues: These are Software-as-a-Services (SaaS) or internet based hosted services including the Shoom product line and other data science services;

- Professional Services: These are general IT services including but not limited to: custom application/software design; architecture and development; project management; C4I system consulting; strategic outsourcing; staff augmentation; data center design and operations services; data migration services and other non-SaaS services.

The following tables present key financial information of the Company's reportable segments before unallocated corporate expenses (in thousands):

	Mobile, IoT & Big Data Products	Storage and Computing	SaaS Revenues	Professional Services	Consolidated
Twelve Months Ended December 31, 2016:					
Net revenues	$ 1,617	$ 36,071	$ 3,258	$ 12,221	$ 53,167
Cost of net revenues	$ (553)	$ (28,472)	$ (938)	$ (8,277)	$ (38,240)
Gross profit	$ 1,064	$ 7,599	$ 2,320	$ 3,944	$ 14,927
Gross margin %	66%	21%	71%	32%	28%
Depreciation and amortization	$ 474	$ 832	$ 24	$ 3	$ 1,333
Amortization of intangibles	$ 2,913	$ 871	$ 544	$ --	$ 4,328
Twelve Months Ended December 31, 2015:					
Net revenues	$ 1,651	$ 49,978	$ 3,692	$ 11,636	$ 66,957
Cost of net revenues	$ (510)	$ (40,295)	$ (824)	$ (5,999)	$ (47,628)
Gross profit	$ 1,141	$ 9,683	$ 2,868	$ 5,637	$ 19,329
Gross margin %	69%	19%	78%	48%	29%
Depreciation and amortization	$ 164	$ 122	$ 111	$ 2	$ 399
Amortization of intangibles	$ 2,681	$ 769	$ 544	$ --	$ 3,994

Note 26 - Segment Reporting and Foreign Operations (continued)

Reconciliation of reportable segments' combined income from operations to the consolidated loss before income taxes is as follows (in thousands):

	For the Years Ended December 31,	
	2016	2015
Income from operations of reportable segments	$ 14,927	$ 19,329
Unallocated operating expenses	(38,650)	(30,741)
Interest expense	(1,743)	(448)
Other income (expense)	(1,279)	151
Loss from discontinued operations	(758)	(20)
Consolidated net loss	$ (27,503)	$ (11,729)

The Company's operations are located primarily in the United States, Canada and Saudi Arabia. Revenues by geographic area are attributed by country of domicile of our subsidiaries. The financial data by geographic area are as follows (in thousands):

	United States	Canada	Saudi Arabia	Eliminations	Total
Year Ended December 31, 2016:					
Revenues by geographic area	$ 53,348	$ 54	$ --	$ (235)	$ 53,167
Operating loss by geographic area	$ (21,838)	$ (1,860)	$ (25)	$ --	$ (23,723)
Net loss by geographic area	$ (24,861)	$ (1,860)	$ (782)	$ --	$ (27,503)
Year Ended December 31, 2015:					
Revenues by geographic area	$ 66,916	$ 41	$ --	$ --	$ 66,957
Operating loss by geographic area	$ (10,412)	$ (1,000)	$ --	$ --	$ (11,412)
Net loss by geographic area	$ (13,691)	$ 1,983	$ (21)	$ --	$ (11,729)
As of December 31, 2016:					
Identifiable assets by geographic area	$ 66,050	$ 400	$ 23	$ --	$ 66,473
Long lived assets by geographic area	$ 29,843	$ 319	$ --	$ --	$ 30,162
As of December 31, 2015:					
Identifiable assets by geographic area	$ 67,538	$ 405	$ 772	$ --	$ 68,715
Long lived assets by geographic area	$ 32,759	$ 241	$ --	$ --	$ 33,000

Note 27 - Commitments and Contingencies

Operating Leases

The Company leases facilities located in California, Washington State, Oregon, Virginia, Maryland, Hawaii, and Canada for its office space under non-cancelable operating leases that expire at various times through 2022. The total amount of rent expense under the leases is recognized on a straight-line basis over the term of the leases. As of December 31, 2016 and 2015, deferred rent payable was $139,000 and $135,000, respectively. Rent expense under the operating leases for the years ended December 31, 2016 and 2015 was $1.4 million and $1.4 million, respectively. The Company receives rental income from subleasing the Maryland office space. The rental income is recorded as a contra account to rent expense.

Future minimum lease payments under the above operating lease commitments at December 31, 2016 are as follows (in thousands):

For the Years Ending December 31,	Operating Lease Amounts	Sublease Income	Minimum Payments
2017	$ 1,427	$ (129)	$ 1,298
2018	1,161	(129)	1,032
2019	658	--	658
2020	490	--	490
2021	444	--	444
Thereafter	55	--	55
Total	**$ 4,235**	**$ (258)**	**$ 3,977**

Litigation

Certain conditions may exist as of the date the consolidated financial statements are issued which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

Note 27 - Commitments and Contingencies (continued)

During the year ended December 31, 2011, a judgment in the amount of $936,000 was levied against Sysorex Arabia LLC in favor of Creative Edge, Inc. in connection with amounts advanced for operations. Of that amount, $214,000 has been repaid, and the remaining $722,000 has been accrued and is included as a component of liabilities held for sale as of December 31, 2016 and 2015 in the consolidated balance sheets.

Employee Benefit Plans

On January 1, 2015 all of the defined contribution retirement plans were merged into one plan under Inpixon ("The Inpixon 401(k) Plan"). The Inpixon 401(k) Plan covered all of its eligible employees after their completion of six months of service and upon attaining the age of 21. The Inpixon 401(k) Plan provides that employees can contribute a percentage of their compensation limited to amounts prescribed by the Internal Revenue Service, adjusted annually. Matching contributions are made at the discretion of management. No employer-matching contributions were made to the Inpixon 401(k) Plan for the years ended December 31, 2016 or 2015.

Contingent Consideration

Under the terms of the Lilien Asset Purchase Agreement, the Company was liable for the payment of additional cash consideration to the extent that the recipients of the 200,000 shares of the Company's common stock receive less than $6.0 million from the sale of those shares, less customary commissions, on or before March 20, 2015. This obligation expired on March 31, 2015 with no payment from the Company required.

Under the terms of the AirPatrol Agreement and Plan of Merger (the "AirPatrol Agreement"), the AirPatrol Merger Consideration also includes an earn-out, half of the value of which shall be in stock and the other half in cash (unless otherwise agreed or required pursuant to the AirPatrol Agreement) payable to the former stockholders of AirPatrol in 2015 in accordance with the following formula: if for the five quarter period ending March 31, 2015, AirPatrol Net Income meets or exceeds $3.5 million, the Company shall pay to the former AirPatrol stockholders an earn-out payment equal to two times AirPatrol Net Income, provided that the total earn-out payment shall not exceed $10,000,000. AirPatrol did not meet or exceed the required threshold and nothing is owed for the earn-out.

Under the terms of the Integrio Technologies Purchase Agreement, the Integrio acquisition consideration includes up to an aggregate of $1,200,000 in earnout payments, of which up to $400,000 shall be payable to the seller per year for the three years following the Closing. The present value of the expected earnout payment has been calculated by the Company as $1,078,000. The Company also may pay up to an additional $170,000 in commissions on the Integrio acquisition based on the earnout earned by the seller.

Quasi-Reorganization

On June 30, 2009, Sysorex Government Services, Inc., in connection with the Company's expansion into the government services industry, performed a deficit reclassification quasi-reorganization whereby $2,441,960 of the Company's accumulated deficit was reduced by a transfer from the Company's additional paid in capital. Therefore, the Sysorex Government Services' portion of Retained Earnings on the balance sheet are those Retained Earnings accumulated since July 1, 2009.

Note 28 - Subsequent Events

GemCap Loan and Security Agreement Amendment 2

On January 24, 2017, the Company, and its U.S. wholly-owned subsidiaries, Inpixon USA and Inpixon Federal, entered into Amendment Number 2 to the Loan and Security Agreement to amend that certain Loan and Security Agreement and Loan Agreement Schedule, both dated as of November 14, 2016, with GemCap Lending I, LLC whereby Section (21) of the definition of "Eligible Accounts" in Section 1.29 of the Loan Agreement was deleted and restated in its entirety as follows: Accounts that satisfy the criteria set forth in the foregoing items (1) – (20), which are owed by any other single Account Debtor or its Affiliates so long as such Accounts, in the aggregate, constitute no more than twenty percent (20%) of all Eligible Accounts, provided, that only for the period commencing on January 24, 2017 through and including April 24, 2017, Accounts in the aggregate only from and owed by Centene Corporation or its Affiliates may exceed twenty percent (20%) of all Eligible Accounts by an amount not to exceed $500,000, provided, further, that, from and after April 25, 2017, Accounts in the aggregate that are owed by Centene Corporation or its Affiliates that satisfy the criteria set forth in the foregoing items (1) – (20) shall not exceed twenty percent (20%) of all Eligible Accounts; and Borrower shall have paid to Lender an accommodation fee in the amount of $5,000 on February 2, 2017.

Note 28 - Subsequent Events (continued)

Company Name Change and Stock Split

On February 27, 2017, Sysorex Global, n/k/a Inpixon, entered into an Agreement and Plan of Merger with Inpixon, its wholly-owned Nevada subsidiary formed solely for the purpose of changing the Company's corporate name from Sysorex Global to Inpixon. In accordance with the Merger Agreement, effective as of March 1, 2017, the subsidiary was merged with and into the Company with the Company as the surviving corporation.

As part of the Company's Name Change, each of the Company's subsidiaries also amended their corporate charters to change their names from Sysorex USA, Sysorex Government Services, Inc., and Sysorex Canada Corp. to Inpixon USA, Inpixon Federal, Inc., and Inpixon Canada, Inc., respectively, effective as of March 1, 2017.

Also on the Effective Date, the Company filed a Certificate of Amendment to its Articles of Incorporation with the Secretary of State of the State of Nevada to effect a 1-for-15 reverse stock split of the Company's common stock, par value $0.001 per share. Pursuant to the Amendment, every 15 shares of the issued and outstanding Common Stock were converted into one share of Common Stock, without any change in the par value per share.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A: CONTROLS AND PROCEDURES

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Act") is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Report on Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer (our principal executive officer) and our chief financial officer (our principal financial and accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with our accounting personnel. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Report on Internal Control over Financial Reporting

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

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

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Based on our assessment, our chief executive officer and our chief financial officer determined that, as of December 31, 2016, our internal control over financial reporting is effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Act) during the fourth quarter of the last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

Not applicable.

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names and ages of all of our current directors and executive officers. Our officers are appointed by, and serve at the pleasure of, the Company's Board of the Directors (the "Board").

Name	Age	Position
Nadir Ali	48	Chief Executive Officer and Director
Kevin Harris	48	Chief Financial Officer
Bret Osborn	52	Chief Sales Officer
Craig Harper	50	Chief Technology Officer
Soumya Das	44	Chief Marketing Officer
Wendy Loundermon	46	Vice President of Finance and Secretary of Inpixon, CFO and Secretary of Inpixon Federal, Inc., Vice President of Finance and Secretary of Inpixon USA and Secretary of Inpixon Canada, Inc.
Leonard Oppenheim	70	Director
Kareem Irfan	56	Director
Tanveer Khader	48	Director

Nadir Ali

Mr. Ali was elected CEO and a Director of the Company in September 2011. Prior thereto, from 2001, he served as President of Sysorex Consulting Inc. and its subsidiaries. As CEO of the Company, Mr. Ali is responsible for establishing the vision, strategic intent, and the operational aspects of Inpixon. Mr. Ali works with the Inpixon executive team to deliver both operational and strategic leadership and has over 15 years of experience in the consulting and high tech industries.

Prior to joining Inpixon, from 1998-2001, Mr. Ali was the co-founder and Managing Director of Tira Capital, an early stage technology fund. Immediately prior thereto, Mr. Ali served as Vice President of Strategic Planning for Isadra, Inc., an e-commerce software start-up. Mr. Ali led the company's capital raising efforts and its eventual sale to VerticalNet. From 1995 through 1998, Mr. Ali was Vice President of Strategic Programs at Sysorex Information Systems (acquired by Vanstar Government Systems in 1997), a leading computer systems integrator. Mr. Ali played a key operations role and was responsible for implementing and managing the company's $1 billion plus in multi-year contracts. He worked closely with the investment bankers on the sale of Sysorex Information Systems to Vanstar in 1997. This started Mr. Ali's mergers and acquisitions experience which was enhanced with additional M&A activity totaling $150 million. This experience is critical and relevant to Inpixon's strategy today. Mr. Ali's extensive experience in Inpixon's core government business, as well as extensive contacts and relationships in Silicon Valley and Washington, D.C. were further considered by the Company in appointing Mr. Ali to the Board of Directors. From 1989 to 1994 he was a management consultant, first with Deloitte & Touche LLC in San Francisco and then independently. Mr. Ali received a Bachelor of Arts degree in Economics from the University of California at Berkeley in 1989. Mr. Ali's valuable entrepreneurial, management, M&A and technology experience together with his in-depth knowledge of the Company provide him with the qualifications and skills to serve as a director of our Company.

Kevin Harris

Mr. Harris has been appointed to serve as the Company's Chief Financial Officer, effective as of October 19, 2015. Prior to his appointment as Chief Financial Officer of the Company, Mr. Harris had served as the Vice President and Chief Financial Officer of Response Genetics, Inc. (NASDAQ: RGDX), a company focused on the development and sale of molecular diagnostic tests that help determine a patient's response to cancer therapy, since June 12, 2013 and as the Interim Chief Financial Officer from August 2012 to June 12, 2013. Mr. Harris served as Chief Financial Officer and a director of CyberDefender Corporation (NASDAQ: CYDE listed from June 2010 to March 2014) from 2009 until August 2012 (and as interim Chief Executive Officer from August 2011 until August 2012). He also served as Chief Operating Officer of Statmon Technologies Corp. from 2004 to 2009. He began his career at KPMG Peat Marwick as a senior auditor. Mr. Harris's other professional experience includes serving as Head of Production Finance at PolyGram Television, Director of Corporate Financial Planning at Metro-Goldwyn-Mayer Studios and Senior Vice President of Finance at RKO Pictures. Mr. Harris earned a Bachelor of Science in Business Administration from California State University, San Bernardino and is a Certified Public Accountant in the State of California.

Bret Osborn

Mr. Osborn joined Inpixon as President of Lilien Systems ("Lilien", *n.k.a*. Inpixon USA) during the Company's acquisition of Lilien on March 20, 2013. On May 21, 2015 he was appointed as Chief Sales Officer of the Company. Mr. Osborn is a seasoned, highly successful sales executive with responsibility for Inpixon's global sales teams. He oversees the Company's direct sales teams as well as its worldwide reseller partner and systems integration channels. Prior to joining Lilien in 2005, Mr. Osborn held various sales management positions with Blue Arc, EMC Corporation, and Lanier Worldwide.

Craig Harper

Mr. Harper joined Inpixon as Chief Technology Officer on June 24, 2014. Mr. Harper is a pioneer in Big Data, IaaS, SaaS, PaaS and Cloud based technologies. A visionary with nearly 30 years' experience he leads Inpixon engineering and professional services teams in their development efforts. Mr. Harper's prior experience includes 15 years of executive management experience within the Cloud infrastructure and mobile application industries including serving as President of Apishpere, a wireless, location-based services company providing secure, scalable orchestration between devices and clouds. Mr. Harper earned an MBA from Babson College and BS degrees in Quantitative Economics & Decision Science, and Computer Science, from the University of California, San Diego.

Soumya Das

Mr. Das joined Inpixon as Chief Marketing Officer, effective November 7, 2016. Prior to joining Inpixon, from November 2013 until January 2016, Mr. Das was the Chief Marketing Officer of Indetiv, a security technology company. From January 2012 until October 2013, Mr. Das was the Chief Marketing Officer of SecureAuth, a provider of multi-factor authentication, single sign-on, adaptive authentication and self-services tools for different applications. Prior to joining SecureAuth, Mr. Das was the Vice President, Marketing and Strategy of CrownPeak, a provider of web content management solutions, from April 2010 until January 2012. Mr. Das earned an MBA from Richmond College, London, United Kingdom, a post-graduate diploma in Export/Import Management and Bachelor of Business Management from Andhra University in India.

Wendy Loundermon

Ms. Loundermon has overseen all of Inpixon's finance, accounting and HR activities from 2002 until October 2014 and was re-appointed as Interim CFO of the Company effective January 2015 through October 2015. She has continued on with the Company as Vice President of Finance. Ms. Loundermon has over 20 years of finance and accounting experience. She is currently responsible for the preparation and filing of financial statements and reports for all companies, tax return filings, and managing the accounting staff. Ms. Loundermon received a Bachelor of Science degree in Accounting and a Master of Science degree in Taxation from George Mason University.

Leonard A. Oppenheim

Mr. Oppenheim has served as a director of the Company since July 29, 2011. Mr. Oppenheim retired from business in 2001 and has since been active as a private investor. From 1999 to 2001, he was a partner in Faxon Research, a company offering independent research to professional investors. From 1983 to 1999, Mr. Oppenheim was a principal in the Investment Banking and Institutional Sales division of Montgomery Securities. Prior to that, he was a practicing attorney. Mr. Oppenheim is a graduate of New York University Law School. Mr. Oppenheim served on the Board of Apricus Biosciences, Inc. (Nasdaq: APRI), a publicly held bioscience company, from June 2005 to May 2014. Mr. Oppenheim's public company board experience is essential to the Company. Mr. Oppenheim also meets the Audit Committee Member requirements as a financial expert. Mr. Oppenheim's public company board experience and financial knowledge provide him with the qualifications and skills to serve as a director of our Company.

Kareem M. Irfan

Mr. Irfan has served as a director of the Company since July 8, 2014. Since 2014, Mr. Irfan has been the CEO (Global Businesses) of Cranes Software International (Cranes), a business group offering business intelligence, data analytics and engineering software solutions and services. Previously, Mr. Irfan was Chief Strategy Officer at Cranes starting in 2011. From 2005 until 2011, he was General Counsel at Schneider Electric, a Paris-based global company which specializes in electricity distribution, automation and energy management solutions. Mr. Irfan served earlier as Chief IP & IT Counsel at Square D Co., a US-based electrical distribution and automation business and also practiced law at two international IP law firms in Chicago. Mr. Irfan is a graduate of DePaul University College of Law, holds a MS in Computer Engineering from the University of Illinois, and a BS in Electronics Engineering from Bangalore University. Mr. Irfan's extensive experience in advising information technology companies, managing corporate governance and regulatory management policies, and over fifteen years of executive management leadership give him strong qualifications and skills to serve as a director of our Company.

Tanveer A. Khader

Mr. Khader has served as a director of the Company since July 8, 2014. Since 2010, Mr. Khader has been the Executive Vice President of Systat Software Inc., a company offering scientific software products for statisticians and researchers. Prior thereto he was Senior Vice President from 2008-2010, Vice President form 2004-2008, and General Manager from 2002-2004. Mr. Khader holds a BE in Engineering from Bangalore University and a degree in Business Administration from St. Joseph's Commerce College. Mr. Khader's extensive experience with software development, data analytics and strategic planning give him the qualifications and skills to serve as director of our Company.

Board of Directors

Our Board may establish the authorized number of directors from time to time by resolution. The current authorized number of directors is seven. Our current directors, if elected, will continue to serve as directors until the next annual meeting of stockholders and until his or her successor has been elected and qualified, or until his or her earlier death, resignation, or removal.

We continue to review our corporate governance policies and practices by comparing our policies and practices with those suggested by various groups or authorities active in evaluating or setting best practices for corporate governance of public companies. Based on this review, we have adopted, and will continue to adopt, changes that the Board believes are the appropriate corporate governance policies and practices for our Company.

Independence of Directors

In determining the independence of our directors, we apply the definition of "independent director" provided under the listing rules of The NASDAQ Stock Market LLC ("NASDAQ"). Pursuant to these rules, the Board has determined that all of the directors currently serving on the Board, are independent within the meaning of NASDAQ Listing Rule 5605 with the exception of Nadir Ali, who is an executive officer.

Committees of our Board

The Board has three standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee.

Audit Committee

The Audit Committee consists of Leonard Oppenheim, Tanveer Khader, and Kareem Irfan, all of whom are "independent" as defined under section 5605(a)(2) of the NASDAQ Listing Rules. Mr. Oppenheim is the Chairman of the Audit Committee. In addition, the Board has determined that Leonard Oppenheim qualifies as an "audit committee financial expert" as defined in the rules of the SEC. The Audit Committee operates pursuant to a charter, which can be viewed on our website at http://www.inpixon.com (under "Investors"). The Audit Committee met 5 times during 2016 with all members in attendance at each meeting, except Kareem Irfan and Tanveer Khader who were each not present at one of the meetings. All members attended more than 75% of such committee meetings. The role of the Audit Committee is to:

- oversee management's preparation of our financial statements and management's conduct of the accounting and financial reporting processes;
- oversee management's maintenance of internal controls and procedures for financial reporting;
- oversee our compliance with applicable legal and regulatory requirements, including without limitation, those requirements relating to financial controls and reporting;
- oversee the independent auditor's qualifications and independence;
- oversee the performance of the independent auditors, including the annual independent audit of our financial statements;
- prepare the report required by the rules of the SEC to be included in our Proxy Statement; and
- discharge such duties and responsibilities as may be required of the Committee by the provisions of applicable law, rule or regulation.

Compensation Committee

The Compensation Committee consists of Kareem Irfan, Leonard Oppenheim and Tanveer Khader, all of whom are "independent" as defined in section 5605(a)(2) of the NASDAQ Listing Rules. Mr. Irfan is the Chairman of the Compensation Committee. The Compensation Committee did not hold an official meeting during 2016 but rather conducted business through written consents. The role of the Compensation Committee is to:

- develop and recommend to the independent directors of the Board the annual compensation (base salary, bonus, stock options and other benefits) for our President/Chief Executive Officer;
- review, approve and recommend to the independent directors of the Board the annual compensation (base salary, bonus and other benefits) for all of our Executive Officers (as used in Section 16 of the Securities Exchange Act of 1934 and defined in Rule 16a-1 thereunder);
- review, approve and recommend to the Board the aggregate number of equity grants to be granted to all other employees; and
- ensure that a significant portion of executive compensation is reasonably related to the long-term interest of our stockholders.

A copy of the charter of the Compensation Committee is available on our website at http://www.inpixon.com (under "Investors").

The Compensation Committee may form and delegate a subcommittee consisting of one or more members to perform the functions of the Compensation Committee. The Compensation Committee may engage outside advisers, including outside auditors, attorneys and consultants, as it deems necessary to discharge its responsibilities. The Compensation Committee has sole authority to retain and terminate any compensation expert or consultant to be used to provide advice on compensation levels or assist in the evaluation of director, President/Chief Executive Officer or senior executive compensation, including sole authority to approve the fees of any expert or consultant and other retention terms. In addition, the Compensation Committee considers, but is not bound by, the recommendations of our Chief Executive Officer with respect to the compensation packages of our other executive officers.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee, or the "Governance Committee," consists of Tanveer Khader, Leonard Oppenheim and Kareem Irfan, all of whom are "independent" as defined in section 5605(a)(2) of the NASDAQ Listing Rules. Mr. Khader is the Chairman of the Governance Committee. The Governance Committee did not hold an official meeting during 2016 but rather conducted business through written consents. The role of the Governance Committee is to:

- evaluate from time to time the appropriate size (number of members) of the Board and recommend any increase or decrease;
- determine the desired skills and attributes of members of the Board, taking into account the needs of the business and listing standards;
- establish criteria for prospective members, conduct candidate searches, interview prospective candidates, and oversee programs to introduce the candidate to us, our management, and operations;
- annually recommend to the Board persons to be nominated for election as directors;
- recommend to the Board the members of all standing Committees;
- periodically review the "independence" of each director;
- adopt or develop for Board consideration corporate governance principles and policies; and
- provide oversight to the strategic planning process conducted annually by our management.

A copy of the charter of the Governance Committee is available on our website at http://www.inpixon.com (under "Investors").

Stockholder Communications

Stockholders may communicate with the members of the Board, either individually or collectively, by writing to the Board at 2479 E. Bayshore Road, Suite 195, Palo Alto, CA 94303. These communications will be reviewed by the Secretary as agent for the non-employee directors in facilitating direct communication to the Board. The Secretary will treat communications containing complaints relating to accounting, internal accounting controls, or auditing matters as reports under our Whistleblower Policy. Further, the Secretary will disregard communications that are bulk mail, solicitations to purchase products or services not directly related either to us or the non-employee directors' roles as members of the Board, sent other than by stockholders in their capacities as such or from particular authors or regarding particular subjects that the non-employee directors may specify from time to time, and all other communications which do not meet the applicable requirements or criteria described below, consistent with the instructions of the non-employee directors.

General Communications. The Secretary will summarize all stockholder communications directly relating to our business operations, the Board, our officers, our activities or other matters and opportunities closely related to us. This summary and copies of the actual stockholder communications will then be circulated to the Chairman of the Governance Committee.

Stockholder Proposals and Director Nominations and Recommendations. Stockholder proposals are reviewed by the Secretary for compliance with the requirements for such proposals set forth in our Bylaws and in Regulation 14a-8 promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Stockholder proposals that meet these requirements will be summarized by the Secretary. Summaries and copies of the stockholder proposals are circulated to the Chairman of the Governance Committee.

Stockholder nominations for directors are reviewed by the Secretary for compliance with the requirements for director nominations that are set forth in our Bylaws. Stockholder nominations for directors that meet these requirements are summarized by the Secretary. Summaries and copies of the nominations or recommendations are then circulated to the Chairman of the Governance Committee.

The Governance Committee will consider director candidates recommended by stockholders. If a director candidate is recommended by a stockholder, the Governance Committee expects to evaluate such candidate in the same manner it evaluates director candidates it identifies. Stockholders desiring to make a recommendation to the Governance Committee should follow the procedures set forth above regarding stockholder nominations for directors.

Retention of Stockholder Communications. Any stockholder communications which are not circulated to the Chairman of the Governance Committee because they do not meet the applicable requirements or criteria described above will be retained by the Secretary for at least ninety calendar days from the date on which they are received, so that these communications may be reviewed by the directors generally if such information relates to the Board as a whole, or by any individual to whom the communication was addressed, should any director elect to do so.

Distribution of Stockholder Communications. Except as otherwise required by law or upon the request of a non-employee director, the Chairman of the Governance Committee will determine when and whether a stockholder communication should be circulated among one or more members of the Board and/or Company management.

Director Qualifications and Diversity

The Board seeks independent directors who represent a diversity of backgrounds and experiences that will enhance the quality of the Board's deliberations and decisions. Candidates should have substantial experience with one or more publicly traded companies or should have achieved a high level of distinction in their chosen fields. The Board is particularly interested in maintaining a mix that includes individuals who are active or retired executive officers and senior executives, particularly those with experience in technology; research and development; finance, accounting and banking; or marketing and sales.

There is no difference in the manner in which the Governance Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder. In evaluating nominations to the Board of Directors, the Governance Committee also looks for depth and breadth of experience within the Company's industry and otherwise, outside time commitments, special areas of expertise, accounting and finance knowledge, business judgment, leadership ability, experience in developing and assessing business strategies, corporate governance expertise, and for incumbent members of the Board, the past performance of the incumbent director. Each of the candidates nominated for election to our Board was recommended by the Governance Committee.

Code of Business Conduct and Ethics

The Board of Directors has adopted a code of business conduct and ethics (the "Code") designed, in part, to deter wrongdoing and to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with or submits to the Securities and Exchange Commission and in the Company's other public communications, compliance with applicable governmental laws, rules and regulations, the prompt internal reporting of Code violations to an appropriate person or persons, as identified in the Code and accountability for adherence to the Code. The Code applies to all directors, executive officers and employees of the Company. The Code is periodically reviewed by the Board of Directors. In the event we determine to amend or waive certain provisions of the Code, we intend to disclose such amendments or waivers on our website at http://www.inpixon.com under the heading "Investors" within four business days following such amendment or waiver or as otherwise required by the Nasdaq Listing Rules.

Risk Oversight

Our Board provides risk oversight for our entire company by receiving management presentations, including risk assessments, and discussing these assessments with management. The Board's overall risk oversight, which focuses primarily on risks and exposures associated with current matters that may present material risk to our operations, plans, prospects or reputation, is supplemented by the various committees. The Audit Committee discusses with management and our independent registered public accounting firm our risk management guidelines and policies, our major financial risk exposures and the steps taken to monitor and control such exposures. Our Compensation Committee oversees risks related to our compensation programs and discusses with management its annual assessment of our employee compensation policies and programs. Our Nomination and Governance Committee oversees risks related to corporate governance and management and director succession planning.

Board Leadership Structure

The Chairman of the Board presides at all meetings of the Board, unless such position is vacant, in which case, the Chief Executive Officer of the Company presides. As a result of the resignation of Abdus Salam Qureishi in September 2016, the office of Chairman of the Board is currently vacant. The Company has no fixed policy with respect to the separation of the offices of the Chairman of the Board and Chief Executive Officer. The Board believes that the separation of the offices of the Chairman of the Board and Chief Executive Officer is in the best interests of the Company and will review this determination from time to time.

Compliance with Section 16 of the Exchange Act

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(e) during the year ended December 31, 2016, Forms 5 and any amendments thereto furnished to us with respect to the year ended December 31, 2016, and the representations made by the reporting persons to us, we believe that the following person(s) who, at any time during such fiscal year was a director, officer or beneficial owner of more than 10% of the Company's common stock, failed to comply with all Section 16(a) filing requirements during the fiscal year:

Name	Number of Late Reports	Number of Transactions not Reported on a Timely Basis	Failure to File a Required Form
Bret Osborn	1*	1	0

* Mr. Osborn was late filing a Form 4 reflecting a purchase of 15,000 shares of Common Stock on May 19, 2016.

ITEM 11: EXECUTIVE COMPENSATION

The table below sets forth, for the last two fiscal years, the compensation earned by (i) each individual who served as our principal executive officer, (ii) our two other most highly compensated executive officers, other than our principal executive officer, who were serving as an executive officer at the end of the last fiscal year, and (iii) up to two additional individuals for whom disclosure would have been provided pursuant to the preceding paragraph (ii) but for the fact that the individual was not serving as an executive officer of the Company at the end of the last completed fiscal year. Together, these three individuals are sometimes referred to as the "Named Executive Officers."

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Nadir Ali,	2016	$ 252,400	$ 249,348	$ --	$ 158,000(3)	$ 659,748
Chief Executive Officer of Inpixon	2015	$ 252,400	$ 266,329	$ 507,500(1)	$ 183,399(2)	$ 1,209,628
Kevin Harris	2016	$ 285,000	$ 81,125	$ --	$ 2,000(6)	$ 368,125
Chief Financial Officer of Inpixon	2015	$ 58,461	$ 20,000	$ 130,500(1)	$ --	$ 208,961
Craig Harper,	2016	$ 240,000	$ 65,824	$ 23,300(1)	$ 10,999(4)	$ 340,123
Chief Technology Officer of Inpixon	2015	$ 220,001	$ 110,000	$ 180,050(1)	$ 7,020(5)	$ 517,071

(1) The fair value of employee option grants are estimated on the date of grant using the Black-Scholes option pricing model with key weighted average assumptions, expected stock volatility and risk free interest rates based on US Treasury rates from the applicable periods.
(2) Accrued vacation paid as compensation and housing allowance.
(3) Represents housing allowance and fringe benefits.
(4) Represents fringe benefits and auto allowance.
(5) Represents an automobile allowance.
(6) Represents fringe benefits.

Outstanding Equity Awards at Fiscal Year-End

Other than as set forth below, there were no outstanding unexercised options, unvested stock, and/or equity incentive plan awards issued to our named executive officers as of December 31, 2016.

	Option Awards					Stock Awards			
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: number of securities underlying unexercised unearned options (#)	Option exercise price ($)	Option expiration date	Number of shares or units of stock that have not vested #	Market value of shares of units of stock that have not vested ($)	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested ($) (1)
Nadir Ali	8,333(1)	-0-	-0-	4.68	12/21/2022	-0-	-0-	-0-	-0-
	28,646(2)	13,021(2)	-0-	40.50	08/12/2023	-0-	-0-	-0-	-0-
	17,361(3)	15,972(3)	-0-	34.80	04/17/2025	-0-	-0-	-0-	-0-
Kevin Harris	4,167(4)	12,500(3)	-0-	14.85	10/19/2025	-0-	-0-	-0-	-0-
Craig Harper	3,542(3)	1,458(3)	-0-	56.85	07/03/2024	-0-	-0-	-0-	-0-
	4,688(3)	3,646(3)	-0-	23.40	02/12/2025	-0-	-0-	-0-	-0-
	2,917(3)	3,750(3)	-0-	26.25	08/05/2025	-0-	-0-	-0-	-0-
	1,389(3)	5,278(3)	-0-	7.05	07/20/2026	-0-	-0-	-0-	-0-

(1) This option is 100% vested.
(2) This option vests 25% on August 14, 2015 and vests 25% over the following three anniversaries of the grant date.
(3) This option vests 1/48th per month at the end of each month starting on the grant date.
(4) This option vests 25% each year for 4 years.

Employment Agreements and Arrangements

Named Executive Officers

On July 1, 2010, Nadir Ali entered into an "at will" Employment and Non-Compete Agreement, as subsequently amended, with Sysorex Federal, Inc., Sysorex Government Services and Sysorex Consulting prior to their acquisition by the Company. Under the terms of the Employment Agreement Mr. Ali serves as President. The Employment Agreement was assumed by the Company and Mr. Ali became CEO in September 2011. Mr. Ali's salary under the Agreement was initially $240,000 per annum plus other benefits including a bonus plan, a housing allowance, health insurance, life insurance and other standard Sysorex employee benefits. If Mr. Ali's employment is terminated without Cause (as defined), he will receive his base salary for 12 months from the date of termination. Mr. Ali's employment agreement provides that he will not compete with the Company for a period ending 12 months from termination and will be subject to non-solicitation provisions relating to employees, consultants and customers, distributors, partners, joint ventures or suppliers of the Company. On April 17, 2015, the Compensation Committee approved the increase of Mr. Ali's annual salary to $252,400 per annum, effective January 1, 2015.

On October 12, 2015, effective as of October 19, 2015, Sysorex Global entered into an employment agreement with Kevin Harris (the "Harris Employment Agreement"). Mr. Harris currently serves as Chief Financial Officer of the Company. In accordance with the terms of the Harris Employment Agreement, Mr. Harris will receive a base salary of $285,000 per annum. In addition, Mr. Harris will receive a bonus that is between 25% and 50% of his base salary for each calendar quarter, provided that both the Company and Mr. Harris meet quarterly performance goals, and the specific amount of bonus shall be determined by the Company, in its sole discretion. The Harris Employment Agreement shall be effective for an initial term of twenty-four (24) months and shall automatically be renewed for one additional twelve (12) month period, unless either party terminates the agreement pursuant to the applicable provisions. The Company may terminate the services of Mr. Harris with or without "just cause," as defined in the Harris Employment Agreement. If the Company terminates Mr. Harris's employment without just cause, or if Mr. Harris resigns within twenty-four (24) months following a change of control (as defined in the Harris Employment Agreement) and as a result of a material diminution of his position or compensation, Mr. Harris will receive (1) his base salary at the then current rate and levels for four (4) months if Mr. Harris has been employed by the Company for under six (6) months as of the date of termination or resignation, for six (6) months if Mr. Harris has been employed by the Company at least six (6) but not more than twelve (12) months as of the date of termination or resignation, for nine (9) months if Mr. Harris has been employed by the Company more than twelve (12) but not more than twenty-four (24) months as of the date of termination or resignation, or for twelve (12) months if Mr. Harris has been employed by the Company for more than twenty-four (24) months as of the date of resignation or termination; (2) 50% of the value of any accrued but unpaid bonus that Mr. Harris otherwise would have received; (3) the value of any accrued but unpaid vacation time; and (4) any unreimbursed business expenses and travel expenses that are reimbursable under the Harris Employment Agreement. If the Company terminates Mr. Harris's employment with just cause, Mr. Harris will receive only the portion of his base salary and accrued but unused vacation pay that has been earned through the date of termination.

On June 20, 2014, Craig Harper entered into an offer letter with Inpixon USA (the "Harper Offer Letter"). Mr. Harper currently serves as Chief Technology Officer of the Company. Pursuant to the Harper Offer Letter, Mr. Harper's compensation arrangements include: (1) an annual salary of $200,000; (2) a quarterly profitability bonus based on Inpixon USA's EBITDA Percentage (as defined in the Harper Offer Letter); (3) a quarterly gross profit bonus based on the Company's Gross Profit (as defined in the Harper Offer Letter); (4) a quarterly sales commission based on Inpixon USA's Gross Profit (as defined in the Harper Offer Letter); (5) auto allowance of $585 per month; (6) 75,000 stock options subject to the Board approval; and (7) all the other benefits normally provided to full-time employees. The goals and rates for the above bonuses and commission are determined by the company. In addition, the quarterly bonuses and commission can only be earned if Mr. Harper is employed in good standing for a full quarter. Effective July 1, 2015 Mr. Harper's annual salary was increased to $240,000 per year.

Other Executive Officers

On March 20, 2013, upon the Company's acquisition of Lilien Systems, Lilien Systems ("Lilien", *n.k.a*. "Inpixon USA") entered into a two year employment agreement with Bret Osborn to serve as President of Lilien Systems (the "Osborn Employment Agreement"). Under the Osborn Employment Agreement, Mr. Osborn's salary was $180,000 per year and he was eligible to receive compensation under a bonus plan. If the contract was terminated by Lilien for Cause (as defined in the Osborn Employment Agreement), or if Mr. Osborn resigned without Good Reason (as defined), Mr. Osborn would only receive his compensation earned through the termination date. If the contract was terminated by Lilien without Cause or if Mr. Osborn terminated his employment for Good Reason, or upon a Change in Control (as defined), Mr. Osborn would also be entitled to one year's severance pay; all non-vested equity in the Company would accelerate and vest on the date of termination and all healthcare and life insurance coverage through the end of the term shall be paid by the Company. The Osborn Employment Agreement expired on March 20, 2015 in accordance with its terms, after which Mr. Osborn continues to provide services to the Company.

On June 7, 2016, and effective as of January 1, 2016, Mr. Osborn entered into a compensation letter with the Company (the "Osborn Compensation Letter"). Mr. Osborn currently serves as Chief Sales Officer of the Company. Pursuant to the Osborn Compensation Letter, Mr. Osborn's compensation arrangements include: (1) an annual salary of $180,000; (2) a quarterly sales commission based on Gross profit for all products and services sold by all Inpixon USA EAMs (as defined in the Osborn Compensation Letter) and all sales/net revenue for AirPatrol and LightMiner products; (3) quarterly bonuses based on various subsidiaries' Gross Profit and/or Net Revenues (as defined in the Osborn Compensation Letter); (4) a recoverable draw of $10,000 per month against current and future quarterly commission or bonuses; and (5) auto allowance of $585 per month. The quarterly commission and bonuses can only be earned if Mr. Osborn is employed in good standing for a full quarter. The Company reserves the right to modify the compensation plan in the Osborn Compensation letter at any time and upon written notice to Mr. Osborn.

On October 21, 2014, and effective as of October 1, 2014, the Company entered into an at-will employment agreement with Wendy Loundermon (the "Loundermon Employment Agreement"). Ms. Loundermon currently serves as Vice President of Finance and Secretary of the Company, CFO and Secretary of Inpixon Federal, Inc., Vice President of Finance and Secretary of Inpixon USA and Secretary of Inpixon Canada, Inc. Pursuant to the Loundermon Employment Agreement, Ms. Loundermon is compensated at an annual rate of $200,000 and is entitled to benefits customarily provided to senior management including equity awards and cash bonuses subject to the satisfaction of certain performance goals determined by the Company. The standards and goals and the bonus targets is set by the Compensation Committee, in its sole discretion. The Company may terminate the services of Ms. Loundermon with or without "cause," as defined in the Loundermon Employment Agreement. If the Company terminates Ms. Loundermon's employment without cause or in connection with a change of control (as defined in the Loundermon Employment Agreement), Ms. Loundermon will receive (1) severance consisting of her base salary at the then current rate for twelve (12) months from the date of termination, and (2) her accrued but unpaid salary. If Ms. Loundermon's employment is terminated under any circumstances other than the above, Ms. Loundermon will receive her accured but unpaid salary.

On November 4, 2016, and effective as of November 7, 2016, Inpixon USA entered into an employment agreement with Soumya Das (the "Das Employment Agreement"). Mr. Das currently serves as Chief Marketing Officer of the Company. In accordance with the terms of the Das Employment Agreement, Mr. Das will receive a base salary of $250,000 per annum. In addition, Mr. Das will receive a bonuses up to $75,000 annually, provided that he completes the required tasks before their deadlines, and the tasks, their deadlines and the amount of corresponding bonuses shall be determined by the company and the CEO. The Das Employment Agreement shall be effective for an initial term of twenty-four (24) months and shall automatically be renewed for one additional twelve (12) month period, unless either party terminates the agreement pursuant to the applicable provisions. The company may terminate the services of Mr. Das with or without "just cause," as defined in the Das Employment Agreement. If the company terminates Mr. Das's employment without just cause, or if Mr. Das resigns within twenty-four (24) months following a change of control (as defined in the Das Employment Agreement) and as a result of a material diminution of his position or compensation, Mr. Das will receive (1) his base salary at the then current rate and levels for one (1) month if Mr. Das has been employed by the company for at least six (6) months but not more than twelve (12) months as of the date of termination or resignation, for three (3) months if Mr. Das has been employed by the company more than twelve (12) but not more than twenty-four (24) months as of the date of termination or resignation, or for six (6) months if Mr. Das has been employed by the company for more than twenty-four (24) months as of the date of resignation or termination; (2) 50% of the value of any accrued but unpaid bonus that Mr. Das otherwise would have received; (3) the value of any accrued but unpaid vacation time; and (4) any unreimbursed business expenses and travel expenses that are reimbursable under the Das Employment Agreement. If the company terminates Mr. Das's employment with just cause, Mr. Das will receive only the portion of his base salary and accrued but unused vacation pay that has been earned through the date of termination.

Securities Authorized for Issuance under Equity Compensation Plans

On September 1, 2011 our Board of Directors and stockholders adopted the 2011 Employee Stock Incentive Plan, which was amended and restated on May 2, 2014 (the Amended and Restated 2011 Employee Stock Incentive Plan is referred to as the "Plan"). The purpose of the Plan is to provide an incentive to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship, and to stimulate an active interest of these persons in our development and financial success. Under the Plan, as amended, we are authorized to issue up to 175,633 shares of Common Stock, with yearly increases equal to 10% of the number of shares issued during the prior calendar year, including incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options, stock appreciation rights, performance shares, restricted stock and long term incentive awards. On June 18, 2015 the stockholders approved an amendment to the Plan increasing the number of shares of common stock authorized for awards under the Plan by 200,000, subject to annual increases. Thus, effective as of January 1, 2017, an aggregate of 498,858 shares are authorized for grant under the Plan. The Plan is administered by our Board until authority is delegated to a committee of the board of directors.

The table below provides information as of December 31, 2016 regarding the Plan and such other compensation plans under which equity securities of the Company have been authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options(a)	Weighted-average exercise price of outstanding (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	325,192	$ 22.87	173,666
Equity compensation plans not approved by security holders	41,667(1)	$ 40.50	0
Total	366,859	$ 24.87	173,666

(1) Options granted to Nadir Ali on August 14, 2013.

Director Compensation

The following table provides certain summary information concerning compensation awarded to, earned by or paid to our Directors in the year ended December 31, 2016 expect Nadir Ali, whose aggregate compensation information has been disclosed above.

Name	Fees Earned or paid in cash ($)	Stock awards ($)	Option awards ($)	Non-equity Incentive plan compensation ($)	Nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
Leonard Oppenheim	$ 54,500	$ 16,650	$ -	-	-	$ -	$ 71,150
Thomas Steding (2)	$ 37,417	$ 7,200	$ -	-	-	$ 50,000(1)	$ 94,617
Kareem Irfan	$ 43,583	$ 7,200	$ -	-	-	$ -	$ 50,783
Tanveer Khader	$ 43,667	$ 7,100	$ -	-	-	$ -	$ 50,767
A. Salam Qureishi (3)	$ -	$ -	$ -	-	-	$ 270,000(1)	$ 270,000
Geoffrey Lilien (2)	$ 29,500	$ -	$ -	-	-	$ -	$ 29,500

(1) Compensation under a consulting agreement as fully described in Item 13.
(2) Board of Directors term ended on November 8, 2016.
(3) Resigned from our Board of Directors on September 30, 2016.

Directors are entitled to reimbursement of ordinary and reasonable expenses incurred in exercising their responsibilities and duties as a director. Effective July 1, 2015 the Board approved the following compensation plan for the independent directors: $30,000 per year for their services rendered on the Board, $15,000 per year for service as the audit committee chair, $10,000 per year for service as the compensation committee chair, $6,000 per year for service on the audit committee, $4,000 per year for service on the compensation committee, $2,500 per year for service on the nominating committee, a non-qualified stock option grant to purchase 20,000 shares of the Company's common stock under the Company's Employee Stock Incentive Plan, and a restricted stock award of 20,000 shares of Common Stock under the Plan, which are 100% vested upon grant. The payment of any portion of the Compensation, including the grants of any securities under the Plan shall be subject to the terms and conditions of definitive agreements to be entered into between the Company and its independent directors.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information as of March 31, 2017, regarding the beneficial ownership of our common stock by the following persons:

- each person or entity who, to our knowledge, owns more than 5% of our common stock;
- our Named Executive Officers;
- each director; and
- all of our executive officers and directors as a group.

Unless otherwise indicated in the footnotes to the following table, each person named in the table has sole voting and investment power and that person's address is c/o Inpixon, 2479 E. Bayshore Road, Suite 195, Palo Alto, California 94303. Shares of common stock subject to options, warrants, or other rights currently exercisable or exercisable within 60 days of March 31, 2017, are deemed to be beneficially owned and outstanding for computing the share ownership and percentage of the stockholder holding the options, warrants or other rights, but are not deemed outstanding for computing the percentage of any other stockholder.

Name and Address of Beneficial Owner	Amount and nature of beneficial ownership	Percent of Class (1)
Nadir Ali	111,859(4)	5.0%
Bret Osborn	51,289(8)	2.3%
Leonard Oppenheim	8,395(9)	*
Kareem Ifran	4,416(10)	*
Tanveer Khader	148,951(6)	6.8%
Craig Harper	13,812(11)	*
Kevin Harris	6,528(12)	*
Wendy Loundermon	26,885(2)	1.2%
Soumya Das	5,292(3)	*
All Directors and Executive Officers as a Group (9 persons)	377,427(7)	16.5%
5% Beneficial Owners		
SyHoldings Corporation (5)	144,535	6.6%

* less than 1% of the issued and outstanding shares of common stock.

(1) Based on 2,181,745 shares outstanding on March 31, 2017.
(2) Includes (i) 1,220 shares of common stock held of record by Ms. Loundermon, (ii) 24,215 shares of common stock issuable to Ms. Loundermon upon exercise of outstanding stock options, and (iii) warrants for 1,450 shares held directly by Ms. Loundermon.
(3) Includes (i) 4,667 shares of common stock held of record by Mr. Das, and (ii) 625 shares of common stock issuable to Mr. Das upon exercise of outstanding stock options.
(4) Includes (i) 38,028 shares of common stock held of record by Nadir Ali, (ii) 48,958 shares of common stock issuable to Nadir Ali upon exercise of an outstanding stock option, (iii) 3,659 shares of common stock held of record by Lubna Qureishi, Mr. Ali's wife, (iv) 18,297 shares of common stock held of record by the Qureishi Ali Grandchildren Trust, and (v) 2,917 shares of common stock issuable to Lubna Qureishi upon exercise of an outstanding common stock purchase warrant. Mr. Ali is the joint-trustee (with his wife Lubna Qureishi) of the Qureishi Ali Grandchildren Trust and has voting and investment control over the shares held.
(5) The power to vote and dispose of these shares is held by Mr. Tanveer Khader, 1735 Technology Drive, #430, San Jose, CA 95110.
(6) Includes (i) 144,535 shares of common stock owned directly by SyHolding Corp., (ii) 3,333 shares of common stock held of record by Mr. Khader and (iii) 1,083 shares of common stock issuable to Tanveer Khader upon exercise of outstanding stock options. Tanveer Khader holds the power to vote and dispose of the Sy Holdings Corporation shares.
(7) Includes (i) 107,786 shares of common stock held directly, or by spouse, (ii) 162,832 shares of common stock held of record by entities, (iii) 101,942 shares of common stock issuable upon exercise of stock options, and (iv) 4,867 shares of common stock issuable upon exercise of common stock purchase warrants.
(8) Includes (i) 44,067 shares of common stock held of record by Mr. Osborn and (ii) 7,222 shares of common stock issuable to Bret Osborn upon exercise of outstanding stock options.
(9) Includes (i) 6,812 shares of common stock held of record by Mr. Oppenheim, (ii) 1,083 shares of common stock issuable to Leonard Oppenheim upon exercise of outstanding stock options, and (iii) warrants for 500 shares held directly by Mr. Oppenheim.
(10) Includes (i) 3,333 shares of common stock held of record by Mr. Irfan and (ii) 1,083 shares of common stock issuable to Kareem Irfan upon exercise of outstanding stock options.
(11) Includes (i) 1,000 shares of common stock held of record by Mr. Harper and (ii) 12,812 shares of common stock issuable to Craig Harper upon exercise of outstanding stock options.
(12) Includes (i) 1,667 shares of common stock held of record by Mr. Harris and (ii) 4,861 shares of common stock issuable to Kevin Harris upon exercise of outstanding stock options.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Review, Approval or Ratification of Transactions with Related Persons.

The Board of Directors reviews issues involving potential conflicts of interest, and reviews and approves all related party transactions, including those required to be disclosed as a "related party" transaction under applicable federal securities laws. The Board has not adopted any specific procedures for conducting reviews of potential conflicts of interest and considers each transaction in light of the specific facts and circumstances presented. However, to the extent a potential related party transaction is presented to the Board, the Company expects that the Board would become fully informed regarding the potential transaction and the interests of the related party, and would have the opportunity to deliberate outside of the presence of the related party. The Company expects that the Board would only approve a related party transaction that was in the best interests of the Company, and further would seek to ensure that any completed related party transaction was on terms no less favorable to the Company than could be obtained in a transaction with an unaffiliated third party. Other than as described below, no transaction requiring disclosure under applicable federal securities laws occurred during fiscal year 2016 that was submitted to the Board of Directors for approval as a "related party" transaction.

Related Party Transactions

SEC regulations define the related person transactions that require disclosure to include any transaction, arrangement or relationship in which the amount involved exceeds the lesser of $120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years in which we were or are to be a participant and in which a related person had or will have a direct or indirect material interest. A related person is: (i) an executive officer, director or director nominee, (ii) a beneficial owner of more than 5% of our common stock, (iii) an immediate family member of an executive officer, director or director nominee or beneficial owner of more than 5% of our common stock, or (iv) any entity that is owned or controlled by any of the foregoing persons or in which any of the foregoing persons has a substantial ownership interest or control.

For the period from January 1, 2015, through the date of this report (the "Reporting Period"), described below are certain transactions or series of transactions between us and certain related persons.

Note Payable to Related Party

The Company has borrowed funds from Sysorex Consulting, Inc., which is a stockholder of the Company and for which Abdus Salam Qureishi, the former Chairman of the Board, is the majority stockholder, pursuant to an oral agreement with no stated interest rate and which is payable upon demand. Non-interest bearing amounts due on demand from Sysorex Consulting, Inc. to Sysorex Arabia LLC were $665,554 as of December 31, 2016 and December 31, 2015. These advances were made to fund operations of Sysorex Consulting and recorded as intercompany accounts without any written agreement. The largest aggregate amount of principal outstanding during the years ended December 31, 2016 and 2015 was $665,554 with no principal or interest paid during those periods.

Agreements with Duroob Technology, Inc.

During 2015, the Company borrowed funds for working capital from Duroob Technology, Inc., a Saudi Arabian limited liability company ("Duroob"), a related party as Duroob's CEO owns a minority interest in Sysorex Arabia LLC, pursuant to an oral agreement with no stated interest rate and which is payable upon demand. As of December 31, 2016 and 2015, Duroob was owed $1,600 and $1,867, respectively. The largest aggregate amount of principal outstanding during the years ended December 31, 2016 and 2015 was $2,401 and $1,867, respectively, and there were no interest payments paid during such years. Sysorex Arabia LLC is 50.2% owned by the Company and 49.8% owned by Abdul Aziz Salloum ("Salloum"), its general manager. Salloum is also the CEO and principal stockholder of Duroob.

Consulting Agreement

Effective April 1, 2013, the Company entered into a Consulting Services Ordering Agreement with its then Chairman of the Board, Mr. Abdus Salam Qureishi. Under the agreement, Mr. Qureishi, as the former CEO of the Company, would consult on various operations of the Company and be compensated at an hourly rate of $375 per hour. The original term was for one year, expiring March 31, 2014, which was extended to March 31, 2016 by two amendments to the agreement. On March 25, 2016, the Company entered into an Amendment No. 3 (the "Amended Agreement") with Mr. Qureishi, effective March 16, 2016, pursuant to which the Company agreed to pay Mr. Qureishi a fee of $20,000 per month for all consulting services performed during the term of the agreement. In addition, the Amended Agreement provided for an extension of the term for an additional nine months from March 31, 2016 to December 31, 2016. Mr. Qureishi received $270,000 and $360,000 during 2016 and 2015, respectively.

Thomas Steding, a director, resigned from the Audit Committee of the Company's Board effective November 1, 2015. Mr. Steding signed an agreement (the "Steding Consulting Agreement") to provide consulting services to the Company subsequent to that date. The services required by the consulting agreement include providing guidance on general management and leadership, cultural practices and reinforcement, marketing strategy and positioning, product development best practice, weekly control practices, executive development, and similar services. The term of the agreement expired on October 31, 2016. Mr. Steding was paid $5,000 per month as compensation for his services, received an option to purchase 50,000 shares of the Company's common stock and was reimbursed, in accordance with the Company's travel and entertainment policy, expenses incurred by him in providing the services. The right to purchase 1/48th of the option shares will vest for each month of Mr. Steding's continuous service to the Company, starting on the date the Board approves the option grant. Mr. Steding was not elected as a director at the Company's 2016 Annual Meeting of Stockholders and no longer served on the Company's Board or any committees after November 8, 2016.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

Set forth below are approximate fees for services rendered by Marcum LLP, our independent registered public accounting firm, for the fiscal years ended December 31, 2016 and 2015.

	2016	2015
Audit Fees[(1)]	$ 317,426	$ 266,042
Audit Related Fees	$ 11,135	$ 65,311
Tax Fees	$ --	$ --
All Other Fees	$ --	$ --

(1) Audit fees represent fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statements and audit services provided in connection with other statutory or regulatory filings.

Audit Fees. The "Audit Fees" are the aggregate fees of Marcum attributable to professional services rendered in 2016 and 2015 for the audit of our annual financial statements, for review of financial statements included in our quarterly reports on Form 10-Q or for services that are normally provided by Marcum in connection with statutory and regulatory filings or engagements for that fiscal year. These fees include fees billed for professional services rendered by Marcum for the review of registration statements or services that are normally provided in connection with statutory and regulatory filings or engagements for those fiscal years.

Audit-Related Fees. Marcum billed us for professional services that were reasonably related to the performance of the audit or review of financial statements in 2016 and 2015, which are not included under Audit Fees above including the filing of our registration statements, including our Registration Statement on Form S-3. This amount also includes audit fees related to acquisitions.

Tax Fees. Marcum did not perform any tax advice or planning services in 2016 or 2015.

All Other Fees. Marcum did not perform any services for us or charge any fees other than the services described above in 2016 and 2015.

Pre-approval Policies and Procedures

The Audit Committee is required to review and approve in advance the retention of the independent auditors for the performance of all audit and lawfully permitted non-audit services and the fees for such services. The Audit Committee may delegate to one or more of its members the authority to grant pre-approvals for the performance of non-audit services, and any such Audit Committee member who pre-approves a non-audit service must report the pre-approval to the full Audit Committee at its next scheduled meeting. The Audit Committee is required to periodically notify the Board of their approvals. The required pre-approval policies and procedures were complied with during 2016.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

15(a)(1) **Financial Statements**

The financial statements filed as part of this report are listed and indexed in the table of contents. Financial statement schedules have been omitted because they are not applicable or the required information has been included elsewhere in this report.

15(a)(2) **Financial Statement Schedules**

Not applicable.

15(a)(3) **Exhibits**

The exhibits filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index immediately preceding the exhibits. The Company has identified in the Exhibit Index each management contract and compensation plan filed as an exhibit to this Annual Report on Form 10-K in response to Item 15(a)(3) of Form 10-K.

Exhibit No.	**Description of Document**
(a) Exhibit No.	***Description***
2.1†	Asset Purchase Agreement, dated as of April 24, 2015, between Sysorex Global Holdings Corp., LightMiner Systems, Inc. and Chris Baskett. (15)
2.2	Agreement and Plan of Merger, dated as of December 14, 2015, between Sysorex Global Holdings Corp. and Sysorex Global. (19)
2.3	Asset Purchase Agreement, dated November 14, 2016, among Integrio Technologies, LLC, Emtec Federal, LLC, Sysorex Government Services, Inc. and Sysorex Global. (21)
2.4	Amendment No. 1 to Asset Purchase Agreement, dated as of November 21, 2016, by and among Sysorex Global, Sysorex Government Services, Inc., Integrio Technologies, LLC and Emtec Federal, LLC. (24)
2.5	Agreement and Plan of Merger, dated as of February 27, 2017, between Sysorex Global and Inpixon. (20)
3.1	Restated Articles of Incorporation. (1)
3.2	Amendment No. 1 to Amended and Restated Bylaws of Softlead, Inc. (renamed Sysorex Global Holdings Corp.) (1)
3.3	Articles of Merger (renamed Sysorex Global). (19)
3.4	Certificate of Designation of Preferences, Rights and Limitations of Series 1 Convertible Preferred Stock. (25)
3.5	Certificate of Correction. (25)
3.6	Articles of Merger (renamed Inpixon). (20)

(a) Exhibit No.	*Description*
3.7	Certificate of Amendment to Articles of Incorporation (Reverse Split). (20)
4.1	Specimen Stock Certificate of the Corporation. (1)
4.2	Business Financing Agreement dated March 15, 2013 by and among the Sysorex Government Services, Inc., Lilien Systems and Bridge Bank, N.A. (1)
4.3	Warrant to purchase common stock dated March 20, 2013 held by Bridge Bank N.A. (1)
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4.5	Warrant to purchase common stock dated August 29, 2013 held by Bridge Bank N.A. (2)
4.6	Amendment to Business Financing Agreement, Waiver of Default and Consent dated as of August 29, 2013 between the Sysorex Global Holdings Corp. and Bridge Bank, N.A. (2)
4.7	Form of Underwriter's Warrant. (4)
4.8	Warrant to purchase common stock dated December 15, 2016. (22)
4.9	8% Original Issue Discount Senior Convertible Debenture issued to Hillair Capital Investments L.P. (25)
10.1	Guaranty of Corporation to Bridge Bank, N.A. dated March 15, 2013. (1)
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10.5+	Form of Employment Agreement effective March 2013 between the Corporation and each of Geoffrey Lilien, Dhruv Gulati and Bret Osborn. (1)
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10.12	Subordination Agreement dated as of August 30, 2013 by and between Sysorex Global Holdings Corp. and Note Holders. (4)
10.13+	Employment Agreement dated as of December 20, 2013 by and between AirPatrol Corporation and Cleve Adams. (5)

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10.16+	Consulting Services Ordering Agreement dated as of April 1, 2013 by and between the Company and A. Salam Qureishi. (6)
10.17	Amendment Number Two to Business Financing Agreement, Waiver and Consent dated May 13, 2014 among Bridge Bank National Association, Lilien Systems and Sysorex Government Services, Inc. (9)
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10.31†	Amendment Number Five To Business Financing Agreement dated October 7, 2015 among Western Alliance Bank, Lilien Systems, Sysorex Government Services, Inc., Sysorex Federal, Inc., Sysorex Global Holdings Corp., Shoom, Inc. and AirPatrol Corporation. (17)
10.32+	Employment Agreement dated as of October 6, 2015 by and between Sysorex Global Holdings Corp. and Kevin R. Harris. (17)
10.33+	Consulting Agreement dated as of November 1, 2015 by and between Sysorex Global Holdings Corp. and Thomas L. Steding. (18)
10.34	Stock Assignment Agreement dated as of December 14, 2015 by and between Sysorex Federal, Inc. and Sysorex Global Holdings Corp. (19)

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10.37	Amendment Number Five To Business Financing Agreement dated March 25, 2016 among Western Alliance Bank, Sysorex USA, Sysorex Government Services, Inc. and Sysorex Global. (27)
10.38	Loan and Security Agreement dated November 14, 2016 by and among GemCap Lending I, LLC and Sysorex Global, Sysorex USA and Sysorex Government Services, Inc. (21)
10.39	Loan Agreement Schedule dated November 14, 2016 by and among GemCap Lending I, LLC and Sysorex Global, Sysorex USA and Sysorex Government Services, Inc. (21)
10.40	Secured Promissory Note dated November 14, 2016 and issued to GemCap Lending I, LLC by Sysorex Global, Sysorex USA and Sysorex Government Services, Inc. (21)
10.41	Pre-Funding and Post-Closing Agreement dated November 14, 2016 by and among GemCap Lending I, LLC and Sysorex Global, Sysorex USA and Sysorex Government Services Inc. (21)
10.42	Amendment Number 1 to the Loan and Security Agreement and to the Loan Agreement Schedule by and among GemCap Lending I, LLC and Sysorex Global, Sysorex USA and Sysorex Government Services, Inc. (22)
10.43	Engagement Letter between Sysorex Global and Rodman & Renshaw, a unit of H.C. Wainwright & Co., LLC, dated as of December 10, 2016. (23)
10.44	Securities Purchase Agreement dated December 12, 2016. (23)
10.45	Subcontract Agreement Pending Novation, dated as of November 21, 2016, by and among Sysorex Global, Sysorex Government Services, Inc., Integrio Technologies, LLC and Emtec Federal, LLC. (24)
10.46	Securities Purchase Agreement dated as of August 9, 2016 by and between Sysorex Global and Hillair Capital Investments L.P. (25)
10.47	Security Agreement dated as of August 9, 2016 by and among Sysorex Global, Sysorex USA, Sysorex Government Services, Inc., Sysorex Canada Corp., Sysorex Arabia LLC and Hillair Capital Investments L.P. (25)
10.48	Subsidiary Guarantee dated as of August 9, 2016 made by Sysorex Global, Sysorex USA, Sysorex Government Services, Inc., Sysorex Canada Corp. and Sysorex Arabia LLC in favor of Hillair Capital Investments L.P. (25)
10.49	Amendment Number Seven to Business Financing Agreement by and between the Company and its subsidiaries and Western Alliance Bank, dated August 5, 2016. (25)
10.50	Amendment No. Six to Business Financing Agreement and Forbearance Agreement dated June 3, 2016 among Western Alliance Bank, Sysorex USA, and Sysorex Government Services, Inc. (26)
*10.51+	Employment Agreement dated November 4, 2016, by and between Sysorex USA and Soumya Das.
*10.52	Lease dated December 22, 2015, by and between Brandywine Operating Partnership, L.P. and Spectrum Systems, LLC (acquired by Inpixon Federal, Inc.)
*10.53	Commercial Lease Amendment dated September 19, 2016, by and between 424116 B.C. Ltd. and Sysorex Canada Corp.
*10.54	Addendum No. 3 to Lease dated April 30, 2008, dated February 6, 2017, by and between Balboa & Victory Partnership and Sysorex USA.
*10.55	Office Lease 101 Larkspur Landing Circle dated September 28, 2016, by and between Savoy Corporation and Sysorex USA.
*10.56	Early Occupancy Letter Agreement dated July 19, 2013, by and between St. John Properties, Inc. and AirPatrol Corporation (merged in to Inpixon USA).
*10.57	Lease Agreement dated August 21, 2014, by and between ECI Two Bayshore LLC and Sysorex Global Holdings Corp.
*10.58+	Offer Letter dated June 20, 2014, by and between Lilien Systems and Craig Harper.
*10.59+	Compensation Letter dated June 7, 2016, by and between Sysorex and Bret Osborn.
*21	List of Subsidiaries of the Corporation.
*23.1	Consent of Marcum LLP.
*24.1	Power of Attorney.
*31.1	Certification of the Company's Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 2016.
*31.2	Certification of the Company's Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 2016.
**32.1	Certification of the Company's Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Master Services Agreement dated February 24, 2014 by and between Geneseo Communications, Inc. and the Corporation. (7)
*101.INS	XBRL Instant Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
** Furnished herewith.
† Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and the registrant undertakes to furnish supplemental copies of any of the omitted exhibits and schedules upon request by the Commission.
\+ Indicates a management contract or compensatory plan.

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-190574) filed on August 12, 2013.

(2) Filed on October 9, 2013 with the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(3) Filed on November 12, 2013 with Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(4) Filed on December 9, 2013 with Amendment No. 2 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(5) Filed on January 21, 2014 with Amendment No. 3 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(6) Filed on March 13, 2014 with Amendment No. 4 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(7) Filed on March 21, 2014 with Amendment No. 5 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(8) Incorporated by reference to the Company's Current Report on Form 8-K filed on April 24, 2014.

(9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed on May 15, 2014.

(10) Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-198502) filed on August 29, 2014.

(11) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 27, 2014.

(12) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 5, 2015.

(13) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-195655) filed on May 2, 2014.

(14) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 27, 2015.

(15) Incorporated by reference to the Company's Current Report on Form 8-K filed on April 30, 2015.

(16) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 7, 2015.

(17) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 13, 2015.

(18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed on November 13, 2015.

(19) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 18, 2015.

(20) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 1, 2017.

(21) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 18, 2016.

(22) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 12, 2016.

(23) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 12, 2016.

(24) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 28, 2016.

(25) Incorporated by reference to the Company's Current Report on Form 8-K filed on August 10, 2016.

(26) Incorporated by reference to the Company's Current Report on Form 8-K filed on June 9, 2016.

(27) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed on March 30, 2016.

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.

INPIXON

Date: April 17, 2017

By: /s/ Nadir Ali
Nadir Ali
Chief Executive Officer
Principal Executive Officer

Date: April 17, 2017

By: /s/ Kevin R. Harris
Kevin R. Harris
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has April 14, 2017 signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Nadir Ali Nadir Ali	CEO (Principal Executive Officer) and Director	April 17, 2017
/s/ Kevin R. Harris Kevin R. Harris	Chief Financial Officer (Principal Financial and Accounting Officer)	April 17, 2017
* Len Oppenheim	Director	April 17, 2017
* Kareem Irfan	Director	April 17, 2017
* Tanveer Khader	Director	April 17, 2017

* Nadir Ali, by signing his name hereto, does hereby sign this report on behalf of the directors of the Registrant above whose typed names appear, pursuant to powers of the attorney executed by such directors and filed with the Securities and Exchange Commission.

By: Nadir Ali
Nadir Ali, Attorney-in-Fact

EXHIBIT INDEX

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10.46	Securities Purchase Agreement dated as of August 9, 2016 by and between Sysorex Global and Hillair Capital Investments L.P. (25)
10.47	Security Agreement dated as of August 9, 2016 by and among Sysorex Global, Sysorex USA, Sysorex Government Services, Inc., Sysorex Canada Corp., Sysorex Arabia LLC and Hillair Capital Investments L.P. (25)
10.48	Subsidiary Guarantee dated as of August 9, 2016 made by Sysorex Global, Sysorex USA, Sysorex Government Services, Inc., Sysorex Canada Corp. and Sysorex Arabia LLC in favor of Hillair Capital Investments L.P. (25)
10.49	Amendment Number Seven to Business Financing Agreement by and between the Company and its subsidiaries and Western Alliance Bank, dated August 5, 2016. (25)
10.50	Amendment No. Six to Business Financing Agreement and Forbearance Agreement dated June 3, 2016 among Western Alliance Bank, Sysorex USA, and Sysorex Government Services, Inc. (26)
*10.51+	Employment Agreement dated November 4, 2016, by and between Sysorex USA and Soumya Das.
*10.52	Lease dated December 22, 2015, by and between Brandywine Operating Partnership, L.P. and Spectrum Systems, LLC (acquired by Inpixon Federal, Inc.).
*10.53	Commercial Lease Amendment dated September 19, 2016, by and between 424116 B.C. Ltd . and Sysorex Canada, Corp.
*10.54	Addendum No. 3 to Lease dated April 30, 2008, dated February 6, 2017, by and between Balboa & Victory Partnership and Sysorex USA.
*10.55	Office Lease 101 Larkspur Landing Circle dated September 28, 2016, by and between Savoy Corporation and Sysorex USA.
*10.56	Early Occupancy Letter Agreement dated July 19, 2013, by and between St. John Properties, Inc. and AirPatrol Corporation (merged in to Inpixon USA).
*10.57	Lease Agreement dated August 21, 2014, by and between ECI Two Bayshore LLC and Sysorex Global Holdings Corp.
*10.58+	Offer Letter dated June 20, 2014, by and between Lilien Systems and Craig Harper.
*10.59+	Compensation Letter dated June 7, 2016, by and between Sysorex and Bret Osborn.

Exhibit No.	Description of Document
*21	List of Subsidiaries of the Corporation.
*23.1	Consent of Marcum LLP.
*24.1	Power of Attorney.
*31.1	Certification of the Company's Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 2016.
*31.2	Certification of the Company's Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 2016.
**32.1	Certification of the Company's Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Master Services Agreement dated February 24, 2014 by and between Geneseo Communications, Inc. and the Corporation. (7)
*101.INS	XBRL Instant Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
** Furnished herewith.
† Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and the registrant undertakes to furnish supplemental copies of any of the omitted exhibits and schedules upon request by the Commission.
\+ Indicates a management contract or compensatory plan.

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-190574) filed on August 12, 2013.

(2) Filed on October 9, 2013 with the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(3) Filed on November 12, 2013 with Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(4) Filed on December 9, 2013 with Amendment No. 2 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(5) Filed on January 21, 2014 with Amendment No. 3 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(6) Filed on March 13, 2014 with Amendment No. 4 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(7) Filed on March 21, 2014 with Amendment No. 5 to the Company's Registration Statement on Form S-1 (No. 333-191648) and incorporated herein by reference.

(8) Incorporated by reference to the Company's Current Report on Form 8-K filed on April 24, 2014.

(9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed on May 15, 2014.

(10) Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-198502) filed on August 29, 2014.

(11) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 27, 2014.

(12) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 5, 2015.

(13) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-195655) filed on May 2, 2014.

(14) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 27, 2015.

(15) Incorporated by reference to the Company's Current Report on Form 8-K filed on April 30, 2015.

(16) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 7, 2015.

(17) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 13, 2015.

(18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed on November 13, 2015.

(19) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 18, 2015.

(20) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 1, 2017.

(21) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 18, 2016.

(22) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 12, 2016.

(23) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 12, 2016.

(24) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 28, 2016.

(25) Incorporated by reference to the Company's Current Report on Form 8-K filed on August 10, 2016.

(26) Incorporated by reference to the Company's Current Report on Form 8-K filed on June 9, 2016.

(27) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed on March 30, 2016.

Exhibit 10.51

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), effective November 7, 2016 (the "Effective Date"), is entered into by and between Sysorex USA (the "Employer" or the "Company") and Soumya Das (the "Employee").

WITNESSETH:

WHEREAS, Employer desires to employ Employee to serve as Chief Marketing Officer of the Company, and Employee desires to be employed by Employer in such capacity pursuant to the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the foregoing and the mutual promises and covenants herein contained, it is agreed as follows:

1. **EMPLOYMENT: DUTIES AND RESPONSIBILITIES**

Employer hereby employs Employee as Chief Marketing Officer of the Company. Subject at all times to the direction of the Company's Chief Executive Officer, Employee shall perform those duties and hold those responsibilities that are usual and customary for a Chief Marketing Officer to perform and hold. Employee shall primarily perform his job duties at the Company's offices located in Palo Alto, California.

2. **FULL TIME EMPLOYMENT**

Employee hereby accepts employment by Employer, upon the terms and conditions contained herein, and agrees that during the term of this Agreement the Employee shall devote substantially all of his business time, attention, and energies to the business of the Employer. Employee, during the term of this Agreement, will not perform any services for any other business entity, whether such entity conducts a business which is competitive with the business of Employer or is engaged in any other business activity; provided, however, that nothing herein contained shall be construed as (a) preventing Employee from investing his personal assets in any business or businesses which do not compete directly or indirectly with the Employer, provided such investment or investments do not require any services on his part in the operation of the affairs of the entity in which such investment is made and in which his participation is solely that of an investor, (b) preventing Employee from purchasing securities in any corporation whose securities are regularly traded, if such purchases shall not result in his owning beneficially, at any time, more than *5%* of the equity securities of any corporation engaged in a business which is competitive, directly or indirectly, to that of Employer, (c) preventing Employee from engaging in any other activities, if he receives the prior written approval of the Chief Executive Officer of the Company with respect to his engaging in such activities.

3. **RECORDS**

In connection with his engagement hereunder, Employee shall accurately maintain and preserve all notes and records generated by Employer which relate to Employer and its business and shall make all such reports, written if required, as Employer may reasonably require.

4. **TERM**

Employee's employment hereunder shall be for a single twenty-four (24) month period (the "Initial Term"), which shall commence **November 7, 2016** (the "Start Date"). Thereafter, this Agreement shall automatically be renewed for one additional twelve (12) month period (the "Subsequent Term"), unless either party terminates this Agreement pursuant to Section 14 hereof.

5. **SALARY AND BONUS**

As full compensation for the performance of his duties on behalf of Employer, Employee shall be compensated as follows:

(i) Base Salary. During the Initial Term and Subsequent Term (if applicable), Employer shall pay Employee a base salary at the rate of Two Hundred Fifty Thousand Dollars ($250,000) per annum, payable semi-monthly ("Base Salary").

(ii) Bonuses. In addition to Base Salary, Employee will have up to $75,000 in MBO Bonuses annually. The MBO tasks, their deadlines, and the amount of the corresponding MBO Bonuses will be determined by Nadir Ali, with Employee's input. Each of these MBO Bonuses will only be paid if the MBO is documented in advance and completed before its deadline. If Employee leaves Sysorex for any reason, prior to completion of any MBO, Employee will not receive any portion of the MBO Bonus for that MBO task. MBO Bonuses for the calendar quarter, will be paid within 60 days of the close of the calendar quarter; provided, however, that the precise amount of any such bonus, within the foregoing range, shall be determined by the Company in its sole and absolute discretion and, subject to Section 14(a) hereof, no bonus shall be paid if Employee is no longer employed by the Company on the date of payment.

6. EQUITY

(i) Stock Option Grant. Employee shall be granted 150,000 options to purchase shares of common stock of the Company, which shall have an exercise price of the market price of the Company's common stock as of the close of trading on the date of grant and a ten (10) year term, vesting over 48 months from the grant date at $1/48^{th}$ per month, provided that Employee is employed by the Company when vesting is to occur. Employee shall also be eligible to participate in the equity based incentive plans of the Company and may receive awards thereunder, as determined by the Compensation Committee of the Company from time to time and subject to the terms and conditions of such plans and any award agreement between the Company and Employee evidencing such awards. Notwithstanding the foregoing, nothing in this Paragraph 6(i) shall be construed to extend the duration of this Agreement or Employee's employment by the Company beyond the expiration of the Subsequent Term.

(i i) Change of Control. In the event of a reorganization, merger or consolidation in which the Company is not the surviving corporation, or sale of all or substantially all of the assets of the Company to another person or entity (each a "Material Transaction"), the vesting of each outstanding stock option shall automatically be accelerated so that 100% of the unvested shares covered by such award shall be fully vested upon the consummation of the Material Transaction.

A "Change of Control" as used in this Section 6 shall mean any of the following:

(i) any consolidation, merger or sale of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's stock would be converted into cash, securities or other property; or

(ii) the stockholders of the Company approve an agreement for the sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company; or

(iii) any approval by the stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; or

(iv) the acquisition of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act of an aggregate of 25% or more of the voting power of the Company's outstanding voting securities by any single person or group (as such term is used in Rule 13d-5 under the Exchange Act), unless such acquisition was approved by the Board of Directors prior to the consummation thereof); or

(v) the appointment of a trustee in a Chapter 11 bankruptcy proceeding involving the Company or the conversion of such a proceeding into a case under Chapter 7.

7. **BUSINESS EXPENSES**

The Employer shall pay or reimburse the Employee for all reasonable business expenses incurred by Employee in the performance of his duties hereunder including, but not limited to, lodging and travel expenses relating to Company business, mobile phone and data usage, customer entertainment and certain pre-approved home office expenses not paid directly by the Company. Reimbursement for the foregoing expenses will be made in accordance with regular Company policy and within a reasonable period following Employee's presentation of the details of, and proof of, such expenses.

8. **FRINGE BENEFITS**

(i) During the term of this Agreement, Employer shall provide medical, dental, and vision insurance coverage to Employee, his spouse and his children, to the same extent, and on the same terms and conditions, it shall provide such coverage to other senior management employees of the Company.

(ii) During the term of this Agreement, Employee shall be permitted to participate in the Company's 401K Plan, to the same extent, and on the same terms and conditions, other senior management employees of the Company shall be permitted to participate.

(iii) During the term of this Agreement, Employer shall provide to Employee three (3) weeks paid vacation days per year, which shall accrue monthly from the Start Date.

(iv) During the term of this Agreement, Employer shall provide paid sick days to Employee, to the same extent, and on the same terms and conditions, it shall provide such paid time off to other senior management employees of the Company.

9. **SUBSIDIARIES**

For the purposes of this Agreement all references to business products, services and sales of Employer shall include those of Employer's subsidiaries and/or affiliates.

10. **INVENTIONS**

All systems, inventions, discoveries, apparatus, techniques, methods, know-how, formulae or improvements made, developed or conceived by Employee during Employee's employment by Employer, whenever or wherever made, developed or conceived, and whether or not during business hours, which constitute an improvement, on those heretofore, now or at any time during Employee's employment, developed, manufactured or used by Employer in connection with the manufacture, process or marketing of any product heretofore or now or hereafter developed or distributed by Employer, or any services to be performed by Employer or of any product which shall or could reasonably be manufactured or developed or marketed in the reasonable expansion of Employer's business, shall be and continue to remain Employer's exclusive property, without any added compensation to Employee, and upon the conception of any and every such invention, process, discovery or improvement and without waiting to perfect or complete it, Employee promises and agrees that Employee will immediately disclose it to Employer and to no one else and thenceforth will treat it as the property and secret of Employer.

Employee will also execute any instruments requested from time to time by Employer to vest in it complete title and ownership to such invention, discovery or improvement and will, at the request of Employer, do such acts and execute such instruments as Employer may require, but at Employer's expense to obtain Letters of Patent, trademarks or copyrights in the United States and foreign countries, for such invention, discovery or improvement and for the purpose of vesting title thereto in Employer, all without any additional compensation of any kind to Employee. Employer hereby notifies Employee that the provisions of this Section 10 do not apply to any inventions for which no equipment, supplies, facilities or trade secret information of the Employer was used and which was developed entirely on the Employee's own time, unless (x) such invention relates to the past, actual or planned business or activities of the Employer, including, without limitation, research and development or (y) such invention results in any way from any work performed by the Employee for the Employer.

11. **CONFIDENTIAL INFORMATION AND TRADE SECRETS**

(i) All Confidential Information shall be the sole property of Employer. Employee will not, during the period of his employment for any reason, disclose to any person or entity or use or otherwise exploit for Employee's own benefit or for the benefit of any other person or entity any Confidential Information which is disclosed to Employee or which becomes known to Employee in the course of his employment with Employer without the prior written consent of an officer of Employer except as may be necessary and appropriate in the ordinary course of performing his duties to Employer during the period of his employment with Employer. For purposes of this Section 11(i), "Confidential Information" shall mean any data or information belonging to Employer, other than Trade Secrets, that is of value to Employer and is not generally known to competitors of Employer or to the public, and is maintained as confidential by Employer, including but not limited to non-public information about Employer's clients, executives, key contractors and other contractors and information with respect to its products, designs, services, strategies, pricing, processes, procedures, research, development, inventions, improvements, purchasing, accounting, engineering and marketing (including any discussions or negotiations with any third parties). Notwithstanding the foregoing, no information will be deemed to be Confidential Information unless such information is treated by Employer as confidential and shall not include any data or information of Employer that has been voluntarily disclosed to the public by Employer (except where such public disclosure has been made without the authorization of Employer), or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

(ii) All Trade Secrets shall be the sole property of Employer. Employee agrees that during his employment with Employer and forever after his termination, Employee will keep in confidence and trust and will not use or disclose any Trade Secret or anything relating to any Trade Secret, or deliver any Trade Secret, to any person or entity outside Employer without the prior written consent of the Board of Directors. For purposes of this Section 11(ii), "Trade Secrets" shall mean any scientific, technical and non-technical data, information, formula, pattern, compilation, program, device, method, technique, drawing, process, financial data, financial plan, product plan or list of actual or potential customers or vendors and suppliers of Employer or any portion or part thereof, whether or not copyrightable or patentable, that is of value to Employer and is not generally known to competitors of Employer or to the public, and whose confidentiality is maintained, including unpatented and un-copyrighted information relating to Employer's products, information concerning proposed new products or services, market feasibility studies, proposed or existing marketing techniques or plans and customer consumption data, usage or load data, and any other information that constitutes a trade secret as defined in the California Uniform Trade Secrets Act that appears at Sections 3426-3426.11 of the California Civil Code, in each case to the extent that Employer, as the context requires, derives economic value, actual or potential, from such information not being generally known to, and not being readily ascertainable by proper means by, other persons or entities who can obtain economic value from its disclosure or use.

12. **NON-SOLICITATION OF EMPLOYEES**

During the term of Employee's employment and for one year thereafter, Employee will not cause or attempt to cause any employee of Employer to cease working for Employer. However, this obligation shall not affect any responsibility Employee may have as an employee of Employer with respect to the bona fide hiring and firing of Employer's personnel.

13. **NON-SOLICITATION OF CUSTOMERS AND PROSPECTIVE CUSTOMERS**

Employee will not, during the period of his employment for any reason, directly or indirectly, solicit the business of any customer of Employer for the purpose of, or with the intention of, selling or providing to such customer any product or service in competition with any product or service sold or provided by Employer. For a period of one year after the termination of Employee's employment, Employee will not, directly or indirectly, use any of the Employer's Trade Secrets in order to induce any of the Employer's customers to cease doing business with Employer or to induce them to become the customer of any other person or entity.

14. **TERMINATION**

Employee's employment with Employer may be terminated as follows:

(a) Termination Without Just Cause.

(i) Employer, in its sole discretion, may terminate Employee's employment hereunder for any reason without Just Cause (as defined below), at any time, by notifying Employee in writing of its decision.

(ii) If (a) Employer terminates Employee's employment hereunder without Just Cause or (b)within the twenty four (24) month period following a Change of Control, Employee resigns from employment as a result of and upon a material diminution of Employee's duties, responsibilities, authority, position or a material reduction of Employee's compensation and benefits including if Employee ceases to hold the position of Chief Marketing Officer at either the ultimate parent entity of the Company after a Change of Control or a division or subsidiary thereof, Employer shall: (1) continue to pay to Employee his Base Salary, subject to customary payroll practices and withholdings, for one (1) month if Employee was employed by the Company for six (6) but not more than twelve (12) months as of the date of termination or resignation, for three (3) months if Employee was employed by the Company more than twelve (12) months as of the date of resignation or termination or for six (6) months if Employee was employed by the Company for more than twenty-four (24) months as of the date of resignation or termination; (2) within 45 days of termination or resignation, pay to Employee 50% of the value of any accrued but unpaid bonus that Employee otherwise would have received pursuant to Section 5 hereof; (3) upon termination or resignation, pay to Employee the value of any accrued but unpaid vacation time; and (4) upon termination or resignation, pay to Employee any unreimbursed business expenses and travel expenses that are reimbursable under this Agreement that have been incurred by Employee, subject to the submission of any required documentation.

(b) Termination With Just Cause.

(i) Employer may immediately terminate Employee's employment hereunder for Just Cause (as defined below) at any time upon delivery of written notice to Employee.

(ii) For purposes of this Agreement, the phrase "Just Cause" means: (A) Employee's fraud, gross malfeasance, gross negligence, or willful misconduct, with respect to Employer's business affairs; (B) Employee's refusal or repeated failure to follow Employer's established reasonable and lawful policies; (C) Employee's material breach of this Agreement; or (D) Employee's conviction of a felony or crime involving moral turpitude. A termination of Employee for Just Cause based on clause (A), (B) or (C) of the preceding sentence will take effect three (3) days after Employer gives written notice of its intent to terminate Employee's employment and Employer's description of the alleged cause, unless Employee, in the good-faith opinion of Employer, during such three (3)-day period, remedies the events or circumstances constituting Just Cause.

(iii) If Employee's employment hereunder is terminated by Employer for Just Cause, Employer will be required to pay to Employee only that portion of his Base Salary and accrued but unused vacation pay that has been earned through the date of termination.

(c) Disability and Death.

Employee's employment hereunder will be terminated immediately upon (i) Employee's "Disability" for a period exceeding three (3) months in any twelve (12) month period, or (ii) Employee's death. For purposes of this Agreement, "Disability" means Employee's incapacity due to any physical or mental illness or injury, as determined by a licensed health care provider, which renders Employee unable to perform the essential functions of his position, even with reasonable accommodation(s). Employee warrants, represents and agrees that holding open his position for a period in excess of those provided in this paragraph would not be a reasonable accommodation and would impose an undue hardship on Employer. If Employee's employment is terminated due to such Disability or death, Employer will be required to pay to Employee or Employee's estate, as the case may be, unrelated to any amounts that Employee may receive pursuant to any short-term and long-term disability plans or life insurance plans (as applicable), only his Base Salary and accrued but unpaid vacation pay earned through the date of termination, and to the extent required under the terms of any benefit plan or this Agreement, the vested portion of any benefit under such plan. Employee or Employee's estate, as the case may be, will not by operation of this provision forfeit any rights in which Employee is vested at the time of Employee's Disability or death.

15. **INJUNCTION**

(i) Should Employee at any time reveal, or threaten to reveal, any Confidential Information or Trade Secret of Employer, or in any way violate, or threaten to violate, Paragraph 12 or 13 of this Agreement, Employer shall be entitled to an injunction restraining Employee from doing, or continuing to do so, or performing any such acts; and Employee hereby consents to the issuance of such an injunction without any requirement that Employer post a bond.

(ii) In the event that a proceeding is brought in equity to enforce the provisions of this Paragraph, Employee shall not argue as a defense that there is an adequate remedy at law, nor shall Employer be prevented from seeking any other remedies which may be available.

(iii) The existence of any claim or cause of action by Employer against Employee, or by Employee against Employer, whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by Employer of the foregoing restrictive covenants but shall be litigated separately.

16. **ARBITRATION**

(i) In the event that there shall be a dispute among the parties arising out of or relating to this Agreement, or the breach thereof (a "Dispute"), the parties agree that such Dispute shall be resolved by final and binding arbitration before a single arbitrator in Palo Alto, California (or within 25 miles thereof), administered by the American Arbitration Association (the "AAA"), in accordance with AAA's Employment ADR Rules then in effect. The arbitrator's decision shall be final and binding upon the parties, and may be entered and enforced in any court of competent jurisdiction by either of the parties. The arbitrator shall have the power to grant temporary, preliminary and permanent relief, including without limitation, injunctive relief and specific performance.

(ii) The Company and Employee shall each pay half of the direct costs and expenses of the arbitration, including arbitration and arbitrator fees. Except as otherwise provided by statute, Employee and the Company are responsible for their respective attorneys' fees incurred in connection with enforcing this Agreement. Employee and the Company agree that, to the extent permitted by law, the arbitrator may, in his or her discretion, award reasonable attorneys' fees to the prevailing party.

17. **SECTION 409A COMPLIANCE**

(i) This Agreement is intended to comply with the requirements of Section 409A of the Code and regulations promulgated thereunder ("Section 409A"). To the extent that any provision in this Agreement is ambiguous as to its compliance with Section 409A, the provision shall be read in such a manner so that no payments due under this Agreement shall be subject to an "additional tax" as defined in Section 409A(a)(1)(B) of the Code. For purposes of Section 409A, each payment made under this Agreement shall be treated as a separate payment. In no event may Employee, directly or indirectly, designate the calendar year of payment. Notwithstanding anything contained herein to the contrary, Employee shall not be considered to have terminated employment with Employer unless he would be considered to have incurred a "termination of employment" from Employer within the meaning of Treasury Regulation §1.409A-1(h)(1)(ii).

(ii) Notwithstanding the foregoing, if necessary to comply with the restriction in Section 409A(a)(2)(B) of the Internal Revenue Code of 1986, as amended (the "Code") concerning payments to "specified employees," any payment on account of Employee's separation from service that would otherwise be due hereunder within six months after such separation shall nonetheless be delayed until the first business day of the seventh month following Employee's date of termination and the first such payment shall include the cumulative amount of any payments that would have been paid prior to such date if not for such restriction, together with interest on such cumulative amount during the period of such restriction at a rate, per annum, equal to the applicable federal short-term rate (compounded monthly) in effect under Section 1274(d) of the Code on the date of termination. For purposes of Section 17 hereof, Employee shall be a "specified employee" for the 12-month period beginning on the first day of the fourth month following each "Identification Date" if he is a "key employee" (as defined in Section 416(i) of the Code without regard to Section 416(i)(5) thereof) of Employer at any time during the 12-month period ending on the "Identification Date." For purposes of the foregoing, the Identification Date shall be December 31."

(iii) All reimbursements provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A, including, where applicable, the requirement that (i) any reimbursement is for expenses incurred during Employee's lifetime (or during a shorter period of time specified in this Agreement), (ii) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred, and (iv) the right to reimbursement is not subject to liquidation or exchange for another benefit.

18. **MISCELLANEOUS**

If any provision of this Agreement shall be declared, by a court of competent jurisdiction or arbitrator, to be invalid, illegal or incapable of being enforced in whole or in part, the remaining conditions and provisions or portions thereof shall nevertheless remain in full force and effect and enforceable to the extent they are valid, legal and enforceable, and no provision shall be deemed dependent upon any covenant or provision so expressed herein.

The parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement which are not set forth herein. The provisions of this Agreement may not be amended, supplemented, waived, or changed orally, but only in writing and signed by Employee and a duly authorized officer of the Company.

The rights, benefits, duties and obligations under this Agreement shall inure to, and be binding upon, the Employer, its successors and assigns, and upon the Employee and his legal representatives, heirs and legatees. This Agreement constitutes a personal service agreement, and the performance of the Employee's obligations hereunder may not be transferred or assigned by the Employee.

The failure of either party to insist upon the strict performance of any of the terms, conditions and provisions of this Agreement shall not be construed as a waiver or relinquishment of future compliance therewith, and said terms, conditions and provisions shall remain in full force and effect. No waiver of any term or condition of this Agreement, on the part of either party, shall be effective for any purpose whatsoever unless such waiver is in writing and signed by such party.

The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of California, without reference to its conflict-of-law rules.

IN WITNESS WHEREOF, this employment agreement is dated as of the __ day of November 2016.

On Behalf of Employer:

SYSOREX USA

By: /s/ Nadir Ali
Nadir Ali, CEO

By: /s/ Soumya Das
Soumya Das, Employee

Exhibit 10.52

Tenant Spectrum Systems. LLC
Premises: 2355 Duiles Cornerr Bivd, Suite 600

LEASE

THIS LEASE (this "**Lease**") is entered into as of December 22, 2015, between BRANDYWINE OPERATING PARTNERSHIP, L.P., a Delaware limited partnership ("**Landlord**"). and SPECTRUM SYSTEMS, LLC, a Delaware limited liability company ("Tenant").

IN CONSIDERATION of the mutual covenants below, and intending to be legally bound, Landlord and Tenant agree as follows:

1. **Key Lease Terms.**

(a) "**Broker**": Collectively, Jones Lang LaSalle (representing Tenant), and DTZ (representing Landlord).

(b) "**Building**": 2355 Dulles Corner Boulevard, Dulles Corner, Herndon, Virginia 20171.

(c) "**Commencement Date**": April 1, 2016.

(d) "**Expiration Date**": September 30, 2018

(e) "**Gross Rent**":

TIME PERIOD		GROSS RENT MONTHLY INSTALLMENT
4/1/16 - 4/30/16	$	0.00
5/1/16 - 3/31/17	$	28,906.50
4/1/17 - 3/31/18	$	29,778.28
4/1/18 - 9/30/18	$	30,668.42

(f) "**Notice Addresses**":

If to Tenant:
Attn: Office Manager
2355 Dulles Corner Blvd., Suite 600
Herndon, VA 20171
Email for billing contact:_____

Payables @ Spectrum - Systems.

If to Landlord:
Attn: Asset Manager
c/o Brandywine Realty Trust
1676 International Drive, Suite 1350
McLean, VA 22102

with a copy to: Legal.Notices@bdnreit.com

(g) "**Pemises**": Suite 600, consisting of 11,012 rentable square feet in the Building, as shown on Exhibit A.

(h) "**Security Deposit**": $28,906.50.

(i) "**Tenant Improvements**": None. Tenant accepts the Premises in their "AS IS", "WHERE IS" condition.

2. Terms and Conditions. This Lease incorporates the Terms and Conditions, and all exhibits attached hereto, as if set forth in full in the body of this Lease. Capitalized terms used but not defined in the Terms and Conditions have the respective meanings given to them above.

IN WITNESS WHEREOF, the parties hereto have executed this Lease under seal as of the day and year first-above stated.

LANDLORD:
BRANDYWINE OPERATING PARTNERSHIP, L.P.

By: Brandywine Realty Trust, its general partner

By: /s/ Suzanne Stumpf
Name: K. Suzanne Stumpf
Title: Vice President, Asset Management
Date: 12/22/15

TENANT:
SPECTRUM SYSTEMS, LLC

By: /s/ Brandywine Realty
Name: Brandywine Realty
Title: CEO
Date: 12/11/2015

TERMS AND CONDITIONS TO LEASE

1 **Premises**. Landlord leases to Tenant, and Tenant leases from Landlord, the Premises for the Term upon the terms and subject to the conditions of this Lease Except for the Tenant Improvements (if any), Tenant accepts the Premises in their "AS IS", "WHERE IS" condition.

2 . **Term**. The term of this Lease ("Term") commences on the Commencement Date and expires on the Expiration Date, unless earlier terminated by the terms of this Lease The terms and conditions of this Lease are binding on the parties upon full execution and delivery of this Lease. By a Confirmation of Lease Term prepared on Landlord's standard form therefor (the "COLT"), Landlord shall notify Tenant of the Commencement Date and all other matters stated therein. The COLT shall be conclusive and binding on Tenant as to all matters set forth therein (but shall in no event alter the terms of this Lease), unless within 30 days following delivery of the COLT to Tenant, Tenant contests any of the matters contained therein by notifying Landlord in writing of Tenant's objections

3 **Rent, Security Deposit, Late Fee**.

(a) Tenant must pay to Landlord during the Term, without notice, demand, setoff, deduction, or counterclaim, the Gross Rent in the amounts set forth above The Monthly Installment of Gross Rent is payable to Landlord in advance on or before the first day of each month of the Term. "Rent" means Gross Rent together with all other amounts due under this Lease. All Rent payments must include the Building number and the Lease number, which will be provided by Landlord, and be sent by electronic funds transfer as follows (or as otherwise directed in writing by Landlord to Tenant from time to time): (i) ACH debit of funds, provided Tenant shall first complete Landlord's then-current forms authorizing Landlord to automatically debit Tenant's bank account; or (ii) ACH credit of immediately available funds to an account designated by Landlord. "ACH" means .Automated Clearing House network or similar system designated by Landlord.

(b) Together with Tenant's delivery of a signed copy of this Lease, Tenant must pay to Landlord: (i) the first month's Gross Rent; and (ii) the Security Deposit. No interest will be paid to Tenant on the Security Deposit, and Landlord may commingle the Security Deposit with other funds of Landlord. Landlord may use the whole or any part of the Security Deposit to cure an Event of Default. If any portion of the Security Deposit is used by Landlord, Tenant must pay to Landlord within 10 days after receipt of notice an amount sufficient to restore the Security Deposit to its original amount. Landlord will return the balance of the Security Deposit to Tenant within 1 month after the later of the Expiration Date, Tenant's surrender of possession of the Premises to Landlord in the condition required under this Lease, and Tenant's payment of all outstanding Rent.

(c) If Landlord does not receive the full payment of any Rent when due, Tenant must pay to Landlord a late fee in the amount of 5% of such overdue amount If any Rent payment is returned for insufficient funds, Tenant must pay a fee of $30 00 per returned payment.

4 . **Utilities; Services**. Landlord will provide the following to the Premises: (i) HVAC service during standard business hours for the Building; (ii) electricity for lighting and standard office equipment; (iii) water. sewer, and, to the extent applicable to the Building, gas, oil, or steam service; (iv) cleaning services; and (v) replacement of Building-standard lights, ballasts, tubes, ceiling tiles, outlets and similar equipment. Tenant, at Tenant's expense, must make arrangements with the applicable utility companies and public bodies to provide, in Tenant's name, telephone, cable, and any other utility service not provided by Landlord. Tenant may not overload the utility capacity serving the Premises,

5 . **Use: Signs** Tenant may use the Premises for general office use (non-medical) and for no other purpose ("**Permitted Use**"). Tenant may use no more than its pro rata share of the parking spaces in the general parking area for the Building. Tenant's use of the Premises is subject to all applicable laws and to all reasonable requirements of the insurers of the Building Landlord will provide Tenant with Building-standard identification signage on all Building lobby directories and at the main entrance to the Premises. Tenant may not place any signs at the Premises that are visible from outside of the Premises.

6. **Transfer**. Tenant may not (nor its legal representative or successors-in-interest by operation of law or otherwise) assign, transfer, mortgage, or sublet the Premises ("Transfer"), without Landlord's prior written consent, which consent may be withheld in Landlord's sole but reasonable discretion Any Transfer without Landlord's prior written consent constitutes an Event of Default and, at Landlord's option, is void and/or terminates this Lease. A Transfer includes any assignment by operation of law, and any merger, consolidation, or asset sale involving Tenant, any direct or indirect transfer of control of Tenant, and any transfer of a majority of the ownership interests in Tenant.

7. **Maintenance**.

(a) Landlord must make all necessary repairs at its expense to: (i) the footings and foundations and the structural elements of the Building; (ii) the roof of the Building; (iii) the HVAC (excluding any supplemental HVAC serving the Premises), plumbing, elevators (if any), electric, fire protection and fire alert systems within the Building; (iv) the Building exterior; and (v) the common areas Any repairs to the Building made necessary by the negligent or willful act or omission of Tenant or any employee, agent, subtenant, contractor, or invitee of Tenant will he made at Tenant's expense. subject to the waivers set forth in Section 9(b).

(b) Tenant must maintain the Premises in good order and condition at its expense, including promptly making all necessary repairs and replacements to the Premises (including any supplemental HVAC serving the Premises). To the extent that the interior of the Premises is visible from the common areas, Landlord shall have the right lo require Tenant to screen the interior from the common areas, such as by adding frosting to glass, as determined by Landlord. In the event of an emergency, such as a burst waterline or act of God, Landlord has the right to make repairs for which Tenant is responsible hereunder (at Tenant's cost) without giving Tenant prior notice, but in such case Landlord will provide notice to Tenant as soon as practicable thereafter, and take commercially reasonable steps to minimize the costs incurred.

8. **Insurance**

(a) Tenant, at Tenant's expense, must maintain during the Term: (i) commercial general liability insurance, with combined single limits of $2,000,000 on account of bodily injury to or death of one or more persons as the result of any one accident or disaster and on account of damage to property, or in such other amounts as Landlord may from time to time require; and (ii) a policy of "special form" property insurance on Tenant's trade fixtures, equipment, and personal property (collectively, "**Tenant's Property**") for full replacement value and with coinsurance waived. Tenant will neither have, nor make, any claim against Landlord for any loss or damage to Tenant's Property, regardless of the cause of the loss or damage. Tenant must require its movers to deliver to Landlord a certificate of insurance naming Landlord as an additional insured. No liability insurance required hereunder may be subject to cancellation or modification without at least 30 days' prior notice to all insureds, and must name Tenant as insured, and Landlord, Landlord's property manager, and Brandywine Realty Trust as additional insureds, and, if requested in writing by Landlord, name as an additional insured any mortgagee or holder of any mortgage upon the Building. Prior to the Commencement Date, Tenant must provide Landlord with certificates that evidence that all insurance coverages required under this Lease are in place. Tenant must furnish to Landlord throughout the Term replacement certificates at least 30 days prior to the expiration dates of the then-current policy. All insurance required under this Lease must be issued by an insurance company that is authorized to do business in the state in which the Building is located, and has a financial rating of at least an A-X as rated in the most recent edition of Best's Insurance Reports. The insurance limits stated above will not limit Tenant's liability. Any deductible under Tenant's insurance policy in excess of $25,000 must be approved by Landlord in writing.

(b) Landlord and Tenant must each procure an appropriate clause to any property insurance covering the Building and Tenant's personal property, fixtures, and equipment, wherein the insurer waives subrogation and consents to a waiver of right of recovery pursuant to this Section. Landlord and Tenant hereby waive, and agree not to make, any claim against, or seek to recover from, the other for any loss or damage to its property or the property of others resulting from conditions to the extent of proceeds received after application of any commercially reasonable deductible (or would have been received if the party had maintained the insurance it was required to carry under this Lease) from the property insurance that was required to be carried by that party.

9 **Indemnification**.

(a) Subject to Section 9(c), Tenant must defend, indemnify, and hold harmless Landlord. Landlord's property manager, and Brandywine Realty Trust and each of Landlord's directors, officers, members, partners, trustees, employees, representatives, and agents (collectively, "**Landlord Indemnitees**") from and against any and all third-party claims, actions, damages. liabilities, and expenses (a "Claim") to the extent arising from: (i) Tenant's breach of this Lease; (ii) any negligence or willful act of Tenant or any of Tenant's employees, agents, invitees, subtenants, or contractors; and (iii) any acts or omissions occurring at, or the condition, use or operation of, the Premises, except to the extent arising from Landlord's negligence or willful misconduct. If Tenant fails to promptly defend a Landlord Indemnitee following written demand by the Landlord Indemnitee, the Landlord Indemnitee must defend the same at Tenant's expense, by retaining or employing counsel reasonably satisfactory to the Landlord Indemnitee The provisions of this Section will survive the Expiration Date.

(b) Subject to Section 9(c), Landlord must defend, indemnify, and hold harmless Tenant, and each of Tenant's directors, officers, members, employees, representatives, and agents (collectively, "**Tenant Indemnitees**") from and against any and all third-party Claims to the extent arising from: (i) Landlord's breach of this Lease; and (ii) any negligence or willful misconduct of Landlord or any of Landlord's employees, agents, invitees, subtenants. or contractors. If Landlord fails to promptly defend a Tenant Indemnitee following written demand by the Tenant Indemnitee, the 'tenant Indemnitee must defend the same at Landlord's expense, by retaining or employing counsel reasonably satisfactory to the Tenant Indemnitee. The provisions of this Section will survive the Expiration Date.

(c) In order to receive the indemnity set forth above, the party seeking indemnity must provide prompt written notice of any Claim to the indemnifying party, and the indemnifying party will promptly defend the indemnified party at the indemnifying party's expense. The indemnified party agrees to reasonably cooperate in such defense at the indemnifying party's expense.

10. **Casualty**. If any casualty occurs to the Building (other than to the Premises) and: (i) insurance proceeds are unavailable to Landlord or are insufficient to restore the Building to substantially its pre-casualty condition; or (ii) more than 30% of the square feet of the Building is damaged, Landlord may terminate this Lease by sending written notice of such termination to Tenant within 60 days after the casualty. If any casualty occurs to the Premises and: (i) in Landlord's reasonable judgment, the repair and restoration work would require more than 210 consecutive days to complete after the casualty (assuming normal work crews not engaged in overtime); or (ii) the casualty occurs during the last 12 months of the Term, either Landlord or Tenant may terminate this Lease by sending written notice of such termination to the other party within 60 days after the date of the casualty. The termination notice must specify a termination date not fewer than 30 nor more than 90 days after such notice is given to the other party. If neither party terminates this Lease, then Tenant's obligation to pay Gross Rent will be equitably adjusted or abated during the period (if any) during which Tenant is not reasonably able to use all or a portion of the Premises as a result of such casualty.

11. **Condemnation**. If a taking renders the Building reasonably and materially unsuitable for the Permitted Use, either Landlord or Tenant may terminate this Lease as of the date title to condemned real estate vests in the condenutor by written notice to the other. If this Lease is not terminated after a condemnation, then Gross Rent will be equitably reduced in proportion to the area of the Premises that has been taken for the balance of the Term. Tenant may make a claim against the condemnor for moving expenses to the extent that such claim does not reduce the sums otherwise payable by the condemnor to Landlord.

12. **Subordination: Estonned Certificate**. This Lease is subordinate to the lien of any deeds of trust or mortgages now or hereafter placed upon the Building or any portion thereof (a "**Mortgage**") without the necessity of any further instrument or act on the part of Tenant to effectuate such subordination Tenant must execute and deliver to Landlord within 10 days after written demand such further instrument evidencing such subordination and agreement to attorn as may be reasonably required by any Mortgagee. If landlord is or is alleged to be in default of any of its obligations owing to Tenant under this Lease, Tenant must give to the holder ("**Mortgagee**") of any Mortgage that Tenant has been given written notice. Tenant may not exercise any right or remedy because of any default by Landlord without having given such notice to the Mortgagee, and if Landlord tails to cure such default, the Mortgagee may cure such default within 45 days after Mortgagee's receipt of Tenant's default notice. Any Mortgagee may at any time subordinate its mortgage to this Lease, without Tenant's consent, by written notice to Tenant, in which case this Lease is deemed prior to such Mortgage without regard to their respective dates of execution and delivery, and the Mortgagee has the same rights with respect to this Lease as though it had been executed prior to the execution and delivery of the Mortgage. Tenant must, within 10 days after Landlord's written request from time to time, execute and deliver to Landlord an estoppel certificate certifying to all reasonably requested information pertaining to this Lease.

13. **Default**.

(a) An "Event of Default" is deemed to exist if: (i) Tenant fails to pay any Rent when due and such failure continues for more than 5 days after Landlord has given Tenant written notice of such failure; provided, however, Landlord has no obligation to give Tenant more than 2 such notices in any 12-month period, after which it is deemed an Event of Default if Tenant fails to pay any Rent when due, regardless of Tenant's receipt of notice of such non-payment; or (ii) either party fails to observe or perform any of such party's agreements or obligations tinder this Lease and such failure continues for more than 30 days after receipt of written notice of such failure, or the expiration of such additional time period as is reasonably necessary to cure such failure (not to exceed 60 days), provided Tenant immediately commences and thereafter proceeds with all due diligence and in good faith to cure such failure.

(b) Upon the occurrence of an Event of Default by Tenant, at Landlord's sole option Landlord may elect to do any one or more of the following:

(i) Enter and repossess the Premises, by breaking open locked doors if necessary, and remove all persons and all or any property, by action at law or otherwise, without being liable for prosecution or damages, and/or make alterations and repairs in order to relet all or any part(s) of the Premises for Tenant's account Tenant must pay to Landlord on demand any deficiency (taking into account all reasonable costs incurred by Landlord) that may arise by reason of such relating in the event of reletting without termination of this Lease, Landlord may at any time thereafter elect to terminate this Lease for such previous breach;

(ii) Accelerate the whole or any part of the Rent for the balance of the Term, and declare the same to be immediately due and payable; and

(iii) Terminate this Lease and the Term without any right on the part of Tenant to save the forfeiture by payment of any sum due or by other performance of any condition, term, or covenant broken.

(c) Landlord may cure any default on behalf of Tenant, and Tenant will reimburse Landlord upon demand for any sums paid or costs incurred by Landlord in curing such default plus an administrative fee equal to 10% of such costs. Any amount of Rent that is not paid when due will bear interest at the rate of 1% per month until paid in full.

(d) Upon the occurrence of an Event of Default by Tenant, Tenant is liable to Landlord for: (i) all accrued and unpaid installments of Rent; (ii) all costs and expenses incurred by Landlord in recovering possession of the Premises, including legal fees, and removal and storage of Tenant's property; (iii) the costs and expenses of restoring the Premises to the condition in which the same were to have been surrendered by Tenant as of the Expiration Date; (iv) all legal fees and court costs incurred by Landlord in connection with the Event of Default; and (v) the unamortized portion (as reasonably determined by Landlord) of brokerage commissions and consulting fees incurred by Landlord, and concessions including free rent given by Landlord, in connection with this Lease.

(f) Neither any delay or forbearance by a party in exercising any right or remedy hereunder nor a party's undertaking or performing any act that a party is not expressly required to undertake under this Lease may be construed to be a waiver of a party's rights or to represent any agreement by a party to thereafter undertake or perform such act The rights granted to a party in this Section are cumulative of every other right or remedy provided in this Lease or which a party may otherwise have at law or in equity or by statute, and the exercise of one or more rights or remedies may not prejudice or impair the concurrent or subsequent exercise of other rights or remedies or constitute a forfeiture or waiver of Rent or damages accruing to a party by reason of any Event of Default under this Lease. Landlord may accept payment without prejudice to Landlord's right to recover the balance or pursue any other right or remedy provided for in this Lease, at law, or in equity.

1 4 . **Surrender**. No later than the Expiration Date or earlier termination of Tenant's right to possession of the Premises ("**Surrender Date**"), Tenant must vacate and surrender the Premises to Landlord in good order and condition, vacant, broom clean, and in conformity with the applicable provisions of this Lease. Tenant has no right to hold over beyond the Surrender Date, and if Tenant does not vacate as required such failure is deemed an Event of Default and Tenant's occupancy will not be construed to effect or constitute anything other than a tenancy at sufferance. During any period of occupancy beyond the Surrender Date, the amount of Rent owed by Tenant to Landlord will be the Holdover Percentage of the Rent that would otherwise be due under this Lease, without prorating for any partial month of holdover. The "**Holdover Percentage**" equals: (i) 150% for the first month of holdover; and (ii) 200% for any period of holdover beyond 1 month The provisions of this Section wilt not constitute a waiver by Landlord of any right of reentry as set forth in this Lease, nor will receipt of any Rent or any other act in apparent affirmance of the tenancy operate as a waiver of Landlord's right to terminate this Lease. If Tenant fails to vacate and surrender the Premises as and when required, Tenant must indemnify, defend, and hold harmless Landlord from all costs, losses, expenses, or liabilities incurred as a result of such failure No later than the Surrender Date, at Tenant's expense Tenant must remove from the Premises Tenant's Property, all alterations to the Premises made by or on behalf of Tenant, and all telephone, security, and communication equipment system wiring and cabling, and restore in a good and workmanlike manner any damage to the Premises and/or the Building caused by such removal or replace the damaged component of the Premises and/or the Building if such component cannot be restored as reasonably determined by Landlord. Tenant's obligation to pay Rent and to perform all other Lease obligations for the period through the Surrender Date and the terms of this Section survive the Expiration Date.

15. **Compliance with Laws**. Tenant must at all times comply with all applicable laws, including without limitation compliance with Title III of the Americans with Disabilities Act of 1990, 42 U S C. §12181 *et seq*. *and* its regulations and all environmental laws and regulations, and obtain all necessary licenses and permits for its business and operations in the Premises. Tenant must pay all personal property taxes, income taxes, and other taxes, assessments, and similar charges that are or may be assessed, levied, or imposed upon Tenant. Tenant must pay to Landlord all sales, use, transaction privilege, gross receipts, or other excise tax that may at any time be levied or imposed upon, or measured by, any amount payable by Tenant under this Lease If the requirement of any public authority obligates either Landlord or Tenant to expend money in order to bring the Premises and/or any area of the Building into compliance with laws as a result (i) Tenant's particular use or alteration of the Premises; (ii) Tenant's change in the use of the Premises; (iii) the manner of conduct of Tenant's business or operation of its installations, equipment, or other property therein; (iv) any cause or condition created by or at the instance of Tenant, other than by Landlord's performance of any work for or on behalf of Tenant; or (v) breach of any of Tenant's obligations hereunder, then Tenant must bear all costs of bringing the Premises and/or Building into compliance with laws Except as set forth above, during the Term Landlord must comply with all applicable laws regarding the Building, including without limitation compliance with Title III of the Americans with Disabilities Act of 1990, 42 U.S.0 §12181 *et seq*. and its regulations as to the design and construction of the common areas. This Section survives the Expiration Date

16. **Notices**. Whenever notice must be given or served by either party to this Lease, such notice will be duly given or served if in writing and either: (i) personally served; (ii) delivered by prepaid nationally recognized courier service with evidence of receipt required; (iii) forwarded by registered or certified mail, return receipt requested, postage prepaid; or (iv) emailed with evidence of receipt; in all such cases addressed to the applicable Notice Address Each party has the right to change its address for notices by a writing sent to the other party in accordance with this Section. However, communications related to ordinary business operations may be emailed or mailed to Tenant’s billing contact.

17. **Brokers**. Landlord and Tenant each represents and warrants to the other that it has had no dealings, negotiations, or consultations with respect to the Premises or this transaction with any broker or finder other than a Landlord affiliate and Broker. Each party must indemnify, defend, and hold harmless the other from and against all liability, cost, and expense, arising from any misrepresentation or breach of warranty under this Section. Landlord will pay Broker a commission in connection with this Lease pursuant to the terms of a separate agreement. This Section survives the Expiration Date.

18. **Landlord's Liability**. Landlord's obligations under this Lease are binding upon Landlord only for the period of time that Landlord is in ownership of the Building, and upon termination of that ownership, Tenant may, except as to any obligations that are then due and owing, look solely to Landlord's successor-in-interest in ownership of the Building for the satisfaction of each and every obligation of Landlord under this Lease. Upon request and without charge, Tenant must attom to any successor to Landlord's interest in this Lease and at the option of any mortgagee, to such mortgagees. Landlord will have no personal liability under any of the terms, conditions or covenants of this Lease, and Tenant shall look solely to the equity of Landlord in the Building and/or the proceeds therefrom for the satisfaction of any claim, remedy, or cause of action of any kind whatsoever arising from the relationship between the parties or any rights and obligations they may have relating to the Building, this Lease, or anything related to either.

19. **Relocation**. [INTENTIONALLY DELETED]

20. **General Provisions**.

(a) Subject to Section 6, the respective rights and obligations provided in this Lease bind and inure to the benefit of the parties hereto, their successors and assigns. If more than one person or entity executes this Lease as Tenant, each is jointly and severally liable under this Lease.

(b) This Lease will be governed in accordance with the laws of the state where the Building is located, without regard to choice of law principles Landlord and Tenant each consent to the exclusive jurisdiction of the state and federal courts located in the jurisdiction in which the Building is located In connection with any claim arising out of this Lease, Landlord or Tenant, whichever is the prevailing party, is entitled to recover from the other party all reasonable costs and expenses incurred by the prevailing party, including reasonable attorneys' fees and expenses.

(c) This Lease, which incorporates all exhibits, supersedes all prior discussions, proposals, negotiations, and discussions between the parties, contains all of the agreements, conditions, understandings, representations, and warranties made between the parties with respect to the Premises, and may not be modified orally or in any manner other than by an agreement in writing signed by Landlord and Tenant.

(d) TIME IS OF THE ESSENCE UNDER ALL PROVISIONS OF THIS LEASE

(e) Except for the payment of Rent, each party is excused for the period of any delay and will not be deemed in default with respect to the performance of any of its obligations when prevented from so doing by a cause beyond such party's reasonable control ("**Force Maieurc Event**")

(f) Tenant shall not cut or drill into or secure any fixture, apparatus, or equipment, or make alterations, improvements, or physical additions of any kind to any part of the Premises without first obtaining the written consent of Landlord. All alterations shall be completed in compliance with all applicable laws and Landlord's rules and regulations for construction, and sustainable guidelines and procedures. Tenant shall be solely responsible for the installation and maintenance of its data, telecommunication, and security systems, cabling, and wiring at the Premises, which shall be done in compliance with all applicable laws and Landlord's rules and regulations.

(g) If Landlord gives Tenant occupancy of the Premises prior to the Commencement Date, such occupancy shall he conditioned on Tenant first providing Landlord with a certificate of insurance as required under this Lease. All insurance, waiver, indemnity, and alteration provisions of this Lease are in full force and effect during such occupancy. Tenant must ensure that its phone/data, security, and other vendors comply with all applicable Laws. Tenant and its contractors must coordinate all activities with Landlord in advance and in writing, and comply with Landlord's instructions and directions so that Tenant's early entry does not interfere with or delay any work to be performed by Landlord.

(h) Upon Landlord's request, Tenant must furnish to Landlord, Landlord's Mortgagee, prospective Mortgagee or purchaser, reasonably requested financial information. In such case and upon Tenant's request, Landlord and Tenant will execute a mutually acceptable confidentiality agreement on Landlord's form therefor.

(i) Tenant represents and warrants that: (i) Tenant was duty organized and is validly existing and in good standing under the laws of the jurisdiction set forth for Tenant in the first sentence of this Lease; (ii) Tenant is legally authorized to do business in the state where the Building is located; and (iii) the person(s) executing this Lease on behalf of Tenant is(are) duly authorized to do so.

(j) Landlord and Tenant each represents and warrants that it is not a party with whom the other is prohibited from doing business pursuant to the regulations of the Office of Foreign Assets Control ("OFAC") of the U.S Department of the Treasury, including those parties named on OFAC's Specially Designated Nationals and Blocked Persons List Each is currently in compliance with. and must at all times during the Term remain in compliance with, the regulations of OFAC and any other governmental requirement relating thereto,

(k) Tenant, Broker, and any other party acting on Tenant's behalf not issue any press release regarding this Lease. Tenant has no right to record this Lease or a memorandum or notice of this Lease. For purposes of Section 55.2 of the Code of Virginia (1950), as amended from time to time, this Lease is and will be deemed to be a deed of lease.

(l) This Lease may he executed in any number of counterparts, each of which when taken together is deemed to be one and the same instrument The parties acknowledge and agree that notwithstanding any law or presumption to the contrary, the exchange of copies of this Lease and signature pages by electronic transmission constitutes effective execution and delivery of this Lease for all purposes, and signatures of the parties hereto transmitted anchor produced electronically will be deemed to be their original signature for all purposes.

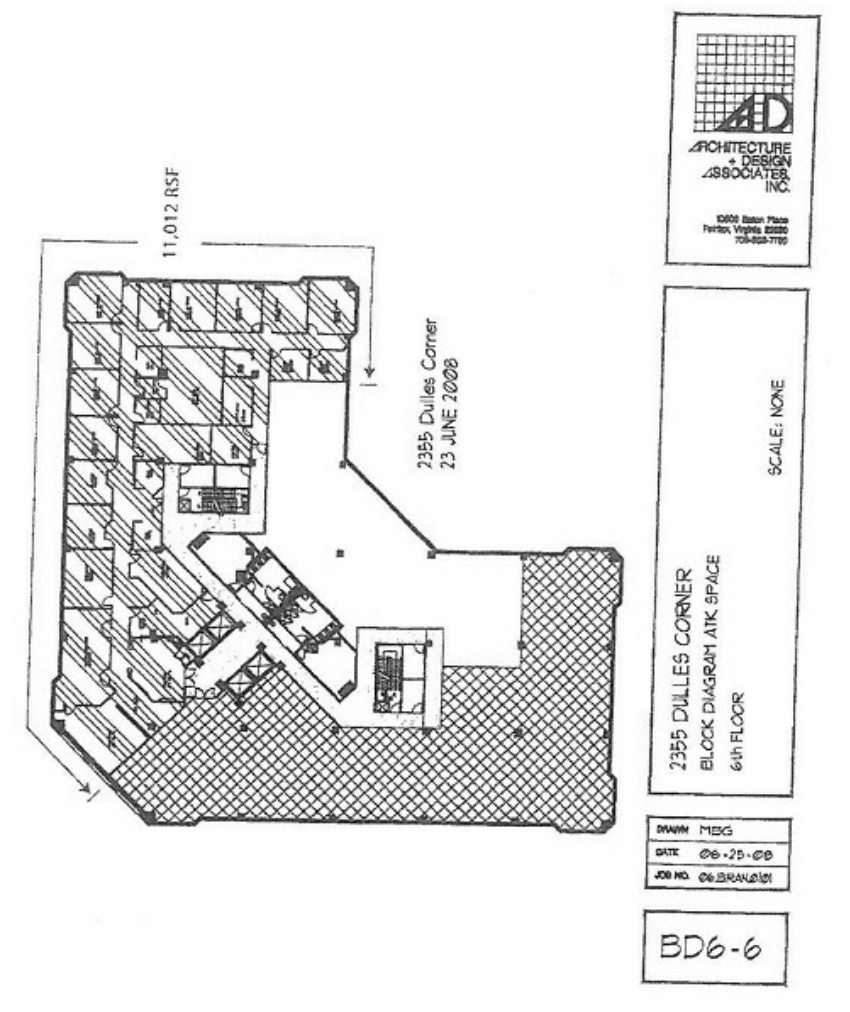
(m) Landlord and persons authorized by Landlord may enter the Premises at all reasonable times upon reasonable advance notice or, in the case of an emergency, at any time without notice.

(n) Tenant and its employees, agents, invitees, subtenants, and licensees must comply with the Building rules and regulations, as the same may be modified from time to time by Landlord. Landlord will make the current Building rules and regulations available to Tenant.

(o) TO THE EXTENT PERMITTED BY APPLICABLE LAW, LANDLORD AND TENANT HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM BROUGHT BY EITHER AGAINST THE OTHER ON ANY MATTER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE.

EXHIBIT A

LOCATION PLAN OF PREMISES (NOT TO SCALE.)



Sectrum Lease and Deal Sheet

Adobe Document Cloud Document History

December 22, 2015

Created:	December 21, 2015
By:	Jill Moreschi (jill.moreschi@bdnreit.com)
Status:	SIGNED
Transaction ID:	CBJCHBCAABAAbiZon3QsUuYsgpaY5aGpbumhSXb8aH-k

"Sectrum Lease and Deal Sheet" History

Document created by Jill Moreschi (jill.moreschi@bdnreit.com)
December 21, 2015 - 11:19:19 AM EST - IP address: 64.206.83.65

Document emailed to Suzanne Stumpf (suzanne.stumpf@bdnreit.com) for signature
December 21, 2015 - 11:19:52 AM EST

Document viewed by Suzanne Stumpf (suzanne.stumpf@bdnreit.com)
December 21, 2015 - 11:25:15 AM EST - IP address: 70.208.143.251

Document e-signed by Suzanne Stumpf (suzanne.stumpf@bdnreit.com)
Signature Date: December 22, 2015 - 12:05:05 PM EST - Time Source: server - IP address: 64.206.83.65

Signed document emailed to Suzanne Stumpf (suzanne.stumpf@bdnreit.com) and Jill Moreschi (jill.moreschi@bdnreit.com)
December 22, 2015 - 12:05:05 PM EST

Powered by Adobe Sign

Exhibit 10.53

COMMERCIAL LEASE AMENDMENT

THIS LEASE AMENDMENT AGREEMENT (hereinafter referred to as the "Lease Amendment") is made and entered into this 19th day of September 2016, by and between 424116 B.C. Ltd (hereinafter referred to as "Landlord") and Sysorex Canada Corp formerly Air Patrol Research Corp.(hereinafter referred to as "Tenant," whether one or more, and each agreeing to be bound by and held jointly and severally liable under the terms and conditions of this Lease Amendment).

In consideration of the covenants and obligations contained herein and of other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. PRIOR LEASE: The parties executed a Lease Agreement dated August 22, 2013 (hereinafter "Lease Agreement") with a term of lease commencing on the 1st day of November, 2013, and which expires on the 31st day of October, 2018. All terms, conditions, and provisions of said Lease Agreement are hereby incorporated by reference or by attachment, unless amended by the Landlord and Tenant as noted herein.

2. AMENDMENT OF PRIOR LEASE: The parties hereby agree to amend the aforementioned Lease Agreement with the following adjustments.

a) The Amended Lease will have a five year term, commencing on the 1st day of October, 2016, and expiring on the 30th day of September, 2021.

b) The Tenant agrees to add unit 400, 2963 Glen Drive, Coquitlam, B.C. to the original Lease Agreement, increasing the leased space by 2,337 square feet to produce an aggregate total of 6,656 square feet.

c) At the Tenant's option, the Landlord agrees to provide the Tenant with a Right of First Refusal (the "ROFR") on any space that becomes available on the fourth (4th) floor of the Building, The Landlord shall provide the Tenant with the terms of a bonafide Offer to Lease from a third party which the Landlord is willing to accept and the Tenant shall have five (5) business days to either accept or reject the terms of the Offer by way of written notice to the Landlord. Should the Tenant accept the terms of the offer, the Landlord shall further amend the Lease Amendment to include the terms of the ROFR Premises, adjusted only to be coterminous with the expiry of the Lease contained herein, September 30, 2021.

d) Landlord's Work / Condition of the Demised Premises - The Landlord shall provide the Premises with a full turnkey finish as outlined in the plan attached as Schedule A and the detailed scope of work attached as Schedule A-1, or shall pay the Tenant's contractor directly for the Tenant's Work as per the Tenant direction, at the Landlord's sole expense to be agreed upon among the Tenant and Landlord prior to subject removal contained herein and finalized in a work schedule to be attached hereto as Schedule "A." In addition, the Landlord shall provide any reconstruction required to the Tenant's Existing Premises, Suite #405 at the Landlord's cost and coordination in order to join the Existing Premises and the Expansion Premises as one contiguous space.

e) Option to Renew — The Landlord agrees to grant the Tenant one option to renew the Term of the Lease for a further period of five (5) years (the "Renewal Term"), such option to be exercised upon six (6) months' written notice to the Landlord, prior to September 30, 2021, not to be given sooner than twelve (12) months prior to September 30, 2021. The Renewal Term shall be on the same terms and conditions as the initial Term except for Base Rent, any free rent allowance, fixturing period, Tenant improvement allowance or other incentive or inducement and except for this option to renew.

The Base Rent payable by the Tenant during the Renewal Term shall be negotiated and agreed upon between the parties prior to the commencement of the Extended Term based on the prevailing fair market Base Rent at the commencement of the Renewal Term for similarly improved premises of similar size, quality, use and location in office buildings of a similar size, quality and location in Coquitlam, British Columbia. Failing such agreement, then within two (2) months prior to the commencement of the Renewal Term, Base Rent shall be determined by arbitration under the provisions of the Arbitration Act (British Columbia) and in accordance with this clause.

f) No Restoration Obligation — The Tenant shall not be required to remove any leasehold improvements whatsoever at the expiry of the Lease Term and shall return the Premises to the Landlord in a then "as-is" condition.

g) Right to Assign / Sublease — The Tenant shall have the right to sublet, assign or transfer all or a portion of the Leased premises to any other entity under its common control in accordance with the Lease, and the Tenant shall have the right to assign this Lease or sublease any portion of the Premises to a third party by obtaining the consent of the Landlord, in accordance with the Lease, such consent not to be unreasonably withheld or delayed.

h) Parking — the Landlord agrees to provide the Tenant with an additional six (6) parking stalls within the Building parking complex for the duration of the Lease at a fixed cost of $75.00 per stall per month for the duration of the Lease term. Upon potential future renewal of the Lease beyond the initial five (5) year term, parking cost per month shall be at then market rates.

3. REVISED RENT PAYMENTS: YIELDING AND PAYING THEREFORE unto the Landlord, its successors and assigns during the Term of this agreement, a total rent of Seven Hundred and Twenty Four Thousand, Four Hundred and Fifty dollars and fifty two cents ($ 724,450.52).

BASE RENT:

The rent is calculated on the combined size of the units, being 6,656 square feet.

	$/sq.ft	Term	Monthly
October 1, 16 — Sept 30, 2017	$ 21.00	$ 125,410.25	$ 11,648.00
October 1, 17 — Sept 30, 2018	$ 21.00	$ 139,776.00	$ 11,648.00
October 1, 18 — Sept 30, 2019	$ 23.00	$ 153,088.00	$ 12,757.33
October 1, 19 — Sept 30, 2020	$ 23.00	$ 153,088.00	$ 12,757.33
October 1, 20 — Sept 30, 2021	$ 23.00	$ 153,088.00	$ 12,757.33

The Landlord, 424116 BC Ltd, has agreed to waive the base rent for the month of October 2016, and one week of November 2016 base rent reflected above. Additional rent and parking are still due for those adjusted periods.

4. AGENCY DISCLOSURE: As part of the consideration for the granting of this Lease, the Tenant represents and warrants to the Landlord that CBRE Limited has acted as agents and Tara Finnegan as salesperson, in the negotiating of this Lease Amendment.

424116 B.C. Ltd ("LANDLORD"):

Sign: /s/ R. Sohwartzman Date: February 27, 2017
R. Sohwartzman, Director

SYSOREX CANADA CORP. ("TENANT"):

Sign: /s/ Kevin R. Harris Print Kevin R. Harris Date: February 16, 2017

WITNESS:

Sign: /s/ Lori Marshall Print Lori Marshall Date: February 16, 2017

Exhibit 10.54

MOSS GROUP

February 6, 2017

ADDENDUM NO. 3 TO THAT CERTAIN LEASE DATED APRIL 30, 2008 BETWEEN BALBOA & VICTORY PARTNERSHIP, A CALIFORNIA LIMITED PARTNERSHIP, LESSOR, AND SYSOREX USA, A CALIFORNIA CORPORATION, LESSEE.

It is hereby agreed to between Lessor and Lessee that said lease ("Lease") pertaining to the premises known as Suite 247 (the "Premises") in the office building known as ENCINO OFFICE PARK II located at 6345 Balboa Blvd., Encino, California (the "Building") will be amended in the following manner only:

1. Lessor and Lessee hereby acknowledge and reaffirm all their respective rights, duties and obligations under the Lease, including this Addendum and any previous addenda to, or other written and fully executed prior modifications of, the Lease. Should anything in this Addendum conflict with anything else in the Lease, the terms of this Addendum shall control. Upon each increase in the amount of the monthly Rent reserved hereunder, Lessee shall increase the security deposit in an amount equal to the increase in the monthly Rent. Except as otherwise indicated herein, all capitalized terms herein shall have the same meaning as in the Lease. Except as otherwise expressly provided in this Addendum, the Premises are leased in their "as is" condition, and all terms and conditions of the Lease shall remain in effect. Lessor agrees to supply reasonable amounts of the utility services referenced in Paragraph 9 of the Lease for the purposes provided therein from 8:00 A.M . to 6:00 P.M., Monday through Friday. Lessee agrees to use its best efforts to conserve energy (i.e. gas, water and electricity) at the Premises, including, without limitation, shutting off electronic devices and lights when Lessee is not present in the Premises.

2. Effective as of the date hereof, the term of the Lease will be extended for forty-eight (48) additional months from August 1, 2017 through July 31, 2021 (the "2017 Extension Term").

3. Commencing April 1, 2017 and continuing thereafter, Rent under the Lease will be decreased by $4,390.00 from $11,204.00 per month to $6,814.00 per month. In addition, Lessee shall remain liable for any other amounts due under the Lease.

4. Effective April 1, 2017, for this 2017 Extension Term only, the following base monthly Rent schedule shall apply in lieu of an annual Cost of Living increase:

   April 1, 2017 through July 31, 2018: $6,814.00 per month
   August 1, 2018 through July 31, 2019: $6,984.00 per month
   August 1, 2019 through July 31, 2020: $7,159.00 per month
   August 1, 2020 through July 31, 2021: $7,338.00 per month

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5. Lessor and Lessee agree that, pursuant to Paragraph No. 2 of Addendum No. 1 of the Lease, Lessee shall continue to occupy Suite 113 ("Suite 113") located in the building known as Encino Office Park I at 6345 Balboa Blvd., Encino, California. However, Lessor and Lessee shall each have the right to elect to terminate Lessee's occupancy of the Suite 113 only in a written notice of termination (the "Suite 113 Termination Notice"). Said termination shall be effective upon the date which is forty-five (45) days after Lessor or Lessee (as the case may be) receives the terminating party's Suite 113 Termination Notice by certified mail, return receipt requested. Upon the effectiveness of said termination, the additional rent (as that term is defined in Section 3.2 of the Lease) shall be reduced by $300 each month.

6. On May 31, 2017, Lessee, at its sole cost and expense, shall vacate Suite 247 in the Building in broom clean condition and otherwise in accordance with the terms of the Lease pertaining to Lessee's vacation of the Premises.

7. On June 1, 2017, Lessee will occupy Suite 140 in the Building pursuant to all of the terms and conditions of the Lease, including this Addendum. After June 1, 2017, all references to the "Premises" in the Lease shall mean and refer to Suite 140 of the Building.

8. Effective on April 1, 2017, Lessee's base year for the purposes of calculating Operating Expenses shall be changed from 2013 to 2017. The reconciliation of Operating Expense pass-throughs for the first three months of 2017 will occur in 2018 in the following manner: the period from January 1, 2017 up to and including March 31, 2017 shall be reconciled based on the 2013 base year and the square footage of the Premises as of January 1, 2017. Under no circumstances shall Lessee incur any charges for Operating Expenses for the period of twelve (12) months, starting on April 1, 2017 up to and including March 31, 2018.

9. Commencing April 1, 2017, Section 11.2 of the Lease is hereby changed accordingly to: (A) reduce the number of car parking provided upon payment of rent at no additional charge from ten (10) to zero (0); and (B) reduce Lessee's maximum amount of car parking allowed under the Lease from twenty-five (25) to ten (10).

10. Lessor shall provide the following building standard tenant improvements in the Premises (Suite 140) as shown on Exhibit "A: 2017 Tenant Improvements" (the "Exhibit 'A"), attached hereto and made a part hereof, at no cost to Lessee during this 2017 Extension Term only:

    10.1 Lessor shall provide building standard walls and doors as shown on Exhibit "A".

    10.2 Lessor shall remove the existing wallcovering and repaint the Premises using building standard materials.

    10.3 Lessor shall furnish and install building standard carpeting in the Premises except for those areas indicated on Exhibit 'A' wherein Lessor shall furnish and install vinyl composite tile (the "VCT") and luxury vinyl planks (the "LVP").

Initial 

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10.4 Lessor shall furnish and install one (1) building standard sink with hot and cold running water and approximately ten (10) linear feet of building standard upper and lower cabinet (the "Sink and Cabinet") as indicated on Exhibit "A". Furthermore, Lessor shall furnish and install one (1) building-standard dishwasher (the "Dishwasher") in the Sink and Cabinet. Lessee shall be solely responsible for any and all costs for the maintenance of the Dishwasher.

10.5 Lessor shall provide building standard 110v duplex electrical outlets and telephone stub-outs in the Premises (all telephone wiring and installation by others).

10.6 Lessor shall provide building standard HVAC (Heating, Ventilation, Air Conditioning) in the Premises.

10.7 Lessor shall provide building standard suspended T-bar ceiling grid with building standard lay-in acoustical tile throughout the Premises.

10.8 Lessor shall provide building standard florescent lighting fixtures in the Premises.

10.9 Lessee shall execute a tenant improvement authorization on Lessor's form for any above-building standard or other tenant improvements not specified herein that may be requested by Lessee. Under no circumstances may Lessee request or demand a credit or offset in lieu of the aforementioned tenant improvements.

11. Pursuant to Section 1938 of the California Civil Code, Lessor hereby represents that the Land, Building and the Premises have not been inspected by a Certified Access Specialist. This Lease hereby incorporates Section 1938 (e), which provides, in pertinent part, as follows:

> "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises."

12. **FIRST CONDITION PRECEDENT**. As a condition precedent to the effectiveness of this Addendum, a duplicate original of this Addendum executed by Lessee must be received by Lessor on or before Tuesday, February 14, 2017 by 12:00 P.M., Pacific Standard Time. Should Lessor not timely receive this executed Addendum, this Addendum shall be null and void and of no legal effect.

13. **SECOND CONDITION PRECEDENT**. The effectiveness of this Addendum shall also be contingent upon Lessor's receipt of a written termination of that certain Lease dated January 21, 2014, by and between BALBOA AND VICTORY PARTNERSHIP as Lessor, and VESPER HEALTHCARE, INC., DBA VESPER HOSPICE, as Lessee (the "Vesper Termination") on or before Wednesday, February 15, 2017 by 12:00 P.M. Should Lessor not timely receive the Vesper Termination, this Addendum shall be null and void and of no legal effect.

Initial

Initial

14. **RENTABLE SQUARE FOOTAGE.** For reference purposes only, the approximate rentable square footage for Suite 140 is 3,169 square feet and is based upon BOMA office building Method A-2010 measurement standard. There shall be no adjustment to the Rent or anyprovisions of this Lease if a measurement of the Premises renders a rentable square footage that differs from that set forth in this Paragraph 14.

15. This Addendum may be executed in duplicate counterparts, each of which shall be deemed an original and all of which shall together constitute one agreement. Preparation of this Addendum by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to Lessee. This Addendum shall become binding upon Lessor and Lessee only when fully executed by both parties.

Executed at Encino, California for reference purposes on the date first written above.

LESSOR:
BALBOA & VICTORY PARTNERSHIP,
A California limited partnership

By: 6345 Balboa, LLC,
A California limited liability company,
Its General Partner

By: /s/ George E. Moss
George E. Moss,
Its Manager

LESSEE:
SYSOREX, USA
A California Corporation

By: /s/ Kevin Harris,
Kevin Harris,
Its Chief Financial Officer

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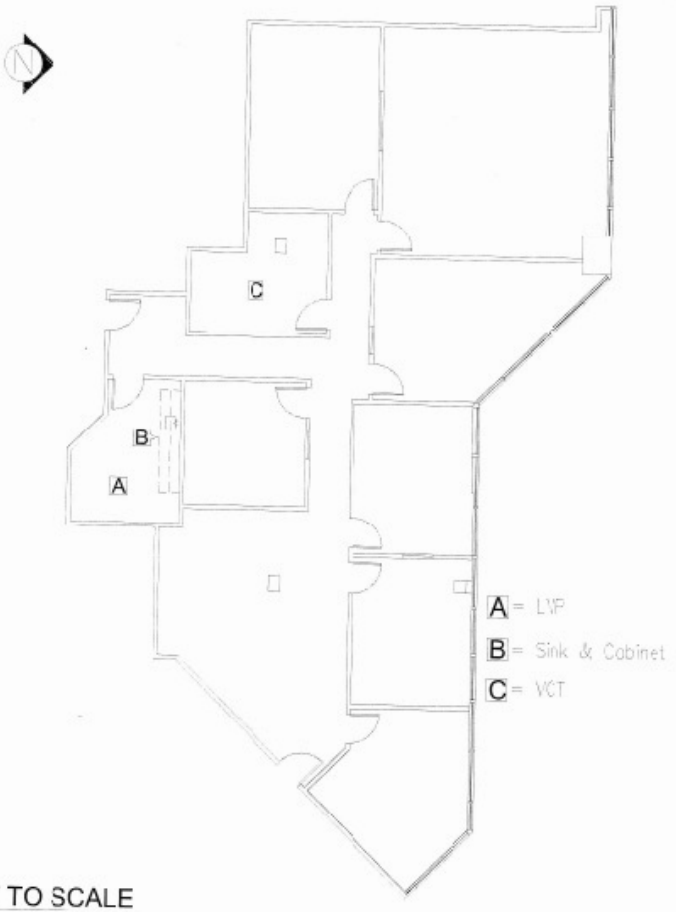
EXHIBIT "A: 2017 TENANT IMPROVEMENTS"



NOT TO SCALE

Lessee further agrees to provide and pay for any other tenant improvements and services not mentioned in this Lease. For any other tenant improvements Lessor will be supplied with a set of plans for his written approval before any work commences. Work will be done only by sub-contractors approved by Lessor. Funds for completion of other tenant improvements will be deposited by Lessee with Lessor prior to commencement of work and Lessor will distribute payment upon receipt of material and labor lien releases acknowledging that work has been paid for and complete.

6345 BALBOA BLVD., STE. 140
ENCINO, CALIFORNIA

INITIAL:

INITIAL:

Exhibit 10.55

OFFICE LEASE

101 LARKSPUR LANDING CIRCLE

This Lease is made by the Landlord and Tenant named below, who agree as follows:

PART I
SUMMARY

1. Date of Lease: September 28, 2016.

2. Landlord: SAVOY CORPORATION, a California corporation.

3. Tenant: SYSOREX USA, a Virginia corporation.

4. Premises and Building:

(a) Building (section 1.1): 101 Larkspur Landing Circle, Larkspur, California

(b) Number of Rentable Square Feet in Building (section 1.1): 34,982.

(c) Premises (section 1.1): Approximately 6,211 Rentable Square Feet of space and approximately 5,606 Usable Square Feet of space located on the ground floor of the Building, as set forth in Exhibit A, known as Suite 120.

5. Lease Term:

(a) Duration (section 2.1): Five (5) years and three (3) months.

(b) Lease Commencement Date (section 2.1): December 1, 2016.

(c) Lease Expiration Date (section 2.1): February 28, 2022.

6. Base Rent (section 3.1):

Period	Monthly Base Rent
December 1, 2016 through February 28, 2017	Free Rent
March 1, 2017 through November 31, 2017	$ 23,912.35
December 1, 2017 through November 30, 2018	$ 24,719.78
December 1, 2018 through November 30, 2019	$ 25,589.32
December 1, 2019 through November 30, 2020	$ 26,520.97
December I, 2020 through February 28, 2022	$ 27,452.62

7. Additional Rent (Article 4):

(a) Base Year (subsection 4.2.1): The calendar year of 2017.

(b) Tenant's Share of Direct Expenses (subsection 4.2.6): Seventeen and 75/100 percent (17.75%).

8. Security Deposit (section 5.1): $27,452.62.

9. Permitted Use (section 6.1): General office use.

10. Addresses for notices:

(a) Landlord's address (subsection 30.11.3): Savoy Corporation, 2720 Taylor Street, Suite 400, San Francisco, California, 94133 (fax number: 415-353.0241).

(b) Tenant's address (subsection 30.11.3)

(1) Before Lease Commencement Date: Sysorex, 17 E. Sir Francis Drake Blvd, Suite # 110, Larkspur CA 94939 (fax number_ (650) 276-7185), Attention: Chief Financial Officer.

(2) After Lease Commencement Date: 101 Larkspur Landing Circle, Suite 120, Larkspur, CA 94925 (fax number: (650) 276-7185), Attention: Chief Financial Officer.

(3) At all times, copies of any notices to Tenant shall be given to Tenant concurrently at (a) 6345 Balboa Blvd, Suite # 247, Encino, CA 91316 (fax number (650) 276-7185), Attention: Chief Financial Officer and (b) 2479 E. Bayshore Rd, Suite 195, Palo Alto , CA 94303 (fax number; _____), Attention: Legal Department.

11. Brokers (section 29.23):

(a) Landlord's Broker: Keegan & Coppin Company, Inc.

(b) Tenant's Broker: CBRE and Keegan & Coppin Company, Inc.

This Lease is on all of the terms and conditions of the Lease Provisions attached hereto as Part II. Each reference in the Lease Provisions to any provision in this Summary of Basic Lease Information ("Summary") shall be construed to incorporate all the terms provided under that provision of the Summary. In the event of any conflict between a provision in this Summary and a provision in the balance of the Lease, this Summary shall control.

(remainder of page left intentionally blank)

Executed as of the date stated in section 1 of this Summary.

LANDLORD:

SAVOY CORPORATION

By: /s/ Judson La Haye
Judson La Haye

Its: COO

TENANT

SYSOREX USA

By: /s/ Kevin Harris
Kevin Harris

Its: CFO

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Larkspur Lease — Sysorex
2016-09-27

PART II

LEASE PROVISIONS

Article I
REAL PROPERTY, BUILDING, AND PREMISES

1.1. Lease of Premises. Landlord leases to Tenant, and Tenant leases from Landlord, the premises described in Summary section 4(c) ("Premises"), which are located in the building described in Summary section 4(a) ("Building"), reserving to Landlord the rights described in Lease section 1.4. The outline of the Premises is set forth in Exhibit A. The Rentable Area and Usable Area of the Premises and the Rentable Area of the Building are set forth in Summary sections 4(b) and 4(c). The Building, the areas servicing the Building (including any adjacent parking area), and the land on which the Building and those areas are located (as shown on the site plan attached to this Lease as Exhibit B) are sometimes collectively referred to as the "Real Property." Tenant acknowledges that Landlord has made no representation or warranty regarding the condition of the Real Property except as specifically stated in this Lease.

1.2. Appurtenant Rights. Tenant is granted the right at all times during the Lease Term to the nonexclusive use of the main lobby of the Building, common corridors and hallways, stairwells, elevators, restrooms, parking areas, walkways, driveways and other public or common areas located on the Real Property. Landlord, however, has the sole discretion to determine the manner in which those public and common areas are maintained and operated, and the use of those areas shall be subject to the Rules and Regulations, as defined in section 6.2; provided, however, that Tenant's quiet enjoyment, possession and use of the Premises *shall* at all times be maintained and preserved and that such public and common areas shall be maintained and operated in such a manner so as not to materially adversely affect Tenant's business at the Premises or Tenant's use thereof.

1.3. Parking. The appurtenant rights include the nonexclusive use of Landlord's parking area for parking by Tenant's employees and business invitees and guests, all of which shall be at no additional cost or charge to Tenant or such employees, invitees or guests. Tenant's continued right to use the parking area is conditioned on Tenant abiding by all non-discriminatory rules and regulations prescribed from time to time for the orderly operation and use of the parking area. Tenant shall use all reasonable efforts to ensure that Tenant's employees and business invitees and guests also comply with stet' rules and regulations. Landlord specifically reserves the right to change the location, size, configuration, design, layout and all other aspects of the parking area and Landlord may close off or restrict access to the parking area from time to time to facilitate construction, alteration or improvements without incurring any liability to Tenant and without any abatement of Rent under this Lease; provided, however, that Tenant's quiet enjoyment, possession and use of the Premises shall at all times be maintained and preserved and that such parking areas shall be maintained and operated in such a manner so as not to materially adversely affect Tenant's business at the Premises or Tenant's use thereof.

1.4. Landlord's Reservation of Rights. Landlord reserves the right to all of the Building except for the space within the Premises and the other rights reserved to Tenant herein.

1.5. Preparation of Premises: Acceptance. Except as otherwise provided in a Leasehold Improvement Agreement and also with respect to , Landlord's Work as set forth therein, attached hereto as Exhibit C, or otherwise set forth herein, Tempt agrees to accept the Premises in its as-is condition and agrees that Landlord, except for said Landlord's Work, as will have no obligation to prepare the Premises for Tenant's occupancy. If this Lease conflicts with the Leasehold Improvement Agreement, the Leasehold Improvement Agreement shall prevail.

1.6. Rentable Area and Usable Area . The terms "Rentable Square Feet" and "Useable Square Feet" in the Summary and elsewhere are reasonable approximations and are based on Landlord's calculations as applied throughout the Building. The parties mutually agree to accept those calculations and further agree that the Rent, Tenant's Share and other calculations shall not be subject to adjustment during the Lease Term notwithstanding any remeasurements.

Article 2
LEASE TERM

2.1. Lease Term. The provisions of this Lease shall be effective as of the date of this Lease. The term of this Lease ("Lease Term") shall be the period stated in Summary section 5(a). The Lease Term shall commence on the date ("Lease Commencement Date") stated in Summary section 5(b) and shall expire on the date ("Lease Expiration Date") stated in Summary section 5(c) unless this Lease is sooner terminated as provided in this Lease.

2.2. Confirmation of Lease Information. At any time during the Lease Term, Landlord may deliver to Tenant a notice setting forth the Lease Term, which Tenant shall execute and return to Landlord within five (5) days after receipt.

2.3. Delay in Delivery of Premises. If Landlord is unable to deliver possession of the Premises to Tenant on or before the projected Lease Commencement Date, Landlord shall not be subject to any liability for its failure to do so. This failure shall not affect the validity of this Lease or the obligations of Tenant under it, but the Lease Term shall commence on the date on which Landlord delivers possession of tie Premises to Tenant. Notwithstanding the foregoing to the contrary, in the event that Landlord does not deliver possession of the Premises to Tenant on or before January 1, 2017, then Tenant shall receive one free day of Base Rent for each day after January I, 2017 until Landlord delivers possession of he Premises to Tenant Landlord and Tenant agree to execute an amendment to this Lease setting forth the actual Lease Commencment Date, free rent period and Lease Termination Date.

Larkspur Lease — Sysorex
2016-09-27

Article 3
BASE RENT

3.1. Definition of "Base Rent". Tenant shall pay to Landlord base rent ("Base Rent") in equal monthly installments as set forth in Summary section 6 in advance on or before the first day of every calendar month during the Lease Term, without any setoff or deduction except as otherwise set forth herein. Payment shall be made at the management office of the Building or at any other place that Landlord may from time to time designate in writing. Payment must be in United States dollars, either in the form of a check or via electronically transmitted funds. If any payment made by check is not paid by the bank or other institution on which it is drawn, Landlord shall have the right, exercised by notice to Tenant, to require that Tenant make all future payments by certified funds or cashier's check.

3.2. Initial Payment: Proration. The Base Rent for the first full calendar month of the Lease Term shall be paid when Tenant executes this Lease. If any payment date (including the Lease Commencement Date) for "Rent,"as defined in section 4.1, falls on a day other than the first day of that calendar month, or if any Rent payment is for a period shorter than one calendar month, the Rent for that fractional calendar month shall accrue on a daily basis for each day of that fractional month at a daily rate equal to 1/365 of the total annual Rent. All other payments or adjustments that are required to be made under the terms of this Lease and that require proration on a time basis shall be prorated on the same basis.

3.3. [Deleted]

3.4. Application of Payments. All payments received by Landlord from Temnt shall be applied to the oldest payment obligation owed by Tenant to Landlord. No designation by Tenant, either in a separate writing or on a check or money order, shall modify thisclause or have any force or effect.

Article 4
ADDITIONAL RENT

4.1. Additional Rent; Rent. In addition to paying the Base Rent specified in Article 3, Tenant shall pay as additional rent Tenant's Share of the annual Direct Expenses (as defined in subsections 4.2.2 and 4.2.6) that are in excess of the amount of Direct Expenses applicable to the Base Year (as defined in subsection 4.2.1). That additional rent, together with other amounts of any kind (other than Base Rent) payable by Tenant to Landlord under the terms of this Lease, shall be collectively referred to in this Lease as "Additional Rent." Base Rent and Additional Rent are collectively referred to in this Lease as "Rent" All amounts due under this Article 4 as Additional Rent are payable for the same periods and in the same manner, time, and place as the Base Rent Without limitation on other obligations of Tenant that survive the expiration of the Lease Term, Tenant's obligations to pay the Additional Rent provided for in this Article 5 survive the expiration of the Lease Term.

4.2. Definitions. The following definitions apply in this Article 4:

4.2.1. Base Year. "Base Year" means the period stated in Summary section 7(a).

4.2.2. Direct Expenses. "Direct Expenses" mean Operating Expenses plus Tax Expenses.

4.2.3. Expense Year. "Expense Year" means each calendar year in which any portion of the Lease Term falls, through and including the calendar year in which the Lease Term expires.

4.2.4. Operating Expenses. "Operating Expenses" means all expenses, costs, and amounts of every kind that Landlord pays or incurs during any Expense Year because of or in connection with the ownership, operation, management, maintenance, repair, replacement, or restoration of the Real Property.

4.2.4.1. Examples of Operating Expenses. The definition of "Operating Expenses" includes any amounts paid or incurred for. (a) The cost of supplying any utilities; (b) The cost of operating, managing, maintaining, and repairing the following systems: utility, mechanical, sanitary, storm drainage, escalator, and elevator; (c) The cost of supplies and tools and of equipment, maintenance, and service contracts in connection with those systems; (d) The cost of licenses, certificates, permits, and inspections; (e) The cost of contesting the validity or applicability of any government enactments that may affect the Operating Expenses; (f) The costs incurred in connection with the implementation and operation of a transportation system management program or similar program; (g) The cost of insurance carried by Landlord, in amounts reasonably determined by Landlord; (h) Fees, charges, and other costs including management fees (or an amount not to exceed a management fee otherwise payable to a third-party manager), consulting fees, legal fees, and accounting fees of all persons engaged by Landlord or otherwise reasonably incurred by Landlord in connection with the operation, management, maintenance, and repair of the Real Property; (i) The cost of parking area maintenance, repair, and restoration, including resurfacing, repainting, restriping, and cleaning; (j) Wages, salaries, and other compensation and benefits of all persons engaged in the operation, maintenance, or security of the Building plus employer's Social Security taxes, unemployment taxes, insurance, and any other taxes imposed on Landlord that may be levied on those wages, salaries, and other compensation and benefits (if any of Landlord's employees provide services for more than one building of Landlord, only the prorated portion of those employees' wages, salaries, other compensation and benefits, and taxes reflecting the percentage of their working time devoted to the Real Property shall be included in Operating Expenses); (k) Payments under any easement, license, operating agreement, declaration, restrictive covenant, or instrument relating to the sharing of costs by the Building; (1) Amortization (including interest on the unamortized cost at a rate equal to the floating commercial loan rate announced from time to time by Bank of America, NT&SA (or other major bank or financial institution selected by Landlord) as is prime rate plus two (2) percentage points per annum) of the cost of acquiring or renting personal property used in the maintenance, repair, and operation of the Building and Real Property; and (m) The cost of capital improvements or other cost incurred in connection with the Real Property that (1) are intended as a laborsaving device or to effect other econanies in the maintenance or operation of all or part of the Real Property or (2) are required under any government law or regulation but that were not required in connection with the Real Property when permits for he construction of the Building were obtained. All permitted capital expenditures shall be amortized (including interest on the unamortized cost) over their useful life, as reasonably determined by Landlord.

4.2.4.2. Adjustment of Operating Expenses. Operating Expenses shall be adjusted as follows:

4.2.4.2.1. Gross-Up Adiustment When Building Is Less Than Fully Occupied. If the occupancy of the Building during any part of any Expense Year (including the Base Year) is less than ninety-five percent (95%), Landlord shall make an appropriate adjustment of the variable components of Operating Expenses for that Expense Year, as reasonably determined by Landlord using sound accounting and management principles, to determine the amount of Operating Expenses that would have been incurred had the Building been ninety five percent (95%) occupied. This amount shall be considered to have been the amount of Operating Expenses for that Expense Year. For purposes of this subsection 4.2.4.2.1, "variable components" include only those component expenses that are affected by variations in occupancy levels.

4.2.4.2.2. Intentionally Omitted.

4.2.4.3. Exclusions From Operating Expenses. Despite any other provision of subsection 4.2.4, Operating Expenses shall not include: (a) Depreciation, interest, and amortization on mortgages or ground lease payments, excels as otherwise stated in this section 4.2; (b) Legal fees incurred in negotiating and enforcing tenant leases; (c) Real estate brokers' leasing commissions; (d) Initial improvements or alterations to tenant spaces; (e) The cost of providing any service directly to and paid directly by any tenant (f) Any costs expressly excluded from Operating Expenses elsewhere in this Lease; (g) Costs of any items for which Landlord receives reimbursement font insurance proceeds or a third party. Insurance proceeds shall be exduded from Operating Expenses in the year in which they are received, except that any deductible amount under any insurance policy shall be included within Operating Expenses; and (h) Costs of capital improvements, except as otherwise stated in this section 4.2.

4.2.5. Tax Expenses. "Tax Expenses" means all federal, state, county, or local government or municipal taxes, fees, charges, or other impositions of every kind (whether general, special, ordinary, or extraordinary) that are paid or incurred by Landlord during any Expense Year (without regard to any different fiscal year used by any government or municipal authority) because of or in connection with the ownership, leasing, and operation of the Real Property. These expenses include taxes, fees, and charges such as real property taxes, general and special assessments, transit taxes, leasehold taxes, and taxes based on the receipt of rent (including gross receipts or sales taxes applicable to the receipt of rent, unless required to be paid by Tenant); personal property taxes imposed on the fixtures, machinery, equipment, apparatus, systems, and equipment appurtenances; furniture; and other personal property used in connection with the Building.

4.2.5.1. Adjustment of Taxes. For purposes of this Lease, Tax Expenses shall be calculated as if the tenant improvements in the Building were fully constructed and the Real Property, the Building, and all tenant improvements in the Building were fully assessed for real estate tax purposes. Landlord specifically agrees that the gross-receipts component of Tax Expenses for the Base Year and each subsequent year shall be calculated as if the Building were one-hundred-percent (100%) occupied with rent-paying tenants. Accordingly, during the portion of any Expense Year occurring after the Base Year, Tax Expenses shall be considered to be increased appropriately.

4.2.5.2. Included Tax Expenses. Tax Expenses shall include: (a) Any assessment, tax, fee, levy, or charge in addition to, or in partial or total substitution of, any assessment, tax, fee, levy, or charge previously included within the definition of "real property tax"; (b) Any assessment, tax, fee, levy, or charge allocable to, or measuredby, the area of the Premises or the rent payable under this Lease, including any gross income tax with respect to the receipt of that rent, or on or relating to the possession, leasing, operating, management, maintenance, alteration, repair, use, or occupancy by Tenant of the Premises or any portion of the Premises; (c) Any assessment, tax, fee, levy, or charge on this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises; and (d) Any possessory taxes charged or levied inplace of real property taxes.

4.2.5.3. Contest Costs; Refunds. Any expenses incurred by Landlord in attempting to protest, reduce, or minimize Tax Expenses shall be included in Tax Expenses in the Expense Year in which those expenses are paid. Tax refunds shall be deducted from Tax Expenses. Such tax refunds shall be deducted from Tax Expenses in the Expense Year in which they are received by Landlord.

4.2.5.4. Excluded Taxes. Despite any other provision of subsection 4.2.5 (except as provided in subsection 4.2.5.2 or levied entirely or partially in lieu of Tax Expenses), he following shall be excluded from Tax Expenses: (a) AU excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes applied or measured by Landlord's general or net income (as opposed to rents, receipts, or income attributable to operations at the Building); (b) Any items included as Operating Expenses; and (c) Any items paid by Tenant under section 4.4. In addition, during the first three (3) years of the Lease Term (but not during any Opetion Period) Tenant shall not be required to pay any increases in real estate taxes caused by a change of ownership by Landlord of the Real Property or any interest in the Real Property.

4.2.6. Tenant's Share. "Tenant's Share" means the percentage stated in Summary section 7(b). Tenant's Share is calculated by multiplying the number of Rentable Square Feet of the Premises by 100 and dividing the product by the total Rentable Square Feet in the Building. If either the Premises or the Building is expanded or reduced, Tenant's Share shall be appropriately adjusted. Tenant's Share for the Expense Year in which that change occurs shall be determined on the basis of the number of days during the Expense Year in which each such Tenant's Share was in effect.

4.3. Calculation and Payment of Additional Rent. Tenant's Share of any Direct Expenses for my Expense Year shall be calculated and paid as follows:

4.3.1. Calculation of Excess. If Tenant's Share of Direct Expenses for any Expense Year endilg or beginning within the Lease Term exceeds Tenant's Share of the amount of Direct Expenses applicable to the Base Year, Tenant shall pay as Additional Rent to Landlord an amount equal to that excess (Excess), in the manner stated in subsection 4.3.2.

4.3.2. Statement of Actual Direct Expenses and Payment by Tenant. Landlord shall endeavor to give to Tenart on or before the first day of April following the end of each Expense Year a statement ("Statement") stating the Direct Expenses incurred or accrued for that preceding Expense Year and indicating the amount, if any, of any Excess. On receipt of the Statement for each Expense Year ending during the Lease Term for which an Excess exists, Tenant shall pay, with its next installment of Base Rent due, the full amount of that Excess, less the amounts (if any) paid during that Expense Year as Estimated Excess (as defined in subsection 4.3.3). Landlord's failure to furnish the Statement for any Expense Year in a timely manner shall not prejudice Landlord from enforchg its rights under this Article 4. Even if the Lease Term has expired and Tenant has vacated the Premises, if an Excess exists when the final determination is made of Tenant's Share of the Direct Expenses for the Expense Year in which this Lease terminates, Tenant shall immediately pay to Landlord the amount calculated under subsection 4.3.1. The provisions of this subsection 4.3.2 shall survive the expiation or earlier termination of the Lease Term.

4.3.3. Statement of Estimated Direct Expenses. Landlord shall give Tenant a yearly expense estimate statement ("Estimate Statement") stating: (a) Landlord's reasonable estivate ("Estimate") of the total amount of Direct Expenses for the then-current Expense Year; and (b) The estimated excess ("Estimated Excess").

The Estimated Excess shall be calculated by comparing estimated Direct Expenses (which shall be based on the Estimate) to the amount of Direct Expenses applicable to the Base Year. Landlord's failure to furnish the Estimate Statement for any Expense Year in a timely manner shall not preclude Landlord from enforcing is rights to collect any Estimated Excess under this Article 4. If an Estimated Excess is calculated for the then-current Expense Year, Tenant shall pay, with its next installment of Base Rent due, a fraction of that Estimated Excess for the then-current Expense Year (reduced by any amounts paid as provided in the last sentence of this subsection 4.3.3). The numerator of that fraction shall be the number of months that have elapsed in that current Expense Year (including the month of the payment), and the denominator shall be twelve (12). Until a new Estimate Statement is furnished, Tenant shall pay monthly, along with the monthly Base Rent installments, an amount equal to one twelfth (1/12th) of the total Estimated Excess stated in the previous Estimate Statement delivered by Landlord to Tenant

4.4. Taxes and Other Charges for Which Tenant is Directly Responsible. Tenant shall reimburse Landlord, on demand, as Additional Rent for any taxes required to be paid by Landlord that are not already included in Tax Expenses, excluding state, local, and federal personal or corporate income taxes measured by the net income of Landlord from all sources ard estate and inheritance taxes, regardless of whether such taxes are now customary or within the contemplation of the parties to this Lease, when those taxes are: (a) Measured by or reasonably attributable to: (1) The cost or value of Tenant's equipment, furniture, fixtures, and other personal property located in the Premises; or (2) The cost or value of my leasehold improvements made in or to the Premises by or for Tenant (to the extent that the cost or value of those leasehold inprovements exceeds the cost or value of a building-standard build-out, as determined by Landlord, regardless of whether title to those improvements is vested in Tenant or Landlord); (b) Assessed on or related to he possession, leasing, operation, management, maintenance, alteration, repair, use, or occupancy by Tenant of (1) The Premises; (2) Any portion of the Real Property; or (3) The parking facility used by Tenant in connection with this Lease; or (c) Assessed either on this transaction or on any document to which Tenant is a party that creates or transfers an interest or an estate in the Premises.

4.5. Landlord's Books and Records. If Tenant disputes the amount of Additional Rent stated in the Statement, Tenant may designate, within ninety (90) days after receipt of that Statement, an independent certified public accountant to inspect Landlord's records. Tenant is not entitled to request that inspection, however, if Tenant is then in default under this Lease. The accountant must be a member of a nationally recognized accounting firm and must not charge a fee based on the amount of Additional Rent that the accountant is able to save Tenant by the inspection. Tenant must give reasonable notice to Landlord of the request for inspection, and the inspection must be conducted in Landlord's offices at a reasonable time or times. If, after that inspection, Tenant still disputes the Additional Rent, a certification of the proper amount shall be made by Landlord's independent certified public accountant. That certification shall be final and conclusive.

Article 5
SECURITY DEPOSIT

5.1. Amount of Security Deposit: Application. Concurrently with Tenant's execution of this Lease, Tenant shall deposit with Landlord a cash sum in the amount stated in Summary section 8 ("Security Deposit"). Landlord shall holdthe Security Deposit as security for the performance of Tenant's obligations under this Lease. If Tenant defaults on any provision of this Lease, Landlord may, without prejudice to any other remedy it ha;, apply all or part of the Security Deposit to: (a) Any Rent or other sum in default beyond any applicable notice and cure period; (b) Any amount that Landlord may spend or become obligated to spend in exercising Landlord's rights under Article 22; or (c) Any expense, loss, or damage that Landlord may suffer because of Tenant's default

Tenant waives the provisions of California Civil Code section 1950.7, and all other provisions of law now in force or that become in force after the date of execution of this Lease, that provide that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of Rent, to repair damage caused by Tenant, or to clean the Premises. Landlord and Tenant agree that Landlord may, in addition, claim those sums reasonably necessary to compensate Landlord for any other foreseeable or unforeseeable loss or damage cased by the act or omission of Tenant or Tenant's officers, agents, employees, independent contractors, or invitees.

5.2. Landlord's Transfer of Security Deposit on Transfer of Real Property. If Landlord disposes of its interest in the Premises, Landlord may deliver or credit the Security Deposit to Landlords successor in interest in the Premises and thereupon be relieved of further responsibility with respect to the Security Deposit.

5.3. Assignment or Encumbrance of Security Deposit. Tenant may not assign or encumber the Security Deposit without the consent of Landlord. Any attempt to do so shall be void and shall not be binding on Landlord.

5.4. Restoration of Security Deposit. If Landlord applies any portion of the Security Deposit, Tenant shall, within ten (10) days after demand by Landlord, deposit with Landlord an amount sufficient to restore the Security Deposit to its original amount

5.5. Interest on Security Deposit. Tenant is not entitled to any interest on the Security Deposit.

5.6. Return of Security Deposit. The unused portion of the Security Deposit as set forth above shall be returned to Tenant or the last assignee of Tenant's interest under this Lease within thirty (30) days following the expiration or termination of the Lease Term.

Article 6
USE

6.1. Permitted Use. Tenant shall use the Premises solely for the "Permitted Use," as defined in Summary section 9. Tenant shall not use or permit the Premises to be used for any other purpose without Landlord's prior written consent, which may be granted or withheld in Landlord's sole discretion.

6.2. Rules and Regulations. Tenant shall comply with the rules attached to this Lease as Exhibit D and any amendments or additions promulgated by Landlord from time to time for the safety, care, and cleanliness of the Premises, Building, and Real Property or for the preservation of good order (Rules and Regulations), provided that all such Rules and Regulations shall be non-discriminatory to all tenants in the Building. Landlord shall not be responsible to Tenant for the failure of any other tenants or occupants of the Building to comply with the Rules and Regulations except if the same arises, occurs or accrues as the result of Landlord's gross negligence or willful misconduct.

6.3. Additional Restrictions on Use. In addition to complying with other provisions of this Lease concerning the use of the Premises: (a) Tenant shall not use or allow any perm to use the Premises for any purpose that is contrary to the Rules and Regulations, that violates any Laws and Orders, that constitutes waste or nuisance, or that would unreasonably annoy other occupants of the Building or the owners or occupants of buildings adjacent to the Building, and (b) Tenant shall comply with all recorded covenants, conditions, and restrictions that now or later affect the Real Property provided that the same shall not adversely affect Tenants' quiet enjoyment, possession and use of the Premises or Tenant's business in the Premises.

Article 7
COMPLIANCE WITH LAWS

7.1. Definition of "Laws and Orders." For purposes of this Article 7, the term "Laws and Orders" includes all federal, state, county, city, or government agency laws, statutes, ordinances, standards, rules, requirements, or orders now in force or hereafter enacted, promulgated, or issued. The term also includes government measures regulating or enforcing public access, occupational, health, or safety standards for employers, employees, landlords, or tenants.

7.2. Repairs. Replacements. Alterations, and Improvements. Tenant shall continuously and without exception repair and maintain the Premises, including Tenant Improvements, Alterations, fixtures, and furnishings, in an order and condition in compliance with all Laws and Orders. Tenant, at Tenant's sole expense, shall promptly make all repairs, replacements alterations, or improvements needed to comply with all Laws and Orders to the extent that the Laws and Orders relate to or are triggered by (a) Tenant's particular use of the Premises but not its general office use, (b) the Tenant Improvements located in the Premises, or (b) any Alterations located in the Premises; provided, however, that Tenant shall not be obligated to make any replacement of any structural element or system (i.e., roof, floor, HVAC, plumbing, electrical, piping, wiring) or any capital improvement (excluding any Tenant Improvements installed by Tenant), unless such replacement or capital improvement is made necessary by Tenant's gross negligence or wilful misconduct and not of just ordinary and normal wear and tear.

Landlord, at Landlord's sole expense, shall promptly make all repairs, replacements, alterations, or improvements needed to comply with all Laws and Orders to the extent that the Laws and Orders relate to the exterior or common areas of the Building. If, however, such compliance work on the exterior or common areas of the Building is triggered by the Tenant Improvements or Alterations requested by Tenant (but not Landlord's Work as defined in the Leasehold Improvement Agreement) sunder Article 11, Tenant shall bear all expense of such work on the exterior or common areas of the Building.

7.3. Collateral Estoppel. The judgment of any court of competent jurisdiction, or the admission of Tenant in any judicial or administrative action or proceeding that Tenant has violated any Laws and Orders shall be conclusive, between Landlord and Tenant, of that fact, whether or not Landlord is a party to that action or proceeding.

Article 8
HAZARDOUS MATERIAL

8.1. Use of Hazardous Material. Tenant shall not cause or permit any Hazardous Material, as defined in section 8.5, to be generated, brought onto, used, stored, or disposed of in or about the Premises or the Building by Tenant or its agents, employees, contractors, subtenants, or invitees, except for limited quantities of standard office supplies containing chemicals categorized as Hazardous Material. Tenant shall: (a) Use, store, and dispose of all such Hazardous Material in strict compliance with all applicable statutes, ordinances, and regulations in effect during the Lease Term that relate to public health and safety and protection of the environment (Environmental Laws), including those Environmental Laws identified in section 8.5; and (b) Comply at all times during the Lease Term with all Environmental Laws.

8.2. Notice of Release or Investigation. If, during the Lease Term (including any extensions), Tenant has actual knowledge of (a) any actual or threatened release of any Hazardous Material on, under, or about the Premises or the Building or (b) any inquiry, investigation, proceeding, or claim by any government agency or other person regarding the presence of Hazardous Material on, under, or about the Premises or the Building, Tenant shall give Landlord written notice of the release or investigation within five (5) days after learning of it and shall simultaneously furnish to Landlord copies of any claims, notices of violation, reports, or other writings received by Tenant that concern the release or investigation.

8.3. Indemnification. Tenant shall, at Tenant's sole expense and with counsel reasonably acceptable to Landlord, indemnify, defend, and hold harmless Landlord and Landlord's shareholders, directors, officers, employees, partners, affiliates, and agents with respect to all losses arising out of or resulting from the release of any Hazardous Material in or about the Premises or the Building, or the violation of any Environmental Law, by Tenant or Tenant's agents, contractors, or invitees. This indemnification includes: (a) Losses attributable to diminution in the value of the Premises or the Building; (b) Loss or restriction of use of rentable space in the Building; (c) Adverse effect on the marketing of any space in the Building; and (d) All other liabilities, obligations, penalties, fines, claims, actions (including remedial or enforcement actions of any kind and administrative or judicial proceedings, orders, or judgments), damages (including consequential and punitive damages), and costs (including attorney, consultant, and expert fees and expenses) resulting from the release or vidation. This indemnification shall (a) not apply to any losses arising out of Landlord's or Landlord's shareholders', directors', officers', employees', partners', affiliates', and agents' gross negligence or willful misconduct, and (b) shall survive the expiration or termination of this Lease.

8.4. Remediation Obligations. If the presence of any Hazardous Material brought onto the Premises or the Building by Tenant or Tenant's employees, agents, contractors, or invitees results in contamination of the Building, Tenant shall promptly take all necessary actions, at Tenant's sole expense, to return the Premises or the Building to the condition that existed before the introduction of such Hazardous Material. Tenant shall first obtain Landlord's approval of the proposed remedial action. This provision does not limit the indemnification obligation set forth in section 8.3.

8.5. Definition of "Hazardous Material." As used in this Article 8, the term "Hazardous Material" shall mean any hazardous or toxic substance, material, or waste that is or becomes regulated by the United States, the State of California, or any local government authority having jurisdiction over the Building. Hazardous Material includes: (a) Any "hazardous substance," as that term is defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) (42 United States Code sections 9601-9675); (b) "Hazardous waste," as that term is defined in the Resource Conservation and Recovery Act of 1976 (RCRA) (42 United States Code sections 6901-6992k); (c) Any pollutant, contaminant, or hazardous, dangerous, or toxic chemical, material, or substance, within the meaning of any other applicable federal, state, or local law, regulation, ordinance, or requirement (including consent decrees and administrative orders imposing liability or standards of conduct concerning any hazardous, dangerous, or toxic waste, substance, or material, now or hereafter in effect); (d) Petroleum products; (e) Radioactive material, including any source, special nuclear, or byproduct material as defined in 42 United States Code sections 201I-2297g-4; (f) Asbestos in any form or condition; and (g) Polychlorinated biphenyls (PCBs) and substances or compounds containing PCBs.

Article 9
UTILITIES AND SERVICES

9.1. Tenant Utilities and Services. Subject to applicable government rules, regulations, and guidelines and the rules or actions of the public utility furnishing the service, Landlord shall provide the following utilities and services on all days during the Lease Term, unless otherwise stated in the Lease:

9.1.1. Heating and Air-Conditioning. Landlord shall provide heating and air-conditioning when necessary for normal comfort for normal office use in the Premises, as reasonably determined by Landlord, on Mondays through Fridays from 7 a.m. through 6 p.m and 9 am to 1 p.m. on Saturdays (Building Hours) except the dates of observation of New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and other locally or nationally recognized holidays (Holidays).

9.1.2. Electricity. Landlord shall provide electricity for lighting and power in the Premises for normal office uses. Landlord shall replace lamps, starters, and ballasts for Building standard lighting fixtures within the Premises on Tenant's request and at Tenant's expense. Tenant shall replace lamps, starters, and ballasts for non-Building standard lighting fixtures within the Premises at Tenant's expense.

9.1.3. Water. Landlord shall provide city water from the regular Building outlets for drinking, lavatory, and toilet purposes.

9.1.4. Janitorial Services. Landlord shall provide janitorial services in and about the Premises on Mondays through Fridays, except on Holidays. Landlord shall not be required to provide janitorial services to above-standard improvements installed in the Premises such as metallic trim, wood floor covering, glass panels, interior windows, kitchens, executive workrooms, andshower facilities. The janitorial services provided by Landlord shall be comparable to janitorial services provided in other office buildings near the Building.

9.2. Overstandard Tenant Use. Tenant shall not, without Landlord's prior written consent, use heat-generating machines, machines other than normal fractional horsepower office machines, or equipment or lighting other than building standard lights in the Premises that may affect the temperature otherwise maintained by the air-conditioning system or increase the water normally furnished to the Premises by Landlord under section 9.1. If such consent is given, Landlord shall have the right to install supplementary air-conditioning units or other facilities in the Premises, including supplementary or additional metering devices. On billing by Landlord, Tenant shall pay the cost for such supplementary facilities, including the cost of (a) installation, operation, and maintenance; (b) increased wear and tear on existing equipment and (c) other similar charges.

Landlord shall have noduty to provide heating or air-conditioning in excess of that required to be supplied by Landlord under section 9.1. If Tenant uses water or electricity in excess of that required to be supplied by Landlord under section 9.1, Tenant shall pay to Landlord, at billing, the cost of (a) the excess service; (b) installation, operation, and maintenance of equipment installed to supply the excess service; and (c) increased wear and tear on existing equipment caused by Tenant's excess consumption. Landlord may install devices to separately meter any increased use. On demand, Tenant shall pay the increased cost directly to Landlord, including the cost of the additional metering devices.

9.3. Interruption of Utilities. Tenant agrees that Landlord shall not be liable for damages, by abatement of Rent or otherwise, for failure to furnish or delay in furnishing any service (including telephone and telecommunication services) or for diminution in the quality or quantity of any service when the failure, delay, or diminution is entirely or partially causedby: (a) Breakage, repairs, replacements, or improvements; (b) Strike, lockout, or other labor trouble; (c) Inability to secure electricity, gas, water, or other fuel at the Building after reasonable effort to do so;(d) Accident or casualty; (e) Act or default of Tenant or other parties; or (f) Any other cause beyond Landlord's reasonable control. Such failure, delay, or diminution shall not be considered to constitute an eviction or a disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent or performing any of its obligations under this Lease, unless the same arises from Landlord's gross negligence or willful misconduct.

Except for damages, losses, costs, expenses and liabilities arising from Landlord's gross negligence or willful misconduct, Landlord shall not be liable under any circumstances for a loss of or injury to property or for injury to or interference with Tenant's business, including loss of profits through, in connection with, or incidental to a failure to furnish any of the utilities or services under this Article 9. Landlord may comply with mandatory or voluntary controls or guidelinespromulgated by any government entity relating to the use or conservation of energy, water, gas, light, or electricity or the reduction of automobile or other emissions without creating any liability of Landlord toTenant under this Lease as long as compliance with voluntary controls or guidelines does nut materially and unreasonably interfere with Tenant's use of the Premises and as long as such compliance is uniformly applied to all tenants in the Building.

Article 10
REPAIRS AND MAINTENANCE

10.1. Tenant's Repair and Maintenance Obligations. Tenant shall, at Tenant's sole expense and in accordance with the terms of this Lease (including Article 11), keep the Premises (including all Tenant Improvements, Alterations, fixtures, and furnishings) in good order, repair, and condition at all times during the Lease Term normal wear and tear excepted. Under Landlord's supervision, subject to Landlords prior approval, and within any reasonable period specified by Landlord, Tenant shall, at Tenant's sole expense and in accordance with the terms of this Lease (including Article 11) promptly and adequately repair all damage to the Premises and replace or repair all damaged or broken fixtures and appurtenances. At Landlord's option or if Tenant fails to make such repairs, Landlord may, but need not, make the repairs and replacements. On receipt of an invoice from Landlord, Tenant shall pay Landlord Landlord's out-of-pocket costs incurred in connection with such repairs and replacements plus a percentage of such costs, to be uniformly established for the Building, sufficient to reimburse Landlord for all overhead, general conditions, fees, and other costs and expenses arising from Landlord's involvement with such repairs and replacements. Tenant waives and releases its rights, including its right to make repairs at Landlord's expense, under California Civil Code sections 1941-1942 or any similar law, statute, or ordinance now or hereafter in effect. Notwithstanding the foregoing to the contrary, Tenant shall not be obligated to make any replacement of any fixture,appurtenance, structural element or system (i.e., roof, floor, HVAC, plumbing, electrical, piping, wiring) or any capital improvement (other than Tenant Improvements installed by Tenant), unless such replacement or capital improvement is made necessary by Tenant's negligence or wilful misconduct and not of just ordinary and normal wear and tear.

Article 11
ALTERATIONS AND ADDITIONS

11.1. Landlord's Consent to Alterations. Tenant may not make any improvements, alterations, additions, or changes to the Premises (Alterations) without obtaining Landlord's prior written consent.

11.1.1. Consent Procedure; Conditions. Tenant shall request such consent by written notice to Landlord, which must be accompanied by detailed and complete plans and specifications for the proposed work. As a condition of its consent to Alterations, Landlord may impose any requirements that Landlord considers desirable, including a requirement that Tenant provide Landlord with a surety bond, a letter of credit, or other financial assurance that the cost of the Alterations will be paid when due.

11.1.2. Reasonable Consent. Landlord shall not unreasonably withhold its consent to proposed Alterations. The Alterations for which Landlord may reasonably withhold consent include those that would or could: (a) Affect the structure of the Building or any portion of the Building other than the interior of the Premises; (b) Affect the Base Building Systems (as defined below) of the Premises or Building; (c) Result in Landlord's being required under Laws and Orders to perform any work that Landlord could otherwise avoid or defer (Additional Required Work); (d) Result in an increase in the demand for utilities or services that Landlord is required to provide; or (e) Cause an increase in the premiums for hazard or liability insurance carried by Landlord. "Base Building Systems" means all systems and equipment (including plumbing; heating, ventilation, and air-conditioning; electrical; fire/life-safety; elevator; and security systems) that serve all or part of the Building.

11.1.3. Costs of Review. Tenant shall reimburse Landlord for the reasonable fees and costs of any architects, engineers, or other consultants retained by Landlord to review the proposed Alterations.

11.2. Compliance of Alterations With Laws and Insurance Requirements. Tenant shall cause all Alterations to comply with the following: (a) Applicable Laws and Orders; (b) Applicable requirements of a fire-rating bureau; or (c) Applicable requirements of Landlord's hazard insurance carrier to the extent that Tenant is informed of them.

Tenant shall also comply with those requirements in the course of constructing the Alterations. Before beginning construction of any Alteration, Tenant shall obtain a valid building permit and any other permits required by any government entity having jurisdiction over the Premises. Tenant shall provide copies of those permits to Landlord before the work begins.

Tenant shall, at Tenant's sole expense, perform any Additional Required Work in the Premises, which shall be subject to the same requirements as any Alteration. If any Additional Required Work must be performed outside the Premises, Landlord may elect to perform that work at Tenant's expense. No consent by Landlord to any proposed work shall constitute a waiver of Tenant's obligations under this section 11.2.

11.3. Manner of Construction. Tenant shall build Alterations entirely within the Premises and in conformance with Landlord's construction rules and regulations, using only contractors and subcontractors approved in writing by Landlord, which such approval shall not be unreasonably withheld, delayed or conditioned. Any Alterations to the heating and air-conditioning system in the Building or the Premises must be performed at Tenant's expense by Landlord's HVAC contractor. All work relating to any Alterations shall be done in a good and workmanlike manner, using new materials equivalent in quality to those used in the construction of the initial improvements to the Premises. All work shall be diligently prosecutedto completion. Tenant's telephone equipment must be located inside the Premises and Tenant shall be responsible for providing the telephone line from the main entry in the Building to the Premises. Tenant shall ensure that all work is performed in a manner that does not obstruct access to or through the Building or its common areas and that does not interfere either with other tenants' use of their premises or with any other work being undertaken in the Building. Tenant shall take all measures necessary to ensure hat labor peace is maintained at all times. Within twenty (20) days after completion of any Alterations, Tenant shall deliver to Landlord a reproducible copy of the drawings of Alterations as built.

11.4. Payment for Improvements. Tenant shall promptly pay all charges and costs incurred in connection with any Alteration, as and when required by the terms of any agreements with contractors, designers, or suppliers. At least seven (7) days before beginning construction of any Alteration, Tenant shall give Landlord written notice of the expected commencement date of that construction to permit Landlord to post and record a notice of nonresponsibility. On completion of any Alteration, Tenant shall: (a) Cause a timely notice of completion to be recorded in the office of the recorder of the county in which the Building is located, in accordance with Civil Code section 3093 or any successor statute; (b) Deliver to Landlord evidence of full payment and unconditional final waivers of all liens for labor, services, or materials; and (c) Pay to Landlord five percent (5%) of the cost of constructing the Alteration to compensate Landlord for all overhead, costs, and expenses arising from Landlord's involvement with that work.

11.5. Construction Insurance. Before construction begins, Tenant shall deliver to Landlord reasonable evidence that damage to, or destruction of, the Alterations during construction will be covered either by the policies that Tenant is required to carry under Article 13 or by a policy of builder's all-risk insurance in an amount approved by Landlord. If Landlord requires Tenant to provide builder's all-risk insurance for the proposed Alterations, Tenant shall provide a copy of the policy, any endorsements, and an original certificate of insurance that complies with subsection 13.9.2. Tenant shall cause each contractor and subcontractor to maintain all workers' compensation insurance required by law and liability insurance (including property damage) in amounts reasonably required by Landlord. Tenant shall provide evidence of that insurance to Landlord before construction begins.

11.6. Landlord's Property. All Alterations, signs, fixtures, or equipment that may be installed or placed in or about the Premises from time to time shall be and become the property of Landlord on installation. Tenant may remove any trade fixtures or freestanding kitchen or office equipment that Tenant can substantiate to Landlord has not been paid for with any tenant improvement allowance funds provided to Tenant by Landlord. Tenant must repair any damage to the Premises and Building caused by that removal. By written notice to Tenant either before expiration of the Lease Term or within a reasonable time after any earlier termination of this Lease, Landlord may require Tenant, at Tenant's sole expense, to remove any Alterations and restore the Premises to their configuration and condition before the Alterations were made. If Tenant fails to complete that restoration before expiration of the Lease Term or, in the case of earlier termination, within fifteen (15) days after written notice from Landlord requesting the restoration, Landlord may do so and charge the cost of the restoration to Tenant.

11.7. Initial Improvements. If the parties have agreed on the construction of the initial improvements to the Premises, such construction shall be governed by the terms of the Leasehold Improvement Agreement, attached to this Lease as Exhibit C, and not the terms of this Article 11.

11.8. Non-Structural. Cosmetic Improvements. Notwithstanding anything to the contrary set forth herein, Tenant shall have the right and be permitted, without prior notice or approval or consent of Landlord, to make non-structural and cosmetic improvements to the Premises which do not in any one instance cost more than $20,000 provided such improvements are not visible from the outside of the Building..

Article 12
COVENANT AGAINST LIENS

12.1. Covenant Against Liens. Tenant shall not be the cause or object of any liens or allow such liens to exist, attach to, be placed on, or encumber Landlord's or Tenant's interest in the Premises, Building, or Real Property by operation of law or otherwise. Tenant shall not suffer or permit any lien of mechanics, material suppliers, or others to be placed against the Premises, Building, or Real Property with respect to work or services performed or claimed to have been performed for Tenant or materials furnished or claimed to have been furnished to Tenant or the Premises. Landlord has the right at all times to post and keep posted on the Premises any notice that it considers necessary for protection from such liens. At least seven (7) days before beginning construction of any Alteration or Tenant Improvements, Tenant shall give Landlord written notice of the expected commencement date of that construction to permit Landlord to post and record a notice of non responsibility.

In the event that there shall be recorded against the Premises or the Building or the Real Property any claim or lien arising out of any such work performed, materials furnished or obligations incurred by Tenant and such claim or lien shall not be removed or discharged within ten (10) days of filing, Landlord shall have the right but not the obligation to pay and discharge said lien without regard to whether such lien shall be lawful or correct (in which case Tenant shall reimburse Landlord for any such payment made by Landlord within ten (10) days following written demand), or to require that Tenant promptly deposit with Landlord in cash, lawful money of the United States, one hundred fifty percent (150%) of the amount of such claim, which sum may be retained by Landlord until such claim shall have been removed of record or until judgment shall have been rendered on such claim and such judgment shall have become final, at which time Landlord shall have the right to apply such deposit in discharge of the judgment on said claim and any costs, including attorneys' fees and costs incurred by Landlord, and shall remit the balance thereof to Tenant.

Article 13
EXCULPATION, INDEMNIFICATION, AND INSURANCE

13.1. Definition of "Tenant Parties" and "Landlord Parties." For purposes of this Article 13, the term "Tenant Parties" refers singularly and collectively to Tenant and Tenant's officers, members, partners, agents, employees, and independent contractors as well as to all persons and entities claiming through any of these persons or entities. The term "Landlord Parties" refers singularly and collectively to Landlord and the partners, venturers, trustees, and ancillary trustees of Landlord and the respective officers, directors, shareholders, members, parents, subsidiaries, and any other affiliated entities, personal representatives, executors, heirs, assigns, licensees, invitees, beneficiaries, agents, servants, employees, and independent contractors of these persons or entities.

13.2. Exculpation.

13.2.1. Exculpation. To the fullest extent permitted by law, Tenant, on its behalf and on behalf of all Tenant Parties, waives all claims (in law, equity, or otherwise) against Landlord Parties arising out of, knowingly and voluntarily assumes the risk of, and agrees that Landlord Parties shall not be liable to Tenant Parties for any of the following: (a) Injury to or death of any person; or (b) Loss of, injury or damage to, or destruction of any tangible or intangible property, including the resulting law of use, economic losses, and consequential or resulting damage of any kind from any cause. Landlord Parties shall not be liable under this clause regardless of whether the liability results from any active or passive act, error, omission, or negligence of any of the Landlord Parties; or is based on claims in which liability without fault or strict liability is imposed or sought to be imposed on any of the Landlord Parties. This exculpation clause shall not apply to claims against Landlord Parties to the extent that a final judgment of a court of competent jurisdiction establishes that the injury, loss, damage, or destruction was proximately caused by Landlord Parties' fraud, gross negligence, willful injury to person or property, or violation of law. The clauses of this section 13.2 shall survive the expiration or earlier termination of this Lease until all claims within the scope of this section 13.2 are fully, finally, and absolutely barred by the applicable statutes of limitations.

13.3. Indemnification.

13.3.1. Tenant's Indemnification of Landlord Parties. To the fullest extent permitted by law, Tenant shall, at Tenant's sole expense and with counsel reasonably acceptable to Landlord, indemnify, defend, and hold harmless Landlord Parties from and against all Claims, as defined in subsection 13.3.2, from any cause, arising out of or relating (directly or indirectly) to this Lease, the tenancy created under this Lease, or the Premises, including: (a) The use or occupancy, or manner of use or occupancy, of the Premises or Building by Tenant Parties; (b) Any act, error, omission, or negligence of Tenant Parties or of any invitee, guest, or licensee of Tenant in, on, or about the Real Property; (c) Tenant's conducting of its business; (d) Any alterations, activities, work, or things done, omitted, permitted, allowed, or suffered by Tenant Parties in, at, or about the Premises or Building, including the violation of or failure to comply with any applicable laws, statutes, ordinances, standards, rules, regulations, orders, decrees, or judgments in existence on the Lease Commencement Date or enacted, promulgated, or issued after the date of this Lease; and (e) Any breach or default in performance of any obligation on Tenant's part to be performed under this Lease, whether before or during the Lease Term or after its expiration or earlier termination. This indemnification clause shall not apply to any matters, Claims, losses, damages, actions, injury or destruction, or otherwise, to the extent that the same arise out of Landlord's or any Landlord's Parties' fraud, gross negligence or willful injury to person or property, or violation of law.

13.3.2. Definition of Claims. For purposes of this Lease, "Claims" means any and all claims, losses, costs, damage, expenses, liabilities, liens, actions, causes of action (whether in tort or contract, law or equity, or otherwise), charges, assessments, fines, and penalties of any kind (including consultant and expert expenses, court costs, and attorney fees actually incurred).

13.3.3. Type of Injury or Loss. This indemnification extends to and includes Claims for: (a) Injury to any persons (including death at any time resulting from that injury); (b) Loss of, injury or damage to, or destruction of property (including all loss of use resulting from that loss, injury, damage, or destruction); and (c) All economic losses and consequential or resulting damage of any kind.

13.3.4. Indemnification Independent of Insurance Obligations. The indemnification provided in this Article 13 may not be construed or interpreted as in any way restricting, limiting, or modifying Tenant's insurance or other obligations under this Lease and is independent of Tenant's insurance and other obligations. Tenant's compliance with the insurance requirements and other obligations under this Lease shall not in any way restrict, limit, or modify Tenant's indemnification obligations under this Lease.

13.3.5. Attorney Fees. The prevailing party shall be ettitled to recover its actual attorney fees and court costs incurred in enforcing the indemnification clauses set forth in this section 13.3.

13.3.6. Survival of Indemnification. The clauses of this section 13.3 shall survive the expiration or earlier termination of this Lease until all claim against Landlord Parties involving any of the indemnified matters are fully, finally, and absolutely barred by the applicable statutes of limitations.

13.4. Compliance with Insurer Requirements. Tenant shall, at Tenant's sole expense, comply with all requirements, guidelines, rules, orders, and similar mandates and directives pertaining to the use of the Premises and the Building, whether imposed by Tenant's insurers, landlord's insurers, or both. If Tenant's business operations, conduct, or use of the Premises or the Building cause any increase in the premium for any insurance policies carried by Landlord, Tenant shall, within ten (10) business days after receipt of written notice from Landlord, reimburse Landlord for the increase. Tenant shall, at Tenant's sole expense, comply with all rules, orders, regulations or requirements of the American Insurance Association (formerly the National Board of Fire Underwriters) and of any similar body.

13.5. Tenant's Liability Coverage. Tenant shall, at Tenant's sole expense, maintain the coverages set forth in this section 13.5.

13.5.1. Commercial General Liability Insurance. Tenant shall obtain commercial general liability insurance written on an "occurrence" policy form, covering bodily injury, property damage, personal injury, and advertising injury arising out of or relating (directly or indirectly) to Tenant's business operations, conduct, assumed liabilities, or use or occupancy of the Premises or the Building. The amount of Tenant's commercial general liability insurance policy shall be not less than Two Million Dollars ($2,000,000) per occurrence.

13.5.2. Broad Form Coverage. Tenant's liability coverage shall include all the coverages typically provided by the Broad Form Comprehensive General Liability Endorsement, including broad form property damage coverage (which shall include coverage for completed operations). Tenant's liability coverage shall further include premises-operations coverage, products-completed operations coverage, owners and contractors protective coverage (when reasonably required by landlord), and the broadest available form of contractual liability coverage. It is the parties' intent that Tenant's contractual liability coverage provide coverage to the maximum extent possible of Tenant's indemnification obligations under this Lease.

13.5.3. Primary Insured. Tenant shall be the first or primary named insured.

13.5.4. Additional Insureds. Landlord Parties and any lender of Landlord shall be named by endorsement in additional insureds under Tenant's general liability coverage.

13.5.5. Cross-Liability; Severability of Interests. Tenant's general liability policies shall be endorsed as needed to provide cross-liability coverage for Tenant, Landlord, and any lender of Landlord and to provide severability of interests.

13.5.6. Primary Insurance Endorsements for Additional Insureds. Tenant's general liability policies shall be endorsed as needed to provide that the insurance afforded by those policies to the additional insureds is primary and that all insurance carried by Landlord Parties is strictly excess and secondary and shall not contribute with Tenant's liability insurance.

13.5.7. Scope of Coverage for Additional Insureds. The coverage afforded to Landlord and any lender of Landlord must be at least as broad as that afforded to Tenant and may not contain any terms, conditions, exclusions, or limitations applicable to Landlord or any lender of Landlord that do not apply to Tenant.

13.5.8. Delivery of Certificate, Policy, and Endorsements. Before the Lease Commencement Date, Tenant shall deliver to Landlord the endorsements referred to in this section 13.5 as well as a certified copy of Tenant's liability policy or policies and an original certificate of insurance, executed by an authorized agent of the insurer or insurers, evidencing compliance with the liability insurance requirements. The certificate shall provide for no less than thirty (30) days' advance written notice to Landlord from the insurer or insurers of any cancellation, nonrenewal, or material change in coverage or available limits of liability and shall confirm compliance with the liability insurance requirements in this Lease.

13.5.9. Concurrency of Primary. Excess, and Umbrella Policies. Tenant's liability insurance coverage may be provided by a combination of primary, excess, and umbrella policies, but those policies must be absolutely concurrent in all respects regarding the coverage afforded by the policies. The coverage of any excess or umbrella policy must be at least as broad as the coverage of the primary policy.

13.5.10. "Per Location" Endorsement. Tenant shall, at Tenant's sole expense, procure a "per location" endorsement or equivalent reasonably acceptable to Landlord so that the general aggregate and other limits apply separately and specifically to the Premises.

13.6. Tenant's Workers' Compensation and Employer Liability Coverage Tenant shall procure and maintain workers' compensation insurance as required by law and employer's liability insurance with limits of no less than one-million dollars ($1,000,000).

13.7. Tenant's Property Insurance. Tenant shall procure and maintain property insurance coverage for: all office furniture, trade fixtures, office equipment, merchandise, and all other items of Tenant's property in, on, at, or about the Premises and the Building, including property installed by, for, or at the expense of Tenant and any improvements, betterments, alteratons and additions to the Tenant's property insurance must be written on the broadest available "all-risk" (special-causes-of-loss) policy form or an equivalent form acceptable to Landlord, include an agreed-amount endorsement for no less than one-hundred (100%) percent of the full replacement cost (new without deduction for depreciation) of the covered items and property, and must meet any coinsurance requirements of the policy or policies.

13.8. Other Tenant Insurance Coverage. Tenant shall, at Tenant's sole expense, procure and maintain any other and further insurance coverages that Landlord or Landlord's lender may reasonably require.

13.9. Form of Policies and Additional Requirements.

13.9.1. Insurance Independent of Exculpation and Indemnification. The insurance requirements set forth in sections 13.4-13.10 are independent of Tenant's exculpation, indemnification, and other obligations under this Lease and shall not be construed or interpreted in any way to restrict, limit, or modify Tenant's exculpation, indemnification, and other obligations or to limit Tenant's liability under this Lease.

13.9.2. Form of Policies. In addition to the requirements set forth in this Article 13, the insurance required of Tenant must: (a) Name Landlord and any other party Landlord specifies by endorsement as an additional insured; (b) Be issued by an insurance company with a rating of no less than A-VIII in the current Best's Insurance Guide, or that is otherwise acceptable to Landlord, and admitted to engage in the business of insurance in the State of California; (c) Be primary insurance for all claims under it and provide that any insurance carried by Landlord Parties and Landlord lenders is strictly excess, secondary, and noncontributing with any insurance carried by Tenant; and (d) Provide that insurance may not be canceled, nonrenewed, or the subject of material change in coverage or available limits of coverage, except on thirty (30) days' prior written notice to Landlord and Landlord's lenders.

13.9.3. Tenant's Delivery of Policy. Endorsements, and Certificates. Tenant shall deliver the policy or policies, along with any endorsements to them and certificates required by this Article 13, to Landlord: (a) On or before the Lease Commencement Date; (b) At least thirty (30) days before the expiration date of any policy; and (c) On renewal of any policy.

13.10. Waiver of Subrogation. Landlord and Tenant agree to cause the insurance companies issuing their respective property (first party) insurance to waive any subrogation rights that those companies may have against Tenant or Landlord, respectively, as long as the insurance is not invalidated by the waiver. If the waivers of subrogation are contained in their respective insurance policies, Landlord and Tenant waive any right that either may have against the other on account of any loss or damage to their respective property to the extent that the loss or damage is insured under their respective insurance policies.

Article 14
DAMAGE AND DESTRUCTION

14.1. Repair of Damage by Landlord Tenant agrees to notify Landlord in writing promptly of any damage to the Premises resulting from fire, earthquake, or any other identifiable event of a sudden, unexpected, or unusual nature (Casualty). If the Premises are damaged by a Casualty or any common areas of the Building providing access to the Premises are damaged to the extent that Tenant does not have reasonable access to the Premises and if neither Landlord nor Tenant has elected to terminate this Lease under section 14.3 or 14.4, Landlord shall promptly and diligently restore such common areas, the Base Building of the Premises, and the Tenant Improvements originally constructed by Landlord to substantially the same condition as existed before the Casualty, except for modifications required by building codes and other laws and except for any other modifications to the common areas considered desirable by Landlord. In making these modifications, Landlord shall not materially impair Tenant's access to the Premises. Landlord's obligation to restore is subject to reasonable delays far insurance adjustment and other matters beyond Landlord's reasonable control and subject to the other clauses of this Article 14. If Tenant requests that Landlord modify the Tenant Improvements in connection with the rebuilding, Landlord may condition its consent to those modifications on: (a) Tenant's payment to Landlord before construction is begun of any sums in excess of the amount of insurance proceeds received by Landlord that are needed to complete the Tenant Improvements; and (b) Confirmation by Landlord's architect or contractor that the modifications will not increase the scope of work or the time necessary to complete the Tenant Improvements.

14.2. Repair Period Notice. Landlord shall, within the later of (a) sixty (60) days after the date on which Landlord determines the full extent of the damage caused by the Casualty or (b) thirty (30) days after Landlord has determined the extent of the insurance proceeds available to effectuate repairs, provide written notice to Tenant indicating the anticipated period for repairing the Casualty (Repair Period Notice). The Repair Period Notice shall also state, if applicable, Landlord's election either to repair or to terminate the Lease under section 14.3.

14.3. Landlord's Option To Terminate or Repair. Landlord may elect either to terminate this Lease or to effectuate repairs if (a) The Repair Period Notice estimates that the period for repairing the Casualty exceeds two-hundred and seventy (270) days from the date of the commencement of the repair; (b) The estimated repair cost exceeds the insurance proceeds, if any, available for such repair (not including the deductible, if any, on Landlord's property insurance), plus any amount that Tenant is obligated or elects to pay for such repair; (c) The estimated repair cost of the Premises or the Building, even though covered by insurance, exceeds fifty percent (50%) of the full replacement cost; or (d) The Building cannot be restored except in a substantially different structural or architectural form than existed before the Casualty. Landlord's election shall be stated in the Repair Period Notice.

14.4. Tenant's Option To Terminate . If the Repair Period Notice provided by Landlord indicates that the anticipated period for repairing the Casualty exceeds two-hundred and seventy (270) days, Tenant may elect to terminate this Lease by providing written notice (Tenant's Termination Notice) to Landlord within ten (10) days after receiving the Repair Period Notice. If Tenant does not elect to terminate within this ten-day (10-day) period, Tenant shall be considered to have waived the option to terminate.

14.5. Rent Abatement Due to Casualty. Landlord and Tenant agree that, if the Casualty was not the result of the gross negligence or willful misconduct of Tenant or Tenant's employees, contractors, licensees, or invitees, Tenant shall be provided with a proportionate abatement of Rent based on the Rentable Square Footage of the Premises rendered unusable (due to physical damage to the Premises or Base Building Systems or the unavailability of access to the Premises) and not used by Tenant. Subject to section 14.4, the Rent abatement provided in this section 14.5 is Tenant's sole remedy due to the occurrence of the Casualty. Landlord shall not be liable to Tenant or any other person or entity for any direct, indirect, or consequential damage (including but not limited to lost profits of Tenant or loss of or interference with Tenant's business), whether or not caused by the negligence ofLandlord or Landlord's employees, contractors, licensees, or invitees, due to, arising out of, or as a result of the Casualty (including but not limited to the termination of the Lease in connection with the Casualty).

14.6. Damage Near End of Term. Despite any other provision of this Article 14, if the Premises or the Building is destroyed or damaged by a Casualty during the last eighteen (18) months of the Lease Term and Landlord reasonably determines that the repair period will be longer than sixty (60) days, Landlord and Tenant shall each have the option to terminate this Lease by giving written notice to the other of the exercise of that option within thirty (30) days after that damage or destruction.

14.7. Effective Date of Termination: Rent Apportionment . If Landlord or Tenant elects to terminate this Lease under this Article 14 in connection with a Casualty, this termination shall be effective thirty (30) days after delivery of notice of such election Tenant shall pay Rent, properly apportioned up to the date of the Casualty. After the effective date of the termination, Landlord and Tenant shall be discharged of all future obligations under this Lease, except for those provisions that, by their terms, survive the expiration or earlier termination of the Lease.

14.8. Waiver of Statutory Provisions. The provisions of this Lease, including those in this Article 14, constitute an express agreement between Landlord and Tenant that applies in the event of my Casualty to the Premises, Building, or Real Property. Tenant, therefore, fully waives the provisions of any statute or regulation, including California Civil Code sections 1932(2) and 1933(4), for any rights or obligations concerning a Casualty.

Article 15
CONDEMNATION

15.1. Definition of "Condemnation." As used in this Lease, the term "Condemnation" means a permanent taking through (a) the exercise of any government power (by legal proceedings or otherwise) by any public or quasi-public authority or by any other party having the right of eminent domain (Condemnor) or (b) a voluntary sale or transfer by Landlord to any Condemnor, either under threat of exercise of eminent domain by a Condemnor or while legal proceedings for condemnation are pending.

15.2. Effect on Rights and Obligations. lf, during the Lease Term or the period between the date of execution of this Lease and the date on which the Lease Term begins, there is any Condemnation of all or part of the Premises, Building, or Real Property on which the Premises and Building are constructed, the rights and obligations of the parties shall be determined under this Article 15, and Rent shall not be affected or abated except as expressly provided in this Article. Landlord shall notify Tenant in writing of any Condemnation within thirty (30) days after the later of (a) the filing of a complaint by Condemnor or (b) the final agreement and determination by Landlord and Condemnor of the extent of the taking (Condemnation Notice).

15.3. Termination of Lease.

15.3.1. Definition of "Termination Date." The "Termination Date" shall be the earliest of: (a) The date on which Condemnor takes possession of the property that is subject to the Condemnation; (b) The date on which title to the property subject to the Condemnation is vested in Condemnor; (c) If Landlord has elected to terminate, the date on which Landlord requires possession of the property in connection with the Condemnation, as specified in written notice delivered to Tenant no less than thirty (30) days before that date; or (d) If Tenant has elected to terminate, thirty (30) days after Landlord's receipt of writtennotice of termination from Tenant. If both Landlord and Tenant have elected to terminate under this Article 15, the Termination Date shall be the earliest of the dates described in subparagraphs (a)-(c).

15.3.2. Automatic Termination. If the Premises are totally taken by Condemnation, this Lease shall terminate as of the Termination Date, and the Condemnation Award shall be allocated between Landlord and Tenant in accordance with section 15.5.

15.3.3. Landlord's Right To Terminate. Landlord shall have the option to terminate this Lease if: (a) Ten percent (10%) or more of the Rentable Square Feet of the Building or the Premises is taken through Condemnation; (b) Any portion of the Building or Real Property necessary for Landlord to operate the Building efficiently is taken through Condemnation; or (c) Any other areas providing access to the Premises or Building are taken through Condemnation. To elect to terminate the Lease under this subsection 15.3.3, Landlord must provide written notice of its election (Landlord's Taking Termination Notice) to Tenant within thirty (30) days after the later of (a) the filing of a complaint by Condemnor or (b) the final agreement and determination by Landlord and Condemnor of the extent of the taking. In that event, this Lease shall be terminated on the Termination Date, and all Rent shall be prorated to that date. If Landlord does not elect to terminate under this subsection 15.3.3, Landlord shall, subject to subsection 15.3.4, be obligated to the extent of severance damages received by Landlord to reasonably restore (to the extent feasible) the Premises or access to the Premises, subject to Landlord's obtaining all necessary approvals, permits, and authorizations relating to such work.

15.3.4. Tenant's Right To Terminate.

15.3.4.1. Grounds; Termination Notice. Tenant shall have the option to terminate this Lease by providing thirty (30) days' written notice to Landlord if one or both of the following are taken through Condemnation: (a) Twenty-five percent (25%) or more of the Usable Square Feet of the Premises; or (b) Any portion of he Building that provides Tenant with its access to the Premises and that, if taken, would eliminate Tenant's access to the Premises. Tenant's notice must be given within thirty (30) days after Tenant's receipt of the Condemnation Notice required by section 15.2.

15.3.4.2. Landlord's Restoration Notice. Despite Tenant's termination right, this Lease shall continue in full force and effect if Landlord gives Tenant written notice (Restoration Notice) within thirty (30) days after the date on which the nature and extent of the Condemnation are finally determined, stating that: (a) Landlord shall, at Landlord's sole expense, reconfigure theremaining Premises or provide alternative, reasonable access to Tenant so that the area of the Premises shall be substantially the same after the Condemnation and Tenant shall have reasonable access to the Premises after the Condemnation; (b) Landlord shall begin the restoration as soon as reasonably practicable; and (c) Landlord has reasonably determined that such restoration can be completed within ninety (90) days after the date of the notice.

15.3.5. Tenant's Waiver. Tenant agrees that its rights to terminate this Lease due to partial Condemnation are governed by this Article 15. Tenant waives all rights it may have under California Code of Civil Procedure section 1265.130, or otherwise, to terminate this Lease based on a partial Condemnation.

15.3.6. Proration of Rent. If this Lease is terminated under this Article 15, the termination shall be effective on the Termination Date, and Landlord shall prorate Rent to that date. Tenant shall be obligated to pay Rent for the period up to, but not including, the Termination Date as prorated by Landlord. Landlord shall return to Tenant prepaid Rent allocable to any period on or after the Termination Date.

15.4. Effect of Condemnation if Lease Is Not Terminated. If any part ofthe Premises is taken by Condemnation and this Lease is not terminated, Rent shall be proportionately reduced based on the Rentable Square Footage of the Premises taken. Landlord and Tenant agree to enter into an amendment to this Lease within thirty (30) days after the partial taking, confirming the reduction in Rentable Square Footage of the Premises and the reduction in Rent. If Landlord gives Tenants timely Restoration Notice under subsection 15.3.4.2, this Lease shall continue in full force and effect without any reduction of Rent (unless the Premises as restored are smaller than the existing Premises, in which case Rent shall be proportionately reduced based on the reduced Rentable Square Footage), except that Rent shall be abated for the portion of the Premises not usable by Tenant until Landlord completes the restoration as provided in the Restoration Notice.

15.5. Allocation of Award.

15.5.1. Landlord's Right to Award . Except as provided in subsection 15.5.2 in connection with a Condemnation: (a) Landlord shall be entitled to receive all compensation and anything of value awarded, paid, or received in settlement or otherwise (Award); and (b) Tenant irrevocably assigns and transfers to Landlord all rights to and interests in the Award and fully releases and relinquishes any claim to, right to make a claim on, or interest in the Award, including any amount attributable to any excess of the market value of the Premises for the remainder of the Lease Term over the present value as of the Termination Date of the Rent payable for the remainder of the Term (commonly referred to as the "bonus value" of the Lease).

15.5.2. Tenant's Right to Compensation . Despite subsection 15.5.1, Tenant shall have the right to make a separate claim in the Condemnation proceeding, as long as the Award payable to Landlord is not reduced thereby, for: (a) The taking of the unamortized or undepreciated value of any leasehold improvements owned by Tenant that Tenant has the right to remove at the end of the Lease Term and that Tenant elects not to remove; (b) Reasonable removal and relocation costs for any leasehold improvements that Tenant has the right to remove and elects to remove (if Condemnor approves of the removal); and (c) Relocation costs under Government Code section 7262, the claim for which Tenant may pursue by separate action independent of this Lease.

15.6. Temporary Taking. If a temporary taking of part of the Premises occurs through (a) the exercise of any government power (by legal proceedings or otherwise) by Condemnor or (b) a voluntary sale or transfer by Landlord to any Condemnor, either under threat of exercise of eminent domain by a Condemnor or while legal proceedings for condemnation are pending, Rent shall abate during the time of such taking in proportion to the portion of the Premises taken. The entire Award relating to the temporary taking shall be and remain the property of Landlord. Tenant irrevocably assigns and transfers to Landlord all rights to and interest in the Award and fully releases and relinquishes any claim to, right to make a claim on, and any other interest in the Award.

Article 16
ASSIGNMENT AND SUBLEASING

16.1. Restricted Transfers.

16.1.1. Consent Required; Definition of "Transfer." Tenant shall obtain Landlord's written consent before entering into or permitting any Transfer. A "Transfer" consists of any of the following, whether voluntary or involurtary and whether effected by death, operation of law, or otherwise: (a) Any assignment, mortgage, pledge, encumbrance, or other transfer of any interest in this Lease; (b) Any sublease or occupancy of any portion of the Premises by any persons other than Tenant and its employees; and (c) Any of the changes (e.g., a change of ownership or reorganization) included in the definition of Transfer in section 16.7. Any person to whom any Transfer is male or sought to be made is a "Transferee."

16.1.2. Landlord's Remedies. If a Transfer fails to comply with this Article 16, Landlord may, at its option, do either or both of the following: (a) void the Transfer or (b) declare Tenant in material and incurable default under section 21.1 notwithstanding any cure period specified in section 21.1.

16.2. Transfer Procedure.

16.2.1. Transfer Notice. Before entering into or permitting any transfer, Tenant shall provide to Landlord a written "Transfer Notice" at least fifteen (15) days before the proposed effective date of the Transfer. The Transfer Notice shall include all of the following:

(a) Information regarding the proposed Transferee, including the name, address, and ownership of Transferee; the nature of Transferee's business; Transferee's character and reputation; and Transferee's current financial statements (certified by an officer, a partner, or an owner of Transferee); (b) All the terms of the proposed Transfer, including the consideration payable by Transferee; the portion of the Premises that is subject to the Transfer ("Subject Space"); a general description of any planned alterations or improvements to the Subject Space; the proposed use of the Subject Space; the effective date of the Transfer; a calculation of the "Transfer Premium," as defined in subsection 16.4.2, payable in connection with the Transfer; and a copy of all documentation concerning the proposed Transfer; and (c) Any other information or documentation reasonably requested by Landlord.

16.2.2. Application Fee: Transfer Fee. As a condition to the effectiveness of the Transfer Notice, Tenant shall, when providing a Transfer Notice, pay an application fee of One Thousand Five Hundred Dollars ($1,500) toward Landlord's administrative and other costs (including attorney fees) in reviewing and processing the Transfer Notice. Tenant shall pay the Transfer Fee whether or not Landlord consents to the Transfer.

16.2.3. Limits of Consent. If Landlord consents to any Transfer and does not exercise its rights under section 16.5, the following limits apply: (a) Landlord does not agree to waive or modify the terms and conditions of this Lease; (b) Landlord does not consent to any further Transfer by either Tenant or Transferee; and (c) Tenant remains liable under this Lease, and any guarantor of the Lease remains liable under the guaranty.

16.3. Landlord's Consent

16.3.1. Reasonable Consent Landlord may not unreasonably withhold its consent to any proposed Transfer that complies with this Article 16. Reasonable grounds for denying consent include any of the following: (a) Transferee's character, reputation, credit history, or business is not consistent with the character or quality of the Building; (b) Transferee is either a government agency or an instrumentality of one; (c) Transferee's intended use of the Premises is inconsistent with the Permitted Use or will materially and adversely affect Landlord's interest; (d) Transferee's financial condition is or may be inadequate to support the Lease obligations of Transferee under the Transfer documents; or (e) The Transfer would cause Landlord to violate another lease or agreement to which Landlord is a party or would give a Building tenant the right to cancel its lease.

16.3.2. Landlord's Written Response . Within a reasonable time after receipt of a Transfer Notice that complies with subsection 16.2.1, Landlord shall approve or disapprove the proposed Transfer in writing.

16.3.3. Tenant's Remedies. If Landlord wrongfully denies or conditions its consent, Tenant may seek only declaratory and injunctive relief. Tenant specifically waives any damage claims against Landlord in connection with the withholding of consent.

16.4. Transfer Premium Payment. As a reasonable condition to Landlord's consent to any Transfer, Tenant shall pay to Landlord fifty percent (50%) of any Transfer Premium. "Transfer Premium" means all base rent, additional rent, and other consideration payable by Transferee to Tenant (including key money and bonus money) and any payment in excess of fair market value for services rendered by Tenant to Transferee or for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to Transferee in connection with the Transfer, after deducting the Rent payable by Tenant under this Lease for the Subject Space and any out of pocket costs incurred by Tenant in connection with such Transfer. Notwithstanding the foregoing, there shall be deducted from the calculation of Transfer Premium all sums, costs, expenses and fees incurred by Tenant in connection with any Transfer, including, without limitation, tenant improvement allowances, broker's fees, attorney's fees and the $1,500 fee payable to Landlord as set forth herein above.

16.5. Landlord's Option To Recapture Space.

16.5.1. Landlord's Recapture Right. Despite any other provision of this Article 16, Landlord has the option, by written notice to Tenant (Recapture Notice) within fifteen (15) days after receiving my Transfer Notice, to recapture the Subject Space by terminating this Lease for the Subject Space or taking an assignment or a sublease of the Subject Space from Tenant. A timely Recapture Notice terminates this Lease or creates an assignment or a sublease for the Subject Space for the same term as the proposed Transfer, effective as of the date specified in the Transfer Notice. If Landlord declines or fails timely to deliver a Recapture Notice, Landlord shall have no further right under this section 16.5 to the Subject Space unless it becomes available again after Transfer by Tenant

16.5.2. Consequences of Recapture. To determine the new Base Rent under this Lease if Landlord recaptures the Subject Space, the original Base Rent under the Lease shall be multiplied by a fraction, the numerator of which is the Rentable Square Feet of the Premises retained by Tenant after Landlord's recapture and the denominator of which is the total Rentable Square Feet of the Premises before Landlord's recapture. The Additional Rent, to the extent that it is calculated on the basis of the Rentable Square Feet within the Premises, shall be reduced to reflect Tenant's proportionate share based on the Rentable Square Feet of the Premises retained by Tenant after Landlord's recapture. This Lease as so amended shall continue thereafter in full force and effect. Either party may require written confirmation of the amendments to this Lease necessitated by Landlord's recapture of the Subject Space. If Landlord recaptures the Subject Space, Landlord shall, at Landlord's sole expense, construct any partitions required to segregate the Subject Space from the remaining Premises retained by Tenant. Tenant shall, however, pay for painting, covering, or otherwise decorating the surfaces of the partitions facing the remaining Premises retained by Tenant.

16.6. Right To Collect Rent If this Lease is assigned, Landlord may collect Rent directly from Transferee. If all or part of the Premises is subleased and Tenant defaults, Landlord may collect Rent directly from Transferee. Landlord may then apply the amount collected from Transferee to Tenant's monetary obligations under this Lease. Collecting Rent from a Transferee or applying that Rent to Tenant's monetary obligations does not waive any provisions of this Article 16.

16.7. Transfers of Ownership Interests and Other Organizational Changes.

16.7.1. Change of Ownership: Reorganization. For purposes of this Article 16, "Transfer" also includes: (a) If Tenant is a partnership or limited liability company: (1) A change in ownership effected voluntarily, involuntarily, or by operation of law of twenty-five percent (25%) or more of the partners or members or twenty-five percent (25%) or more of the partnership or membership interests, or (2) The dissolution of the partnership or limited liability company without its immediate reconstitution; (b) If Tenant is a closely held corporation (i.e., one whose stock is not publicly held and not traded through an exchange or over the counter): (1) The sale or other traisfer of more than an aggregate of forty nine percent (49%) of the voting shares of Tenant (other than to immediate family members by reason of gift or death), (2) The sale, mortgage, hypothecation, or pledge of more than an aggregate of forty-nine percent (49%) of the value of Tenant's unencumbered assets, or (3) The dissolution, merger, consolidation, or other reorganization of Tenant

16.7.2. Transfer to Affiliate. Despite any other provision of this Lease, Landlord's consent is not required for any Transfer to an Affiliate, as defined in subsection 16.7.3, as long as the following conditions are met: (a) At least ten (10) business days before the Transfer, Landlord receives written notice of the Transfer (as well as any documents or information reasonably requested by Landlord regarding the Transfer or Transferee); (b) The Transfer is not a subterfuge by Tenant to avoid its obligations under the Lease; (c) If the Transfer is an assignment, Transferee assumes in writing all of Tenant's obligations under this Lease relating to the Subject Space; and (d) Transferee has a tangible net worth, as evidenced by financial statements delivered to Landlord and certified by an independent certified public accountant in accordance with generally accepted accounting principles that are consistently applied (Net Worth), at least equal to Tenant's Net Worth either immediately before the Transfer or as of the date of this Lease, whichever is greater.

16.7.3. Definition of "Affiliate." An "Affiliate" means any entity that controls, is controlled by, or is under common control with Tenant. "Control" means the direct or indirect ownership of more than fifty percent (50%) of the voting securities of an entity or possession of the right to vote more than fifty percent (50%) of the voting interest in the ordinary direction of the entity's affairs.

Article 17
SURRENDER OF PREMISES

17.1. Surrender of Premises. No act of Landlord or its authorized representatives shall constitute Landlord's acceptance of a surrender of the Premises by Tenant unless that intent is specifically acknowledged in a writing signed by Landlord. At the option of Landlord, a surrender and termination of this Lease shall operate as an assignment to Landlord of all subleases or subtenancies. Landlord shall exercise this option by giving notice of that assignment to all subtenants within ten (10) days after the effective date of the surrender and termination.

17.2. Removal of Tenant Property by Tenant. On the expiration or earlier termination of the Lease Term, Tenant shall quit the Premises and surrender possession to Landlord in accordance with this section 17.2. Tenant shall leave the Premises in as good order and condition as when Tenant took possession of the Premises, except for reasonable wear and tear and repairs that are specifically made the responsibility of Landlord. On expiration or termination, Tenant shall, without expense to Landlord, remove or cause to be removed from the Premises: (a) Al debris and rubbish; (b) Any items of furniture, equipment, freestanding cabinet work, and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises; (c) Any similar articles of any other persons claiming under Tenant that Landlord, in Landlord's sole discretion, requires to be removed; and (d) Any Alterations that Tenant is required to remove under Article 11 provided that Tenant shall not be obligated to remove any of Landlord's Work. Tenant shall, at Tenant's sole expense, repair all damage or injury that may occur to the Premises or the Building caused by Tenant's removal of those items and shall restore the Premises and Building to their original condition.

Article 18
HOLDING OVER

18.1. Holdover Rent. If Tenant remains in possession of the Premises after expiration or earlier termination of this Lease with Landlord's express written consent, Tenant's occupancy shall be a month-to-month tenancy at a rent agreed on by Landlord and Tenant but in no event less than the Base Rent and Additional Rent payable under this Lease during the last full month before the date of expiration or earlier termination of this Lease. The month-to-month tenancy shall be on the terms and conditions of this Lease except as provided in (a) the preceding sentence and the lease clauses concerning the lease term, extension rights or the like. Landlord's acceptance of rent after such holding over with Landlord's written consent shall not result in any other tenancy or in a renewal of the original term of this Lease. If Tenant remains in possession of the Premises after expiration or earlier termination of this Lease without Landlord's consent, Tenant's continued possession shall be on the basis of a tenancy at sufferance and Tenant shall pay as rent during the holdover period an amount equal to One Hundred Fifty percent (150%) of the Base Rent and Additional Rent payable under this Lease for the last full month before the date of expiration or termination.

18.2. No Consent or Waiver Implied. Nothing in this Article 18 shall be construed as implied consent by Landlord to any holding over by Tenant. Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease on expiration or other termination of this Lease. The provisions of this Article 18 shall not be considered to limit or constitute a waiver of any other rights or remedies of Landlord provided in this Lease or at law.

Article 19
ESTOPPEL CERTIFICATES

19.1. Tenant's Obligation To Provide Estoppel Certificates. Within ten (10) business days after a written request by Landlord, Tenant shall execute and deliver to Landlord an estoppel certificate, substantially in the form of Exhibit F (or other form required by any existing or prospective lender, mortgagee, or purchaser of all or part of the Building), indicating in the certificate any exceptions to the statements in the certificate that may exist at that time. The certificate shall also contain any other information reasonably requested by Landlord or any existing or prospective lender, mortgagee, or purchaser.

19.2. Additional Requested Documents or Instruments. Within ten (10) business days after a written request by Landlord, Tenant shall execute and deliver whatever other documents or instruments may be reasonably required for sale or financing purposes, including (if requested by Landlord) a current financial statement and financial statements for the two (2) years preceding the current financial statement year. Those statements shall be prepared in accordance with generally accepted accounting principles.

19.3. Failure To Deliver. Tenant's failure to execute or deliver an estoppel certificate in the required time period shall constitute an acknowledgment by Tenant that the statements included in the estoppel certificate are true and correct, without exception. Tenant's failure to execute and deliver an estoppel certificate or other document or instrument required under this Article 19 in a timely manner shall be a material breach of this Lease.

Article 20
SUBORDINATION, NONDISTURBANCE, AND ATTORNMENT

20.1. Automatic Subordination. This Lease is subject and subordinate to: (a) The lien of any mortgages, deeds of trust or other encumbrances (Encumbrances) of the Building and Real Property; (b) All present and future ground or underlying leases (Underlying Leases) of the Building and Real Property now or hereafter in force against the Building and Real Property; (c) All renewals, extensions, modifications, consolidations, and replacements of the items described in subparagraphs (a)-(b); and (d) All advances male or hereafter to be male on the security of the Encumbrances. Despite any other provision of this Article 20, any Encumbrance holder or Landlord may elect that this Lease shall be senior to and have priority over that Encumbrance or Underlying Lease whether this Lease is dated before or after the date of the Encumbrance or Underlying Lease.

20.2. Subordination Agreement: Agency. This subordination is self-operative, and no further instrument of subordination shall be required to make it effective. To confirm this subordination, however, Tenant shall, within five (5) days after Landlord's request, execute any further instruments or assurances in recordable form that Landlord reasonably considers necessary to evidence or confirm the subordination or superiority of this Lease to any such Encumbrances or Underlying Leases. Tenant irrevocably Landlord as Tenant's agent to execute and deliver in the name of Tenant any such instrument(s) if Tenant fails to do so. This authorization shall in no way relieve Tenant of the obligation to execute such instrument(s) of subordination or superiority. Tenant's failure to execute and deliver such instrument(s) shall constitute a default under this Lease.

20.3. Attomment. Tenant covenants and agrees to attom to the transferee of Landlord's interest in the Real Property by foreclosure, deed in lieu of foreclosure, exercise of any remedy provided in any Encumbrance or Underlying Lease, or operation of law (without any deductions or setoffs), if requested to do so by the transferee, and to recognize the transferee as the Landlord trader this Lease. The transferee shall not be liable for: (a) Any acts, omissions, or defaults of Landlord that occurred before the sale or conveyance; or (b) The return of any security deposit except for deposits actually paid to the transferee.

20.4. Notice of Default; Right To Cure. Tenant agrees to give written notice of any default by Landlord to the holder of any prior Encumbrance or Underlying Lease. Tenant agrees that, before it exercises any rights or remedies under the Lease, the lienholder or Landlord shall have the right, but not the obligation, to cure the default within the same time, if any, given to Landlord tocure the default, plus an additional thirty (30) days. Tenant agrees that this cure period shall be extended by the time necessary for the lienholder to begin foreclosure proceedings and to obtain possession of the Building or Real Property, as applicable.

20.5. Quiet Enjoyment/Nondisturbance. Notwithstanding anything to the contrary set forth herein, upon Tenant's paying the Base Rent, Additional Rent and other sums provided hereunder and observing and performing all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession and enjoyment of the Premises for he entire Term hereof, and such possession and enjoyment shall not be disturbed in any event by Landlord or any patty claiming by, under or through Landlord or as a result of any subordination of this Lease as otherwise set forth herein

Article 21
DEFAULTS AND REMEDIES

21.1. Tenant's Default. The occurrence of any of the following shall constitute a default by Tenant under this Lease: (a) Tenant's failure to pay when due any Rent required to be paid under this Lease if the failure continues for three (3) days after written notice of the failure from Landlord to Tenant; (b) Tenant's failure to provide any instrument or assurance as required by section 20.2 or estoppel certificate as required by section 19.1 if the failure continues for five (5) days after written notice of the failure from Landlord to Tenant; (c) Tenant's failure to perform any other obligation under this Lease if the failure continues for thirty (30) days after written notice of the failure from Landlord to Tenant; (d) Tenant's abandonment of the Premises, including Tenant's absence from the Premises for thirty (30) consecutive days (excluding Saturdays, Sundays, and California legal holidays) while in default of any provision of this Lease; (e) To the extent permitted by law: (1) A general assignment by Tenant or any guarantor of the Lease for the benefit of creditors; (2) The filing by or against Tenant, or any guarantor, of any proceeding under an insolvency or bankruptcy law, unless (in the case of an involuntary proceeding) the proceeding is dismissed within sixty (60) days; (3) The appointment of a trustee or receiver to take possession of all or substantially all the assets of Tenant or any guarantor, unless possession is unconditionally restored to Tenant orthat guarantor within sixty (60) days and the trusteeship or receivership is dissolved; (4) Any execution or other judicially authorized seizure of all or substantially all the assets of Tenant located on the Premises, or of Tenant's interest in this Lease, unless that seizure is discharged within sixty (60) days; (f) The committing of waste on the Premises.

21.2. Replacement of Statutory Notice Requirements. When this Lease requires service of a notice, that notice shall replace rather than supplement any equivalent or similar statutory notice, including any notices required by Code of Civil Procedure section 1161 or any similar or successor statute. When a statute requires service of a notice in a particular manner, service of that notice (or a similar notice required by this Lease) in the manner required by section 29.11 shall replace and satisfy the statutory service-of-notice procedures, including those required by Code of Civil Procedure section 1162 or any similar or successor statute.

21.3. Landlord's Remedies on Tenant's Default. On the occurrence of a default by Tenant, Landlord shall have the right to pursue any one or more of the following remedies in addition to any other remedies now or later available to Landlord at law or in equity. These remedies are not exclusive but cumulative.

21.3.1. Termination of Lease. Landlord may terminate this Lease and recover possession of the Premises. Once Landlord has terminated this Lease, Tenant shall immediately surrender the Premises to Landlord. On termination of this Lease, Landlord may recover from Tenant all of the following: (a) The worth at the time of the award of any unpaid Rent that had been earned at the time of the termination, to be computed by allowing interest at the rate set forth in Article 24 but in no case greater than the maximum amount of interest permitted by law; (b) The worth at the time of the award of the amount by which the unpaid Rent that would have been earned between the time of the termination and the time of the award exceeds the amount of unpaid Rent that Tenant proves could reasonably have been avoided, to be computed by allowing interest at the rate set forth in Article 24 but in no case greater than the maximum amount of interest permitted by law; (c) The worth at the time of the award of the amount by which the unpaid Rent for the balance of the Lease Term after the time of the award exceeds the amount of unpaid Rent that Tenant proves could reasonably have been avoided, to be computed by discounting that amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award plus one percent (1%); (d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform obligations under this Lease, including brokerage commissions and advertising expenses, expenses of remodeling the Premises for a new tenant (whether for the same or a different use), and any special concessions made to obtain a new tenant; and (e) Any other amounts, in addition to or in lieu of those listed above, that may be permitted by applicable law.

21.3.2. Continuation of Lease in Effect. Landlord shall have the remedy described in Civil Code section 1951.4, which provides that, when a tenant has the right to sublet or assign (subject only to reasonable limitations), the landlord may continue the lease in effect after the tenant's breach and abandonment and recover Rent as it becomes due. Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may enforce all of Landlord's rights and remedies under this Lease, including the right to recover all Rent as it becomes due.

21.3.3. Tenant's Subleases. Whether or not Landlord elects to terminate this Lease on account of any default by Tenant, Landlord may: (a) Terminate any sublease, license, concession or other consensual arrangement for possession entered into by Tenant and affecting the Premises; (b) Choose to succeed to Tenant's interest in such an arrangement. If Landlord elects to succeed to Tenant's interest in such an arrangement, Tenant shall, as of the date of notice by Landlord of that election, have no further right to, or interest in, the Rent or other consideration receivable under that arrangement

21.4. Form of Payment After Default. If Tenant fails to pay any amount due under this Lease within three (3) days after the due date or if Tenant draws a check on an account with insufficient funds, Landlord shall have the right to require that any subsequent amounts paid by Tenant to Landlord under this Lease (to cure a default or otherwise) be paid in the form of cash, money order, cashier's or certified check drawn on an institution acceptable to Landlord, or other form approved by Landlord despite any prior practice of accepting payments in a different form.

21.5. Efforts To Relet. For purposes of this Article 21, Tenant's right to possession shall not be considered to have been terminated by Landlord's efforts to relet the Premises, by Landlord's ads of maintenance or preservation with respect to the Premises, or by appointment of a receiver to protect Landlord's interests under this Lease. This list is merely illustrative of acts that may he performed by Landlord without terminating Tenant's right to possession.

21.6. Acceptance of Rent Without Waiving Rights. Under Article 24, Landlord may accept Tenant's payments without waiving any rights under this Lease, including rights under a previously served notice of default. If Landlord accepts payments after serving a notice of default, Landlord may nevertheless commence and pursue an action to enforce rights and remedies under the previously served notice of default without giving Tenant any further notice or demand.

21.7. Tenant's Remedies on Landlord's Default . Tenant waives any right to terminate this Lease and to vacate the Premises on Landlord's default under this Lease. Tenant's sole remedy on Landlord's default is an action for damages or injunctive or declaratory relief.

Article 22
LANDLORD'S RIGHT TO PERFORM TENANT'S OBLIGATIONS

22.1. Landlord's Right To Perform Tenant's Obligations. All obligations to be performed by Tenant under this Lease shall be performed by Tenant at Tenant's expense and without any reduction of Rent. If Tenant's failure to perform an obligation continues for ten (10) business days after notice to Tenant, Landlord may perform the obligation on Tenant's behalf, without waiving Landlord's rights for Tenant's failure to perform any obligations under this Lease and without releasing Tenant from such obligations.

22.2. Reimbursement by Tenant. Within fifteen (15) days after receiving a statement from Landlord, Tenant shall pay to Landlord the amount of expense reasonably incurred by Landlord, under section 22.1, in performing Tenant's obligation.

Article 23
LATE PAYMENTS

23.1. Late Charges. If any Rent payment is not received by Landlord or Landlord's designee within five (5) days after that Rent is due, Tenant shall pay to Landlord a late charge of five percent (5%) of the amount in arrears as liquidated damages, in lieu of actual damages (other than interest under section 23.2 and attorney fees and costs under section 26.1). Tenant shall pay this amount for each calendar month in which all or any part of any Rent payment remains delinquent for more than five (5) days after the due date. The parties agree that this late charge represents a reasonable estimate of the expenses that Landlord will incur because of any late payment of Rent (other than interest and attorney fees and costs). Landlord's acceptance of any liquidated damages shall not constitute a waiver of Tenant's default with respect to the overdue amount or prevent Landlord from exercising any of the rights and remedies available to Landlord under this Lease. Tenant shall pay the late charge as Additional Rent with the next installment of Rent.

23.2. Interest. If any Rent payment is not received by Landlord or Landlord's designee within five (5) days after that Rent is due, Tenant shall pay to Landlord interest on the past-due amount, from the date due until paid, at the rate of ten percent (10%) per year. Despite any other provision of this Lease, the total liability for interest payments shall not exceed the limits, if any, imposed by the usury laws of the State of California. Any interest paid in excess of those limits shall be refunded to Tenant by application of the amount of excess interest paid against any sums outstanding in any order that Landlord requires. If the amount of excess interest paid exceeds the sums outstanding, the portion exceeding those sums shall be refunded in cash to Tenant by Landlord. To ascertain whether any interest payable exceeds the limits imposed, any nonprincipal payment (including late charges) shall be considered to the extent permitted by law to be an expense or a fee, premium or penalty rather than interest.

Article 24
NONWAIVER

24.1. Non waiver. No waiver of any provision of this Lease shall be implied by any failure of Landlord to enforce any remedy for the violation o fthat provision, even if that violation continues or is repeated. Any waiver by Landlord of any provision of this Lease must be in writing. Such written waiver shall affect only the provision specified and only for the time and in the manner stated in the writing.

24.2. Acceptance and Application of Payment; Not Accord and Satisfaction . No receipt by Landlord of a lesser payment than the Rent required under this Lease shall be considered to be other than on account of the earliest amount due, and no endorsement or statement on any check or letter accompanying a payment or check shall be considered an accord and satisfaction. Landlord may accept checks or payments without prejudice to Landlord's right to recover all amounts due and pursue all other remedies provided for in this Lease.

Landlord's receipt of monies from Tenant after giving notice to Tenant terminating this Lease shall in no way reinstate, continue, or extend the Lease Term or affect the Termination Notice given by Landlord before the receipt of those monies. After serving notice terminating this Lease, filing an action, or obtaining final judgment for possession of the Premises, Landlord may receive and collect any Rent due, and the payment of that Rent shall not waive or affect such prior notice, action, or judgment

Article 25
WAIVER OF RIGHT TO JURY TRIAL

25.1. Waiver of Right to Jury Trial. To the maximum extent permitted by law, Landlord and Tenant waive their respective rights to trial by jury of any contract or tort claim, counterclaim, cross-complaint, or cause of action in any action, proceeding, or hearing brought by either patty against the other on any matter arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, or Tenant's use or occupancy of the Premises, including any claim of injury or damage or the enforcement of any remedy under any current or future law, statute, regulation, code, or ordinance.

Article 26
ATTORNEY FEES AND COSTS

26.1. Attorney Fees and Costs. If either party undertakes litigation against the other party arising out of or in connection with this Lease, the prevailing party shall be entitled to recover from the other party reasonable attorney fees and court costs incurred. The prevailing party shall be determined under Civil Code section 1717(b)(1) or any successor statute.

Article 27
LANDLORD'S ACCESS TO PREMISES

27.1. Landlord's Access to Premises Landlord and its agents shall have the right at all reasonable times and upon reasonable written notice to Tenant to enter the Premises to: (a) Inspect the Premises; (b) Show the Premises to prospective purchasers, mortgagees, or tenants or to ground lessors or underlying lessors; (c) Serve, post, aid keep posted notices required by law or that Landlordconsiders necessary for the protection of Landlord or the Building; (d) Make repairs, replacements, alterations, or improvements to the Premises or Building that Landlord considers necessary or desirable; or (e) Perform services required of Landlord;

27.2. Tenant's Waiver. Landlord may enter the Premises without the abatement of Rent and may take steps to accomplish the stated purposes. Tenant waives any claims for damages caused by Landlord's entry, including damage claims for: (a) Injuries; (b) Inconvenience to or interference with Tenant's business; (c) Lost profits; and (d) Loss of occupancy or quiet enjoyment of the Premises except for such claims and damages arising from Landlord's gross negligence ani willful misconduct.

27.3. Method of Entry. For entry as permitted by this Article 27, Landlord shall at all times have a key or, if applicable, a card key with which to unlock all the doors in the Premises, excluding Tenant's vaults, safes, and special security areas. In an emergency situation, Landlord shall have the right to use any means that Landlord considers proper to open the doors in and to the Premises. Any such entry into the Premises by Landlord shall not be considered a forcible or unlawful entry into, or adetainer of, the Premises or an actual or constructive eviction of Tenant from any portion of the Premises.

Article 28
SIGNS

28.1. Building Name; Landlord's Signage Rights. Subject to Tenant's signage rights under this Article 28, Landlord may at any time change the name of the Building and install, affix, and maintain all signs on the exterior and interior of the Building as Landlord may, in Landlord's sole discretion, desire. Tenant shall not have or acquire any property right or interest in the name of the Building.

28.2. Tenant's Signage Rights Within Building.

28.2.1. Single-Tenant Floor. If the Premises comprise an entire floor of the Building, Tenant may, at Tenant's sole expense, install identification signs (including its logo) anywhere in the Premises, including the elevator lobby of the Premises, subject to the following requirements: (a) Tenant must obtain Landlord's prior written approval for such signs, which Landlord may, in Landlord's sole discretion, grant or deny; (b) All signs must be in keeping with the quality, design, and style of the Building; and (c) No sign may be visible from the exterior of the Building.

28.2.2. Multi-Tenant Floor. If other tenants occupy space on the floor on which the Premises are located, Tenant's identifying signs shall be provided by Landlord at Tenant's expense. The signs shall be comparable to those used by Landlord for other similar floors in the Building and shall comply with Landlord's Building standard signage program.

28.2.3. Prohibited Signs and Other Items. Tenant may not display any signs on the exterior or roof of the Building or in the common areas of the Building or the Real Property. Tenant may not install or display any signs, window coverings, blinds (even if located behind the Landlord-approved window coverings for the Building), or other items visible from the exterior of the Premises without Landlords prior written approval, which Landlord may, in Landlord's sole discretion, grant or withhold. Any signs, notices, logos, pictures, names, or advertisements that are installed by or for Tenant without Landlord's approval may be removed withoutnotice by Landlord at Tenant's expense.

Article 29
MISCELLANEOUS

29.1. Captions. The captions of articles and sections and the table of contents of this Lease are for convenience only and have no effect on the interpretation of the provisions of this Lease.

29.2. Word Usage. Unless the context clearly requires otherwise the plural and singular numbers shall each be considered to include the other; the masculine, feminine, and neuter genders shall each be considered to include the others; "shall," "will," "must," "agrees," and "covenants" are each mandatory; "may" is permissive; "or" is not exclusive; and "includes" and "including" are not limiting.

29.3. Counting Days. Days shall be counted by excluding the first day and including the last day. If the last day is a non-Business Day, it shall be excluded. Any act required by this Lease to be performed by a certain day shall be timely performed if completed before 5 p.m. local time on that date. If the day for performance of any obligation under this Lease is a non-Business Day, the time for performance of that obligation shall be extended to 5 p.m. local time on the first following Business Day. As used herein, a Business Day shall mean any day that is not a Saturday or Sunday, or a national or state or local holiday or any other day on which commercial banks in the San Francisco Bay Area are authorized or required by law to remain closed

29.4. Entire Agreement; Amendments. This Lease and all exhibits, addendas and agreements referred to in this Lease constitute the final, complete, and exclusive statement of the terms of the agreement between Landlord and Tenant pertaining to Tenant's lease of space in the Building and supersedes all prior and contemporaneous understandings or agreements of the parties. Neither party has been induced to enter into this Lease by, and neither party is relying on, any representation or warranty outside those expressly set forth in this Lease. This Lease may be amended only by an agreement in writing signed by Landlord and Tenant

29.5. Exhibits. The Exhibits and Addendum, if applicable, attached to this Lease are a part of this Lease and incorporated into this Lease by reference.

29.6. Reasonableness and Good Faith. Except as limited elsewhere in this Lease, whenever this Lease requires Landlord or Tenant to give its consent or approval to any action on the part of the other, such consent or approval shall not be unreasonably withheld or delayed.

29.7. Partial Invalidity. If a court or arbitrator of competent jurisdiction holds any Lease clause to be invalid or unenforceable in whole or in part for any reason, the validity and enforceability of the remaining clauses, or portions of them, shall not be affected.

29.8. Binding Effect. Subject to Article 16 and sections 29.16-29.17, this Lease shall bind and benefit the parties to this Lease and their legal representatives and successors in interest.

29.9. Independent Covenants. This Lease shall be construed as though the covenants between Landlord and Tenant are independent and not dependent. Tenant expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations under this Lease, Tenant shall not be entitled to make any repairs or perform any acts at Landlord's expense, or to any setoff of the Rent or other amounts owing under this Lease against Landlord. The foregoing, however, shall in no way impair Tenant's right to bring a separate action against Landlord for any violation by Landlord of the provisions of this Lease if notice is first given to Landlord and any lender of whose address Tenant has been notified, and an opportunity is granted to Landlord and that lender to correct those violations as provided in section 20.4 and subsection 21.7.1.

29.10. Governing Law. This Lease shall be construed and enforced in accordance with the laws of the State of California.

29.11. Notices. All notices (including requests, demands, approvals, or other communications) under this Lease shall be in writing. Notice shall be sufficiently given for all purposes as follows: (a) When personally delivered to the recipient, notice is effective on delivery; (b) When mailed first class to the last address of the recipient known to the party giving notice, notice is effective on delivery; (c) When mailed by certified mail with return receipt requested, notice is effective on receipt if delivery is confirmed by a return receipt; (d) When delivered by overnight delivery, such as Federal Express or other recognized overnight delivery service, with charges prepaid or charged to the sender's account, notice is effective on delivery if delivery is confirmed by the delivery service; and (e) When sent by telex or fax to the last telex or fax number of the recipient known to the party giving notice, notice is effective on receipt as long as (I) a duplicate copy of the notice is promptly given by first-class or certified mail or by overnight delivery or (2) the receiving party delivers a written confirmation of receipt. Any notice given by telex or fax shall be considered to have been received on the next business day if it is received alter 5 p.m. (recipient's time) or on a nonbusiness day.

29.11.2. Refused, Unclaimed, or Undeliverable Notices. Any correctly addressed notice that is refused, unclaimed, or undeliverable because of as act or omission of the party to be notified shall be considered to be effective as of the first date that the notice was refused, unclaimed, or considered undeliverable by the postal authorities, messenger, or overnight delivery service.

29.11.3. Addresses. Addresses for purposes of giving notice are set forth in section 10 of the Summary. Either party may change its address or telex or fax number by giving the other party notice of the change in any manner permitted by this section 29.11.

29.11.4. Lenders and Ground Lessor. If Tenant is notified of the identity and address of Landlord's lender or ground or underlying lessor, Tenant shall give to that lender or ground or underlying lessor written notice of any default by Landlord under the terms of this Lease.

29.12. Force Majeure. If performance by a party of any portion of this Lease is made impossible by any prevention, delay, or stoppage caused by strikes; lockouts; labor disputes; acts of God; inability to obtain services, labor, or materials or reasonable substitutes for those items; government actions; civil commotions; fire or other casualty; or other causes beyond the reasonable control of the party obligated to perform, performance by that party for a period equal to the period of that prevention, delay, or stoppage is excused. Tenant's obligation to pay Rent, however, is not excused by this section 29.12.

29.13. Time of the Essence. Time is of the essence of this Lease and each of its provisions.

29.14. Modifications Required by Landlord's Lender. If any lender of Landlord or ground lessor of the Real Property requires a modification of this Lease that will not increase Tenant's cost or expense or materially or adversely change Tenant's rights and obligations, this Lease shall be so modified and Tenant shall execute whatever documents are required and deliver them to Landlord within ten (10) days after the request

29.15. Recording; Memorandum of Lease. Except as provided in this section 29.15, neither this Lease nor any memorandum, affidavit, or other writing relating to this Lease may be recorded by Tenant or anyone acting through, under, or on behalf of Tenant. Recordation in violation of this provision constitutes an act of default by Tenant. On request by Landlord or any lender or ground lessor, Tenant shall execute a short form of Lease for recordation, containing (among other customary provisions) the names of the parties and a description of the Premises and the Lease Term. Tenant shall execute, acknowledge before a notary public, and deliver that form to Landlord within ten (10) days after the request.

29.16. Liability of Landlord. Except as otherwise provided in this Lease or applicable law, for any breach of this Lease the liability of Landlord (including all persons and entities that comprise Landlord, and any successor landlord) and any recourse by Tenant against Landlord shall be limited to the interest of Landlord and Landlord's successors in interest in and to the Building and Real Property. On behalf of itself and all persons claiming by, through, or under Tenant, Tenant expressly waives and releases Landlord from any personal liability for breach of this Lease.

29.17. Transfer of Landlord's Interest. Landlord has the right to transfer all or part of its interest in the Building and Real Property and in this Lease. On such a transfer, Landlord shall automatically be released from all liability accruing under this Lease, and Tenant shall look solely to that transferee for the performance of Landlord's obligations under this Lease after the date of transfer, subject to section 5.2. Landlord may assign its interest in this Lease to a mortgage lender as additional security. This assignment shall not release Landlord from its obligations under this Lease, and Tenant shall continue to look to Landlord for the performance of its obligations under this Lease.

29.18. Joint and Several Obligations of Tenant. If more than one individual or entity comprises Tenant, the obligations imposed on each individual or entity that comprises Tenant under this Lease shall be joint and several.

29.19. Submission of Lease. Submission of this document for examination or signature by the parties does not constitute an option or offer to lease the Premises on the terms in this document or a reservation of the Premises in favor of Tenant. This document is not effective as a lease or otherwise until executed and delivered by both Landlord and Tenant.

29.20. Legal Authority. If Tenant is a corporation, limited liability company, partnership or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that the individual is authorized to execute and deliver this Lease on behalf of such entity and that this Lease is binding on the entity in accordance with its terms. If requested by Landlord, Tenant agrees to deliver to Landlord satisfactory evidence of such authority.

29.21. Right To Lease. Landlord reserves the absolute right to contract with any other person or entity to be a tenant in the Building as Landlord, in Landlord's sole business judgment, determines best to promote the interests of the Building. Tenant does not rely on the expectation, and Landlord does not represent, that any specific tenant or type or number of tenants will, during the Lease Term, occupy any space in the Building.

29.22. No Air Rights. No rights to any view from the Premises or to exterior light or air to the Premises are created under this Lease.

29.23. Brokers. Landlord and Tenant each represents to the other that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, except for the real estate brokers or agents specified in Summary section 14 (Brokers) and that they know of no other real estate broker or agent who is entitled to a commission or finder's fee in connection with this Lease. Each party shall indemnify, protect, defend, and hold harmless the other party against all claims, demands, losses, liabilities, lawsuits, judgments, and costs and expenses (including reasonable attorney fees) for any leasing commission, finder's fee, or equivalent compensation alleged to be owing on account of the indemnifying party's dealings with any real estate broker or agent other than the Brokers. The terms of this section 29.23 shall survive the expiration or earlier termination of the Lease Term.

29.24. Transportation Management Tenant shall fully comply with all current or future compulsory programs imposed by any public authority, intended to manage parking, transportation, or traffic in and around the Building. In connection with this compliance, Tenant shall take responsible action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any government transportation management organization, or other transportation-related committees or entities. This provision includes programs such as the following: (a) Restrictions on the number of peak-hour vehicle trips generated by Tenant; (b) Encouragement of increased vehicle occupancy through employer-sponsored financial or in-kind incentives; (c) Implementation of an in-house or area-wide ridesharing program and appointment of an employee transportation coordinator; and (d) Flexible work shifts for employees.

29.25 Disability Access.

(a) Pursuant to California Civil Code Section 1938, Landlord has advised Tenant that neither the Premises nor the Building have been inspected by a Certified Access Specialist.

(b) Except as otherwise provided in (c), below, Landlord shall be responsible for making and paying for all required disability access improvements on the exterior and in the common areas of the Building.

(c) Tenant shall be responsible for making and paying for all required disability access improvements within the Premises and for all required disability access improvements on the exterior and in the common areas of the Building that are triggered by Tenant's Alterations.

Article 30
ATTACHMENTS

30.1. Attachments. Attached hereto and incorporated by reference are the following exhibits and attachments:

(a) Exhibit A - Floor Plan of Premises;
(b) Exhibit B - Site Plan of Building;
(c) Exhibit C - Leasehold Improvement Agreement;
(d) Exhibit D - Rules and Regulations; and
(e) Exhibit E - Addendum to Lease containing Addendum Paragraphs 1, 2 and 3.

Executed as of the date stated in Summary section 1.

LANDLORD:

SAVOY CORPORATION, a California corporation

By: /s/ Judson La Haye
Judson La Haye

Its: COO

TENANT:

SYSOREX USA, a Virginia corporation

By: /s/ Kevin Harris
Kevin Harris

Its: CFO

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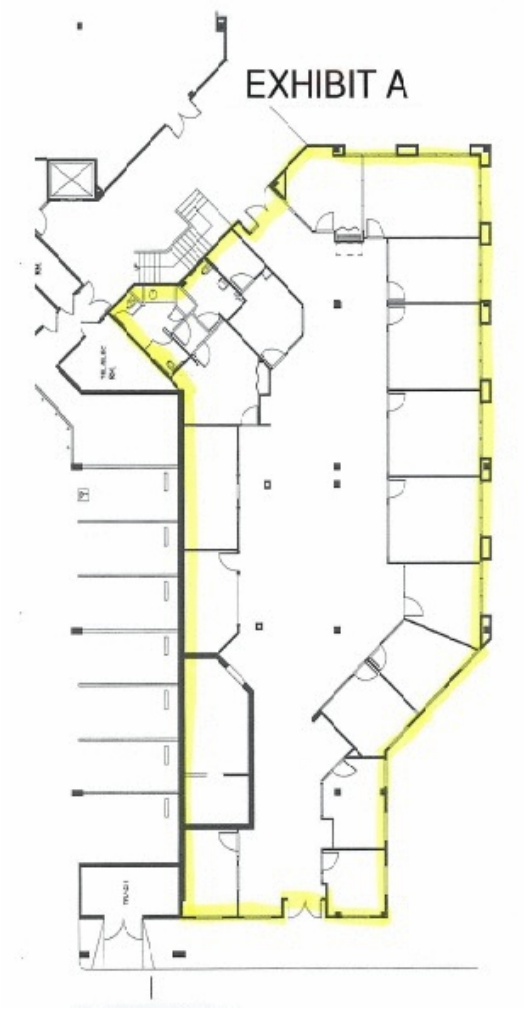

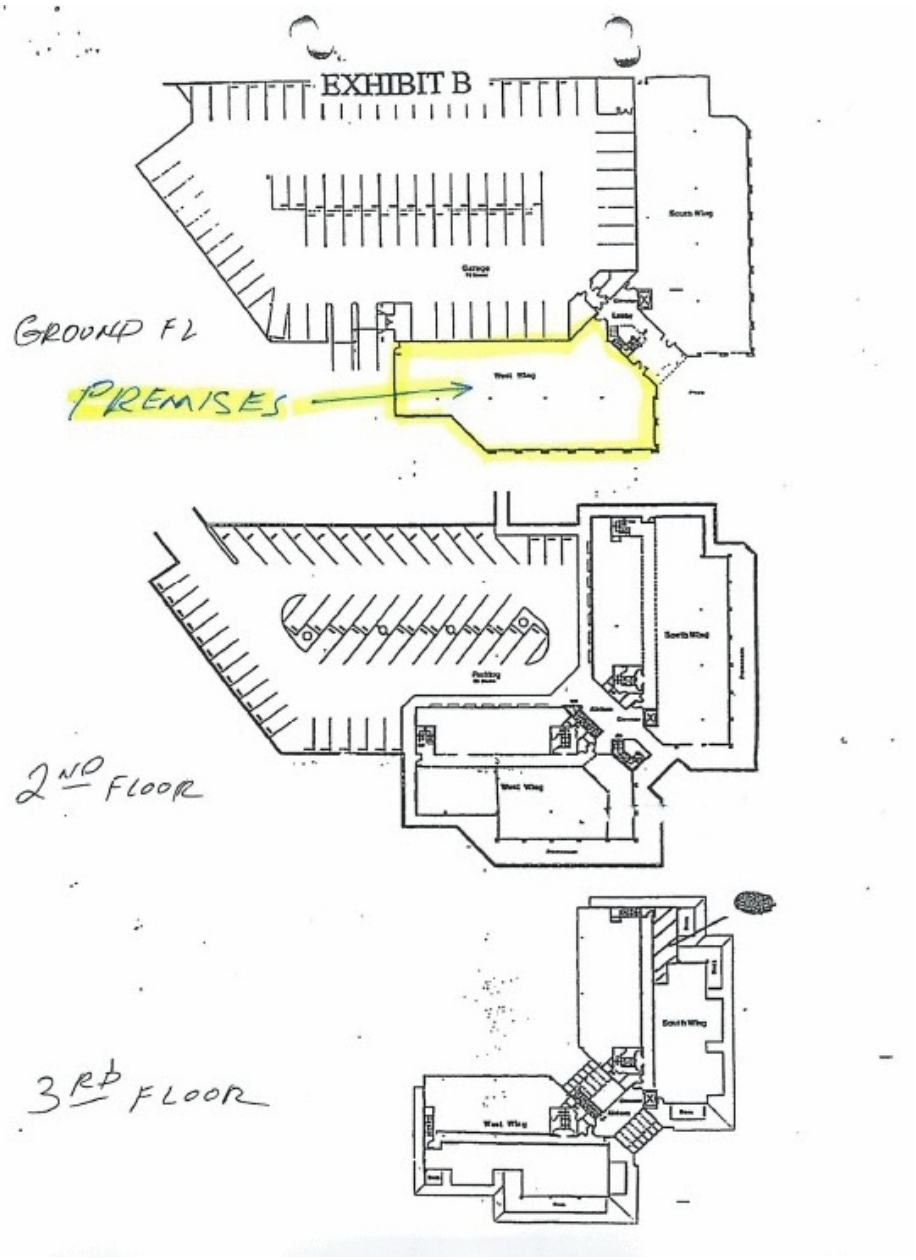

EXHIBIT C

LEASEHOLD IMPROVEMENT AGREEMENT; PAYMENT OF SERVER ROOM ELECTRICAL CHARGES

Landlord shall provide the following improvements ("Landlord's Work"), at Landlord's sole cost and expense, prior to commencement of the lease Term:

(a) Replace the existing carpet in a color selected by Tenant from Landlord's building standard carpet materials and colors.

(b) Repaint the Premises in a color selected by Tenant from Landlord's building standard paint colors.

(c) Replace the front entry tile with readily-available tile of a similar quality and cost as the existing tile.

(d) Professionally clean all window blinds and replace any damaged window blinds.

(e) Repair all existing millwork and cabinetry in the Premises so that it is in good working order.

(f) Remove the fabric wall coverings in the existing vault space and skim coat and paint those walls.

(g) Replace all acoustical ceiling with Rockfon Artic 660 (2'x2'x5/8" tile) except in the existing vault space area.

(h) Repair, modify and/or replace, as necessary, all existing Base Building Systems, including, without limitation, all existing HVAC, plumbing, and electrical (including all electrical outlets), and all floors, doors, windows and ceilings, and all other aspects of the Premises, such that the same is and are in good working order, condition and repair.

(i) Deliver the Premises in broom clean condition.

Landlord will attempt (but makes no representation that it can) complete Landlord's Work by the scheduled Commencement Date of December 1, 2016. Except as otherwise provided in Section 2.3 of the Lease, Landlord shall not be liable (and this Lease shall not be subject to cancellation) due to any delays due to circumstances beyond Landlord's control. Tenant shall install its telephone and data cabling in the ceiling no later than October 21, 2016, in order to enable Landlord to move ahead with Landlord's Work in a timely manner. Any delay in Landlord's completion of Landlord's Work caused by Tenant shall cause the free-rent period to be shortened by the amount of the delay.

Except for Landlord's Work, Tenant agrees that Landlord will have no duty to prepare the Premises for Tenant's occupancy and Tenant agrees to accept the Premises in its existing condition. In the event that Tenant installs a server room and HVAC system in the Premises, Tenant shall have the electricity for the HVAC system separately metered and throughout the term of the Lease shall pay Landlord for the electricity supplied to the HVAC unit and the server room and shall maintain throughout the lease term a maintenance contract covering the HVAC unit reasonably approved by Landlord.

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EXHIBIT D

RULES AND REGULATIONS

1. No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed or printed or affixed on or to any part of the outside or inside of the Building without the written consent of Landlord first had and obtained and Landlord shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant. All approved signs or lettering on doors shall be printed, painted, affixed or inscribed at the expense of Tenant by a person approved of by Landlord. Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises; provided, however, that Landlord may furnish and install a Building standard window covering at all exterior windows. Tenant shall not without prior written consent of Landlord cause or otherwise sunscreen any window.

2. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by any Tenant's employees, agents or invitees or used by them for any purpose other than for ingress and egress from the respective Premises.

3. Tenant shall not alter any lock or install any new or additional locks or any bolts on any doors or windows of the Premises.

4. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose employees or invitees shall have caused it.

5. Tenant shall not overload the floor of the Premises or in any way deface the Premises or any part thereof.

6. No furniture, freight or equipment of any kind shall be brought into the Building without the prior notice to Landlord and all moving of the same into or out of the Building shall be done at such time and in such manner as Landlord shall designate. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into the Building and also the times and manner of moving the same in and out of the Building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the Building by moving or maintaining any such safe or other property shall be repaired at the expense of the Tenant.

7. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to the Landlord or other occupants of the Building by reason of noise, odors, electromagnetic radiation, and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises or the Building.

8. No cooking appliances shall be used or permitted by Tenant on the Premises, excepting only coffee makers and microwave ovens, nor shall the Premises be used for the storage of merchandise, for washing clothes, for lodging, or for any improper, objectionable or immoral purpose.

9. Tenant shall not use or keep in the Premises or the Building any kerosene, gasoline, or inflammable or combustible fluid or material, or use any method of heating or air conditioning other than that supplied by Landlord.

10. Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires will be allowed without the consent of Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.

11. On Sundays and legal holidays, Saturdays before 8:00 a.m. and after 1:00 p.m., and on other days between the hours of 7:00 p.m. and 7:00 am. the following day, access to the Building, or to the halls, corridors, elevators or stairways in the Building, or to the Premises may be refused unless the person seeking access is known to the person or employee of the Building in charge and has a pass or is properly identified. Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Building during the continuance of the same by closing of the doors or otherwise, for the safety of the tenants and protection of property in the Building and the Building.

12. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Building.

13. No vending machine or machines of any description shall be installed, maintained or operated upon the Premises without the written consent of the Landlord.

14. Landlord shall have the right, exercisable without notice and without liability to Tenant, to change the name and street address of the Building of which the Premises are a part.

15. Tenant shall not disturb, solicit, or canvass any occupant of the Building and shall cooperate to prevent same.

16. Without the written consent of Landlord, Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant except as Tenant's address.

17. Landlord shall have the right to control and operate the public portions of the Building, and the public facilities, and heating and air conditioning, as well as facilities furnished for the common use of the tenants, in such manner as it deems best for the benefit of the tenants generally.

18. All entrance doors in the Premises shall be left locked when the Premises are not in use, and all doors opening to public conidors shall be kept closed except for normal ingress and egress from the Premises.

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EXHIBIT E

ADDENDUM TO LEASE

The following shall constitute an Addendum to the Lease (the "Lease") being executed concurrently herewith between Savoy Corporation, as Landlord, and Sysorex USA, as Tenant. The Lease covers approximately 6,211 rentable square feet of space known as Suite 120 located on the ground floor of the Building located at 101 Larkspur Landing Circle in Larkspur, California. All defined terms in the Lease are hereby incorporated by reference. This Addendum shall supersede and modify any inconsistent provisions of the Lease.

Addendum Paragraph 1. Signage. Landlord, at Landlord's expense, shall list Tenant's business name and suite number in the Building directory on the ground floor. Tenant, at its expense, shall provide signage on the entry door to the Premises. Subject to the City of Larkspur and Landlord as to size, location and design, Tenant may provide signage on the exterior of the Building at Tenant's expense. Upon lease termination Tenant shall remove its signage and restore the Building and all exterior monuments to their condition prior to commencement of the Term.

Addendum Paragraph 2. Option to Extend. Tenant is given the option to extend the Lease term for a period of five (5) years (the "Extended Term") following expiration of the initial term by giving written notice of exercise of the option at least six (6) months and not more than nine (9) months before expiration of the initial term. Tenant's right to exercise the option to extend is conditioned upon the Lease being in full force and effect at the time the option is exercised and at the time the Extended Term commences.

(a) The terms of the Lease during the Extended Term shall be the same as the terms during the initial term except that Landlord shall not be required to make any new leasehold improvements and except that Base Rent shall be adjusted at the start of the Extended Term in accordance with paragraph (b), below.

(b) Base Rent during the first year of the Extended Term shall be the fair market rental rate of the Premises as of the commencement of the Extended Term. Within thirty (30) days after receipt of Tenant's option notice, Landlord shall provide written notice of Landlord's determination of the fair market rental rate. Tenant shall have thirty (30) days ("Tenant's Review Period") after receipt of Landlord's notice of the fair market rental rate within which to accept such fair market rental rate or to object thereto in writing, which writing shall include Tenant's determination of the fair market rental rate. Failure by Tenant to so object to the fair market rental rate submitted by Landlord in writing within Tenant's Review Period shall conclusively be deemed Tenant's approval and acceptance thereof. In the event Tenant reasonably objects to the fair market rental rate submitted by Landlord within Tenant's Review Period, Landlord and Tenant shall attempt in good faith to agree upon such fair market rental rate. If Landlord and Tenant fail to reach agreement on such fair market rental rate within thirty (30) days following Tenant's Review Period (the "Outside Agreement Date"), then each party's determination shall be submitted to appraisal as follows:

(i) Landlord and Tenant shall each appoint a real estate appraiser with a membership in the American Institute of Estate Appraisers or the Society of Real Estate Appraisers and at least five (5) years full-time commercial appraisal experience in the San Francisco Bay Area. Each such appraiser shall be appointed within fifteen (15) days after the Outside Agreement Date. The two (2) appraisers so appointed shall within fifteen (15) days of the date of the appointment of the last appointed appraiser agree upon and appoint a third independent appraiser who shall be qualified under the same criteria set forth above for qualification of the initial two (2) appraisers.

(ii) The three (3) appraisers shall within thirty (30) days after the appointment of the third appraiser reach a decision as to whether the parties shall use Landlord's or Tenant's submitted fair market rental rate, and shall notify Landlord and Tenant thereof.

(iii) The decision of a majority of the three (3) appraisers shall be binding upon Landlord and Tenant. If either Landlord or Tenant fails to appoint an appraiser within the time period specified in subparagraph (i), above, the appraiser appointed by one of them shall reach a decision based upon the same procedures as set forth above (i.e., by selecting either Landlord's or Tenant's submitted fair market rental rate), and shall notify Landlord and Tenant thereof, and such appraiser's decision shall be binding upon Landlord and Tenant.

(iv) If the two (2) appraisers fail to agree and appoint a third independent appraiser, both appraisers shall be dismissed and the matter to be decided shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association based upon the same procedures as set forth above (i.e., by selecting either Landlord's or Tenant's submitted fair market rental rate). The decision of arbitrators selected hereunder shall be binding on the parties.

(v) The cost of each appraiser appointed by the parties shall be paid by the party appointing the appraiser. If necessary, the cost of the third appraiser or cost of the arbitration shall be paid by Landlord and Tenant equally.

(c) On the commencement of the second year of the Extended Term and annually thereafter the Base Rent shall be increased by three percent (3%) of the previous year's Base Rent.

(d) Tenant shall have no further option to extend the term of this Lease.

Addendum Paragraph 3. Tenant may, with Landlord's written consent which consent shall not be unreasonably withheld, enter the Premises prior to the Commencement Date solely for the purpose of installing its wiring and similar improvements ("Tenant's Work") as long as such entry will not interfere with the orderly construction and completion of the Landlord's Work by Landlord's contractor. Tenant shall notify Landlord of its desired time(s) of entry and shall submit for Landlord's written approval the scope of the Tenant's Work to be performed and the name(s) of the contractor(s) who will perform such work. Tenant agrees to indemnify, defend and hold harmless Landlord from and against any and all claims, actions, losses, liabilities, damages, costs or expenses (including, without limitation, reasonable attorneys' fees and claims for worker's compensation) of any nature whatsoever, arising out of or in connection with the Tenant's Work (including, without limitation, claims for breach of warranty, bodily injury or property damage). Additionally, Landlord shall provide Tenant with the sum of $12,500 ("Tenant Improvement Allowance") for Tenant's Work (as opposed to Landlord's Work which shall, as set forth above, be the sole responsibility and cost of Landlord) to be paid on the later of the Commencement Date or the date Tenant opens for business, provided Tenant shall provide to Landlord invoices or paid receipts evidencing said improvements having been made to the Premises. The Tenant Improvement Allowance shall be used solely for the following Tenant Improvements:

Tenant telephone and data cabling (at a cost not to exceed $7,000), and the balance of the Tenant Improvement Allowance for Tenant improvements to the Premises.

In the event any portion of the Tenant Improvement Allowance remains undisbursed within ninety (90) days after the Commencement Date due to Tenant's failure to submit invoices or paid receipts to Landlord for the foregoing Tenant Improvements, that portion of the Tenant Improvement Allowance shall be deemed forfeited by Tenant and shall remain the property of Landlord.

Larkspur Lease — Sysorex
2016-09-27

Exhibit 10.56

EARLY OCCUPANCY LETTER AGREEMENT

THIS EARLY OCCUPANCY LETTER AGREEMENT (The "Agreement") made this 19th day of July, 2013 by and between ST. JOHN PROPERTIES, INC., as agent for owner (herein called "Landlord") and AirPatrol Corporation, a Nevada corporation (herein called "Tenant").

WITNESSETH:

Lease for Premises at: Maple Lawn 1

WHEREAS, by (the "Lease"), Landlord leased to Tenant 5,168 square feet of rentable area at: 8171 Maple Lawn Boulevard, Suite 310, Maple Lawn, Maryland 20759 (the "Premises");

WHEREAS, said Lease will commence: January 1, 2014,

NOW, THEREFORE, in consideration of the mutual covenants of the parties hereto, the parties agree as follows:

1. Pursuant to this Agreement, the Tenant shall be permitted occupancy of the Premises as of October 1, 2013. Tenant shall not be responsible for any Annual Rent or Additional Rent payments during the three (3) month period between October 1, 2013 and December 31, 2013. During the term of this Agreement, unless provided otherwise in this Agreement, the rights and obligations of the parties shall be governed by the Lease, which is incorporated in this Agreement by reference.

2. Upon the termination of this Early Occupancy Letter Agreement, Tenant shall occupy the Premises pursuant to the Lease.

3. The parties represent to one another that they have full power and authority to enter into this Agreement.

IN WITNESS WHEREOF, the parties have caused this Early Occupancy Letter Agreement to be executed and delivered under seal as of the date first above written.

WITNESS:

LANDLORD: St. John Properties, Inc.

By: /s/ Richard Williamson
Printed Name: Richard Williamson
Title: Senior Vice President

WITNESS:

TENANT: AirPatrol Corporation

By: /s/ Cleve Adams
Printed Name: Cleve Adams
Title: Chief Executive Officer

FULL SERVICE OFFICE BUILDING LEASE AGREEMENT

THIS AGREEMENT OF LEASE, herein after called "Lease", made this 19th day of July 2013, by and between ST. JOHN PROPERTIES, INC., (hereinafter called "Landlord"), and AirPatrol Corporation, a Nevada corporation (hereinafter called "Tenant").

WITNESSETH, that Tenant covenants and agrees with Landlord as follows:

LEASED PREMISES

1. Landlord is the agent for owner of 8171 Maple Lawn Boulevard, (hereinafter referred to as the "Building"), an office building and the land upon which the Building is situated, and any additional facilities in subsequent years as may be determined by Landlord to be reasonably necessary or desirable for the management, maintenance or operation of the Building located in Maple Lawn, Maryland 20759, (hereinafter referred to as the "Property").

Landlord does hereby lease unto Tenant, and Tenant does hereby lease from Landlord, that portion of the Building on the third (3rd) floor containing an agreed upon 5,168 square feet of rentable area, commonly known as Suite 310, (hereinafter referred to as the "Leased Premises").

TERM

2. The term of this Lease, (hereinafter referred to as the "Term"), shall be for a period of five (5) years commencing on the first (1st) day of January, 2014, and ending on the thirty-first (31st) day of December, 2018, unless the Lease is earlier terminated or extended pursuant to any other provision of this Lease or to law.

RENT

3. Tenant shall pay to Landlord a base annual rental, (hereinafter called "Annual Rent"), in the amount of $155,040.00 payable in advance on the first day of each and every month during the Term in equal monthly installments of $12,920.00.

Tenant agrees to pay each installment of the Annual Rent promptly as and when due without any setoff or deduction whatsoever. Said installments of Annual Rent shall be mailed to: St. John Properties, Inc. — A, P.O. Box 62707, Baltimore, Maryland 21264. For incoming payments via Overnight Mail, the following address should be used: M&T Bank c/o St. John Properties, Inc. — A, Box # 62707, 1800 Washington Blvd., Baltimore, Maryland 21230 or at such other place or to such appointee of Landlord, as Landlord may from time to time designate in writing.

Tenant's Initials 

ADDITIONAL RENT

4. All sums of money other than Annual Rent required to be paid by Tenant to Landlord pursuant to the terms of this Lease, unless otherwise specified herein, shall be considered additional rent,(hereinafter referred to as "Additional Rent"), and shall be collectible by Landlord as Additional Rent, in accordance with the terms of this Lease.

RENTAL - ESCALATION

5. Beginning with the first anniversary of the commencement date of the Term and each anniversary hereafter throughout the remainder of the Lease and renewal term, if any, the Annual Rent shall be increased by an amount equal to three percent (3%) of the previous year's Annual Rent, which sum shall be payable in equal monthly installments in advance as hereinafter set forth.

ANNUAL OPERATING COST ADJUSTMENT

6. Tenant shall pay, as Additional Rent, Tenant's pro rata share of Landlord's annual operating costs in excess of those operating costs incurred by Landlord in 2013. Tenant's pro rata share is six and ten hundredths (6.10%) percent subject to change due to a subsequent increase or decrease of the rentable area of the Building. Operating costs (hereinafter referred to as the "Operating Costs") are defined as follows: all expenses paid or incurred by Landlord in connection with the ownership, management, insurance, maintenance, operation, and repair of the Building and the Property, the parking facilities, or if applicable any parking structure provided by Landlord for tenants of the Building.

Operating Costs include but are not limited to:

a. all expenses paid or incurred by Landlord for heating, cooling, electricity, water, gas, sewers, refuse collection, exterminating, telephone charges not chargeable to tenants and similar utilities services; the cost of supplies, janitorial and cleaning services; window washing; landscaping, snow removal; management fees; accounting fees; insurance; security services;

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b. the cost of compliance with any governmental rules, regulations, requirements or orders;

c. real estate taxes, assessments and appeals;

d. cost of services of independent contractors; the cost of compensation (including employment taxes and fringe benefits) of all persons who perform duties in connection with such Operating Costs and any other expenses or charges which, in accordance with generally accepted accounting and management principles, would be considered an expense of owning, managing, insuring, maintaining, operating, and repairing the Building and Property.

Operating Costs shall not include:

e. any expenses paid by any tenant directly to third parties, or as to which Landlord is otherwise reimbursed by any third party or by any insurance proceeds. Landlord may, in a reasonable manner, allocate insurance premiums for so-called "blanket" insurance policies, which insure other properties as well as the Building, and said allocated amounts shall be deemed to be operating expenses.

f. Payments of principal and interest on any mortgages, deeds of trust or other financing instruments relating to the financing of the Property

g. Leasing commissions or brokerage fees

h. Costs associated with preparing, improving or altering a space for any leasing or releasing of any space within the Building.

In the event that during all or any portion of any calendar year the Building is not fully rented and occupied, Landlord may elect to make an appropriate adjustment in Operating Costs for such year, using sound accounting and management principles, to determine the Operating Costs that would have been paid or incurred by Landlord had the Building been fully rented and occupied. The amount so determined shall be deemed to have been Operating Costs for such year.

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Within one hundred twenty (120) days after the end of the calendar year Landlord shall submit a Statement (hereinafter referred to as the "Operating Costs Statement") to Tenant setting forth the actual Operating Costs for the preceding calendar year and any adjustments for overpayment or underpayment shall be made between the parties within thirty (30) days thereafter.

Each Operating Costs Statement provided by Landlord shall be conclusive and binding upon Tenant unless within ~~thirty (30)~~ **sixty (60)** days after receipt thereof, Tenant notifies Landlord that it disputes the correctness thereof, specifying those respects in which it claims the Operating Costs Statement to be incorrect. Unless resolved by the parties, such dispute shall be determined by arbitration in accordance with the then prevailing rules of the American Arbitration Association. If the arbitration proceedings result in a determination that the Operating Costs Statement contained an aggregate discrepancy of less than five percent (5%), Tenant shall bear all costs in connection with such arbitration. Pending determination of the dispute, Tenant shall pay any costs due from Tenant in accordance with the Operating Costs Statement, but such payment shall be without prejudice to Tenant's claims. Tenant, for a period of thirty (30) days after delivery of the Operating Costs Statement for each calendar year and upon at least ten (10) days written notice to Landlord, shall have reasonable access during normal business hours to the books and records of Landlord relating to Operating Costs for the purpose of verifying the Operating Costs Statement, Tenant to bear all costs relating to such inspection. Tenant shall reimburse Landlord for any cost for photocopying that it desires above the first $500.

During the Lease Term, Tenant's Pro Rata Share of Controllable Operating Expenses (defined below) shall not increase by more than five percent (5%) per calendar year on a cumulative basis. "Controllable Operating Expenses" are defined as any and all expenses which Landlord has the ability to control, including but not limited to wages, salaries and other benefits paid to Landlord's employees engaged in the operation, management or security of the Building, the management fee, and any rental paid for any management office in the Building, but specifically excluding the following expenses: Taxes, utilities, insurance, and snow removal.

Tenant's Initials 

USE

7. Tenant shall use and occupy the Leased Premises solely for the following purpose: general office for a technology company.

MUNICIPAL REGULATIONS

8. Tenant shall observe and comply with and execute at its expense, all laws, orders, rules, requirements, and regulations of the United States, State, City or County of the said State, in which the Leased Premises are located, and of any and all governmental authorities or agencies and of any board of the fire underwriters or other similar organization, respecting the Leased Premises and the manner in which said Leased Premises are or should be used by Tenant.

Construction and interpretation of this Lease shall be governed by the laws of the State of Maryland, excluding any principles of conflicts of laws. Tenant hereby consents to the jurisdiction and venue of the Courts of the State of Maryland and to the jurisdiction and venue of any United States District Court in the State of Maryland.

ASSIGNMENT AND SUBLET

9. Tenant shall not assign this Lease, in whole or in part, or sublet the Leased Premises, or any part or portion thereof, without the prior written consent of Landlord, and said consent shall not be unreasonably withheld, conditioned or delayed. If Landlord consents to such assignment or subletting, Tenant shall not be relieved from any liability whatsoever under this Lease. Landlord shall be entitled to any additional considerations over and above those stated in this Lease, which are obtained in or for the sublease and/or assignment. **An assignment of this Lease shall be permitted in connection with a merger, the sale of stock of the Tenant, or the sale of substantially all of the assets of the Tenant or division operating at this Premises; however, Tenant shall not be relieved from any liability whatsoever under this Lease.** Landlord may assess processing fees that shall be paid by Tenant as Additional Rent. Such fees shall not exceed $1,000.00.

Tenant's Initials 

INSURANCE

10. a. TENANT'S INSURANCE

Throughout the term of this Lease, Tenant shall obtain and maintain

1. Business Personal Property insurance covering Special Causes of Loss. Such Business Personal Property insurance shall not be in an amount less than that required to replace all of the Tenant's trade fixtures, decorations, furnishings, equipment and personal property and in an amount required to avoid the application of any coinsurance provision. Such Business Personal Property insurance shall contain a Replacement Cost valuation provision.

2. Business Income insurance covering Special Causes of Loss. Such Business Income insurance shall be in minimum amounts typically carried by prudent businesses engaged in similar operations, but in no event shall be in an amount less than the Base Rent then in effect for the Lease Year.

3. Commercial General Liability insurance (written on an occurrence basis) including Contractual Liability coverage insuring the obligations assumed by Tenant under this Lease, Premises and Operations coverage, Personal Injury Liability coverage, Independent Contractor's Liability coverage. Such Commercial General Liability insurance shall be in minimum amounts typically carried by prudent businesses engaged in similar operations, but in no event shall be in an amount less than Two Million Dollars ($2,000,000) combined single limit per occurrence with a Three Million Dollar ($3,000,000) annual aggregate. If Tenant conducts operations at locations and/or projects other than the Premises, such annual aggregate limit will be expressed on a "per location" and/or "per project" basis, as the case may be. Such Commercial General Liability insurance shall be primary to — and non-contributory with — any similar insurance carried by Landlord.

4. Workers' Compensation insurance including Employer's Liability insurance. Such Workers' Compensation insurance shall be for the statutory benefits which may, from time to time throughout the term of this Lease, become payable in the jurisdiction in which the Premises are located. Such Employer's Liability insurance shall be in amounts not less than One Hundred Thousand Dollars ($100,000) for each accident, Five Hundred Thousand Dollars ($500,000) as a policy limit for disease and One Hundred Thousand Dollars ($100,000) per employee for disease. Such Workers' Compensation insurance will include a Waiver of Subrogation in favor of Landlord.

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All such insurance shall: (1) be issued by a company that is "Admitted" to do business in the jurisdiction in which the Premises are located, and that has a rating equal to or exceeding A: XI from A.M. Best Company; (2) (except for Workers' Compensation and Employer's Liability) name the building-owner (Maple Lawn Office I, LLC) and St. John Properties, Inc and the holder of any Mortgage as Additional Insureds; (3) contain an endorsement prohibiting cancellation or failure to renew without the insurer first giving Landlord thirty (30) days' prior written notice (by certified or registered mail, return receipt requested) of such proposed action (no less than ten [10] days' notice of cancellation or failure to renew for non-payment of premium).

No such Commercial General Liability, Workers' Compensation or Employer's Liability insurance shall contain a self-insured retention provision except as otherwise approved in writing by Landlord, which approval shall not be unreasonably withheld. Landlord reserves the right from time to time to require Tenant to obtain higher minimum amounts or different types of insurance if it becomes customary for other landlords of similar buildings as that which contains the Premises to require similar-sized tenants in similar industries to carry insurance of such higher minimum amounts or of different types. At the commencement of this Lease, Tenant shall deliver a certificate of all required insurance and will continue throughout the term of this Lease to do so not less than ten (10) days prior to the expiration of any required policy of insurance. Neither the issuance of any insurance policy required under this Lease nor the minimum limits specified herein shall be deemed to limit or restrict in any way Tenant's liability arising under or out of this Lease.

To the fullest extent permitted by law, Tenant shall indemnify and hold harmless Landlord, its partners, employees, agents, representatives and any other party required to be indemnified and/or held harmless under the terms of any written contract or agreement with Landlord pertaining to this Lease and/or to the Premises, from and against all claims, damages, losses, costs and/or expenses, including, but not limited to reasonable attorneys' fees, arising out of or resulting from Tenant's acts or omissions, occupancy of the Premises or obligations under this Lease. Such indemnification and/or hold harmless shall not be invalidated by the partial negligence of one or more of the indemnities. If the laws of the governing jurisdiction do not permit such an indemnification and/or hold harmless, then Tenant's obligations to indemnify and hold harmless the indemnities will be to the fullest extent permitted and all other parts of this Lease and this paragraph will apply.

Tenant's Initials 

b. LANDLORD'S INSURANCE

Throughout the term of this Lease, Landlord shall obtain and maintain:

1. Real Property insurance against Special Causes of Loss and subject to Replacement Cost valuation covering the Building and all of Landlord's property therein in an amount required by its insurance company to avoid the application of any coinsurance provision.

2. Commercial General Liability insurance (written on an occurrence basis) including Contractual Liability coverage insuring the obligations assumed by Landlord under this Lease, Premises and Operations coverage, Personal Injury Liability coverage, Independent Contractor's Liability coverage. Such Commercial General Liability insurance shall be in amounts not less than Two Million Dollars ($2,000,000) combined single limit per occurrence with a Four Million Dollar ($4,000,000) annual aggregate.

ALTERATIONS

11. a. Tenant shall make no alterations, installations, additions or improvements (herein collectively referred to as "Alterations") in or to the Leased Premises without the Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed and then only by contractors or mechanics approved by Landlord, and at such times and in such manner as Landlord may from time to time reasonably designate.

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b. If Tenant shall desire to make any Alterations, plans for the same shall first be issued to Landlord, and the Alterations shall be constructed by Landlord's contractors or mechanics at Tenant's expense, and the cost of said Alterations shall be due and payable to Landlord as Additional Rent. In the event that a building permit is required, Landlord shall have the first option to submit the permit application on behalf of the Tenant. Any permit cost shall be at Tenant's expense. Such Alterations shall become the property of Landlord as soon as they are affixed to the Leased Premises and all rights, title and interest therein of Tenant shall immediately cease, unless otherwise agreed to in writing.

c. Tenant shall not be required to obtain Landlord consent for aesthetic improvements to the Lease Premises, excluding paint and carpet, which shall not be unreasonably withheld, conditioned or delayed.

REPAIRS AND MAINTENANCE

12. a. Tenant shall maintain the interior of the Leased Premises in good order and condition, ordinary wear and tear excepted. Landlord shall maintain the interior common areas of the Building, the roof and the exterior of the Building, as well as the structure thereof, and shall maintain the Property, in good order and repair, reasonable wear and tear excepted.

b. Tenant shall, at the expiration of the Term or at the sooner termination thereof by forfeiture or otherwise, deliver-up the Leased Premises in the same good order and condition as they were at the beginning of the tenancy, reasonable wear and tear excepted.

SERVICES

13. a. Landlord shall furnish the Leased Premises with electricity suitable for Tenant's intended use as general office space, heating and air conditioning for the comfortable use and occupancy of the Leased Premises between 6:00 A.M. and 7:00 P.M., Monday through Friday and on Saturdays, 7:00 A.M. through 2:00 P.M. (hereinafter called "Normal Business Hours") of each week during the Term (legal holidays excepted), janitorial service and trash removal, Monday through Friday of each week during the Term (legal holidays excepted), all at Landlord's expense.

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If Tenant shall require electrical current or install electrical equipment including but not limited to, electrical heating, additional or supplemental air conditioning equipment, or machines or equipment using current in excess of 110 volts, which will in any way increase the amount of the electricity usually furnished for use as general office space, or if Tenant shall intend to use the Leased Premises in such a manner that the services to be furnished by Landlord hereunder would be required during periods other than or in addition to the Normal Business Hours, Tenant shall be required to obtain Landlord's written approval, and Tenant agrees to pay periodically for the additional direct expense to Landlord resulting from the same including expenses resulting from any such installation of equipment as Additional Rent. Providing Heating, Ventilating and Air Conditioning ("HVAC") service beyond the Normal Business Hours will be billed directly to Tenant as Additional Rent, on a $35.00 ~~per HVAC unit~~, per hour basis. To contract for additional HVAC service, Tenant must contact Landlord at least twenty four (24) hours prior to the time period Tenant requires additional HVAC services and in the event Tenant requires HVAC service on Sunday, Tenant must contact Landlord prior to Noon on the Friday previous to the Sunday requirement.

b. Landlord shall furnish, supply and maintain any hallways, stairways, lobbies, elevators, restroom facilities and maintain the grounds, parking facilities and other common areas of the Property, all at Landlord's expense except as may be otherwise provided in this Lease.

c. Landlord shall provide necessary passenger elevator service during the Normal Business Hours as described herein. Tenant shall obtain Landlord's written consent prior to using the elevators for any use other than passenger service. Landlord reserves the right to exclude any other use of the elevators during Normal Business Hours of the Building.

d. Landlord shall have no liability or responsibility to supply heat, air conditioning, elevator, plumbing, cleaning, and/or electric service, when prevented from so doing by laws, orders or regulations of any Federal, State, County or Municipal authority or by strikes, accidents, or by any other cause whatsoever, beyond Landlord's control.

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DEFAULT

14. If Tenant shall fail to pay said installments of Annual Rent, Additional Rent, or any other sum required by the terms of this Lease to be paid by Tenant and such failure shall continue for five (5) days after Landlord has given written notice thereof to Tenant and/or in case Tenant shall fail to comply with any of the provisions, covenants, or conditions of this Lease, on its part to be kept and performed, and such default shall continue for a period of ten (10) days after Landlord has given written notice to Tenant, then, upon the happening of any such event, and in addition to any and all other remedies that may thereby accrue to Landlord, Landlord may do the following:

a. Landlord's Election to Retake possession without Termination of Lease. Landlord may retake possession of the Leased Premises and shall have the right, but not the obligation, without being deemed to have accepted a surrender thereof, and without terminating this Lease, to relet the same for the remainder of the Term upon terms and conditions satisfactory to Landlord; and if the rent received from such reletting does not at least equal the rent payable by Tenant hereunder, Tenant shall pay and satisfy the deficiency between the amount of rent so provided in this Lease and the rent received through reletting the Leased Premises; and, in addition, Tenant shall pay reasonable expenses in connection with any such reletting, including, but not limited to, the cost of renovating, altering and decorating for any occupant, leasing commissions paid to any real estate broker or agent, and attorney's fees incurred.

b. Landlord's Election to Terminate Lease. Landlord may terminate the Lease and forthwith repossess the Leased Premises by operation of law and be entitled to recover as damages a sum of money equal to the total of the following amounts:

i. any unpaid rent or any other outstanding monetary obligation of Tenant to Landlord under the Lease;

ii. the balance of the rent for the remainder of the Term less the reasonable rental value of the Leased Premises if subleased under the terms of the Lease that Tenant so proves;

iii. damages for the wrongful withholding of the Leased Premises by Tenant;

Tenant's Initials 

iv. all reasonable legal expenses, including attorney's fees, expert and witness fees, court costs and other costs incurred in exercising its rights under the Lease;

v. all costs incurred in recovering the Leased Premises, restoring the Leased Premises to good order and condition, and all commissions incurred by Landlord in reletting the Leased Premises; and

vi. any other reasonable amount necessary to compensate Landlord for all detriment proximately caused by Tenant's default.

DAMAGE

15. In the case of the total destruction of said Leased Premises by fire, other casualties, the elements, or other cause, or of such damage thereto as shall render the same totally unfit for occupancy by Tenant for more than sixty (60) days, this Lease, upon surrender and delivery to Landlord of the said Leased Premises, together with the payment of the Annual Rent to the date of such occurrence and a proportionate part thereof to the date of surrender, shall terminate and be at an end. If the Leased Premises are rendered partly untenantable by any cause mentioned in the preceding sentence, Landlord shall, at its own expense, restore said Leased Premises with reasonable diligence, and the rent shall be abated proportionately for the period of said partial untenantability and until the Leased Premises shall have been fully restored by Landlord.

BANKRUPTCY

16. In the event of the appointment of a receiver or trustee for Tenant by any Federal or State court, in any legal proceedings under any provision of the Bankruptcy Act; if the appointment of such receiver or such trustee is not vacated within sixty (60) days, or if said Tenant be adjudicated bankrupt or insolvent, or shall make an assignment for the benefit of its creditors, then and in any of said events, Landlord may, at its option, terminate this tenancy by ten (10) days written notice, and re-enter upon said Leased Premises.

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POSSESSION/BENEFICIAL OCCUPANCY

17. Landlord covenants and agrees that possession of said Leased Premises shall be given to Tenant as soon as said Leased Premises are ready for occupancy. In case possession, in whole or in part, cannot be given to Tenant on or before the Commencement Date of this Lease, Landlord agrees to abate the Annual Rent proportionately until possession is given to said Tenant, and Tenant agrees to accept such pro rata abatement as liquidated damages for the failure to obtain possession.

Occupancy in any manner and in any part shall be deemed to be beneficial occupancy and installments of Annual Rent shall be due on the part of Tenant. Beneficial occupancy and Annual Rent thereby due shall not depend on official government approval of such occupancy, state of completion of the Building, availability or connection of utilities and services such as but not limited to sewer, water, gas, oil or electric. No credit for Annual Rent shall be given due to lack of utilities or services, unless caused by gross negligence of Landlord.

SIGNS

18. Signage criteria for the Building has been established by Landlord and all such information for Tenant's suite sign and digital directory shall be submitted to Landlord for Landlord's approval of confirmation to this criteria. Once approved by Landlord, Landlord will order and install Tenant's signage. The cost to manufacture the signage ~~shall be solely at Tenant's expense and will be payable by Tenant as Additional Rent, while~~ and the cost to install said signage shall be borne by Landlord.

LIABILITY

19. Landlord shall not be liable to Tenant for any loss, damage or injury to Tenant or to any other person, or for any loss or damage to the property of Tenant or of any other person, unless such loss, damage or injury shall be caused by or result from a negligent act or omission solely on the part of Landlord or any of its agents, servants, or employees. Tenant shall, and does hereby indemnify and hold harmless Landlord and any other parties in interest from and against any and all liabilities, fines, claims, damages and actions, costs and expenses of any kind or nature (including attorneys' fees) and of anyone whatsoever (i) relating to or arising from the use and occupancy of the Leased Premises; (ii) due to or arising out of any mechanic's lien filed against the Building, or any part thereof, for labor performed or for materials furnished or claimed to be furnished to Tenant, or (iii) due to or arising out of any breach, violation or nonperformance of any covenant, condition or agreement in this Lease set forth and contained on the part of Tenant to be fulfilled, kept, observed or performed.

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RIGHT OF ENTRY

20. It is understood and agreed that Landlord, and its agents, servants, and employees, including any builder or contractor employed by Landlord, shall have, and Tenant hereby gives them the absolute, and unconditional right, license and permission, at any and all reasonable times, and for any reasonable purpose whatsoever, to enter through, across or upon the Leased Premises or any part thereof, and, at the option of Landlord, to make such reasonable repairs to or changes in said Leased Premises as Landlord may deem necessary or proper. During anytime that Landlord enters Tenant's suite, Landlord assumes liability for any and all of Landlord's agents and assigns during the visit. In no way shall the Landlord's actions disrupt Tenant's business operations unless in an emergency situation.

EXPIRATION

21. It is agreed that the Term expires on November 30, 2018, without the necessity of any notice by or to any of the parties hereto. If Tenant shall occupy said Leased Premises after such expiration, it is understood that, in the absence of any written agreement to the contrary, said Tenant shall hold the Leased Premises as a "Tenant from month to month", subject to all the other terms and conditions of this Lease, at ~~double~~ **one hundred and fifty percent (150%)** the highest monthly rental installments reserved in this Lease; provided that Landlord shall, upon such expiration, be entitled to the benefit of all public general or public local laws relating to the speedy recovery of the possession of land and tenements held over by Tenant that may be now in force or may hereafter be enacted including but not limited to the recovery of consequential damages.

Prior to expiration, Tenant agrees to schedule an inspection with Landlord to confirm that the Leased Premises will be in proper order at expiration.

Tenant's Initials 

CONDEMNATION

22. It is agreed in the event that condemnation proceedings are instituted against the Leased Premises and title taken by any Federal, State, Municipal or other body, then this Lease shall become null and void at the date of settlement of condemnation proceedings and Tenant shall not be entitled to recover any part of the award which may be received by Landlord.

SUBORDINATION

23. It is agreed that Landlord shall have the right to place a mortgage or any form of mortgages on the Leased Premises and this Lease shall be subordinate to any such mortgage or mortgages, whether presently existing or hereafter placed on the Leased Premises, and Tenant agrees to execute any and all documents assisting the effectuating of said subordination. Furthermore, if any person or entity shall succeed to all or part of Landlord's interest in the Leased Premises, whether by purchase, foreclosure, deed in lieu of foreclosure, power of sale, termination of Lease, or otherwise, Tenant shall automatically attorn to such successor in interest, which attornment shall be self operative and effective upon the signing of this Lease, and shall execute such other agreement in confirmation of such attornment as such successor in interest shall reasonably request.

NOTICES

24. Any written notice required by this Lease shall be deemed sufficiently given, if hand delivered, or sent via first class mail, certified mail or by overnight courier service.

Any notice required by this Lease is to be sent to Landlord at:

2560 Lord Baltimore Drive

Baltimore. Maryland 21244

Any notice required by this Lease is to be sent to Tenant at:

8171 Maple Lawn Boulevard, Suite 310

Maple Lawn, Maryland 20759

Tenant's Initials 

Account Contact Information:

Address: 8171 Maple Lawn Boulevard, Suite 310

Maple Lawn, Maryland 20759

Contact: Guy Levy-Yurista

Title: Chief Technology Officer

Telephone: 240.888.1499

Fax:_____

E-mail Address: guy@airpatrolcorp.com

Emergency Contact Information:

Address: Same as above

_____

Contact:_____

Title:_____

Telephone:_____

Fax: _____

E-mail Address:_____

REMEDIES NOT EXCLUSIVE

25. No remedy conferred upon Landlord shall be considered exclusive of any other remedy, but shall be in addition to every other remedy available to Landlord under this Lease or as a matter of law. Every remedy available to Landlord may be exercised concurrently or from time to time, as often as the occasion may arise. Tenant hereby waives any and all rights which it may have to request a jury trial in any proceeding at law or in equity in any court of competent jurisdiction.

WAIVERS

26. It is understood and agreed that nothing shall be construed to be a waiver of any of the terms, covenants and conditions herein contained, unless the same be in writing, signed by the party to be charged with such waiver, and no waiver of the breach of any covenant shall be construed as the waiver or the covenant of any subsequent breach thereof.

Tenant's Initials 

PERFORMANCE

27. It is agreed that the failure of Landlord to insist in any one or more instances upon a strict performance of any covenant of this Lease or to exercise any right herein contained shall not be construed as a waiver or relinquishment for the future of such covenant or right, but the same shall remain in full force and effect, unless contrary is expressed in writing by Landlord.

SECURITY DEPOSIT AND FINANCIAL STATEMENTS

28. A security deposit of $87,920.00 will accompany this Lease, when submitted for approval by Landlord, subject to all the conditions of the Security Deposit Agreement attached. If this Lease is not approved by Landlord within forty-five (45) days of its submission to Landlord, the security deposit will be refunded in full.

Within thirty (30) days of delivery to Landlord from Tenant, a Letter of Credit pursuant to Section 44 (Letter of Credit), Landlord shall return to Tenant $75,000.00 of the security deposit, leaving a balance of $12,920.00.

Landlord shall have the right, at a limit of once per year, to require annual financial statements of Tenant and/or Guarantor of this Lease. Requested statements must be provided no later than ninety (90) days after the closing of each fiscal year. Tenant or Guarantor shall provide written answers to any questions from Landlord which are related to Tenant's financial statements or provide written projections on Tenant's business, if the financials are unacceptable to Landlord.

AGREEMENT CONTENTS

29. This Lease contains the final and entire agreement between the parties hereto, and neither they nor their agents shall be bound by any terms, conditions or representations not herein written.

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LEGAL EXPENSE

30. In the event, to enforce the terms of this Lease, either party files legal action against the other, and is successful in said action, the losing party agrees to pay all reasonable expenses to the prevailing party, including reasonable attorneys' fee incident to said legal action. In the event that Landlord is successful in any legal action filed against Tenant, Landlord's expenses incident to said legal action shall be due as Additional Rent within thirty (30) days of invoice.

RELOCATION

31. Landlord shall have the right at any time during the Term, upon not less than thirty (30) days written notice to Tenant, to relocate Tenant to another location within the project, provided: (1) that the new location is reasonably similar in size, utility and appearance (including a comparable glass line on a corner unit suite, comparable level of improvements (to include the upgraded doors, interior glass windows and doors countertops and flooring), visibility from lobby and access) and (2) Landlord pays all reasonable moving costs incurred by Tenant in connection with such move, including the cost of voice/data, company stationary and the physical move. The parties shall execute an amendment to this Lease which will specify the change in Leased Premises, but this Lease shall in no other respect be amended. In no event shall the new location be in the 1st floor of a building and all the conditions of Section 43 (Antennas) shall apply at the new building.

LATE CHARGE

32. If Tenant shall fail to pay when due, the Annual Rent, Additional Rent or any other sum required by the terms of this Lease to be paid by Tenant, then, upon the happening of any such event, and in addition to any and all other remedies that may thereby accrue to Landlord, Tenant agrees to pay to Landlord a late charge of five percent (5%) of the monthly account balance. The late charge on the Annual Rent accrues after ten (10) days of the due date and said late charge shall become part of and in addition to the then due monthly rental. In the event Tenant's rent is received fifteen (15) days after due date, Landlord shall have the option to require the rental payment be made with a certified or cashiers check.

Tenant's Initials 

DOCUMENT EXECUTION

33. Tenant agrees to execute any and all reasonable documents required of Tenant by the mortgage holder of the Leased Premises during the Term of this Lease.

LEASEHOLD IMPROVEMENTS

34. The Leased Premises shall contain only the following items at the expense of Landlord: (the "Original Alterations") Landlord shall construct the tenant improvements, using building standard materials, according to the attached Exhibit A, dated June 17, 2013. Tenant shall pay to Landlord upon execution of this Lease a payment in the amount of $19,126.50 toward to cost of the improvements. Tenant shall also pay to Landlord upon the earlier of Substantial Completion or Tenant's occupancy a payment in the amount of $19,126.50 toward the cost of the improvements.

QUIET ENJOYMENT

35. Tenant, upon paying the Annual Rent on a monthly basis, Additional Rent and other charges herein provided and observing and keeping all of its covenants, agreements, and conditions in this Lease, shall quietly have and enjoy the Leased Premises during the Term without hindrance or molestation by anyone claiming by or through Landlord: subject, however, to all exceptions, reservations and conditions of this Lease.

ESTOPPEL CERTIFICATE

36. Tenant shall, at any time during the Term or any renewal thereof, upon request of Landlord, execute, acknowledge, and deliver to Landlord or its designee, a statement in writing, certifying that this Lease is unmodified and in full force and effect if such is the fact that the same is in full force. Landlord shall bear any and all reasonable costs associated with Tenant's execution, acknowledgement, and delivery of said Estoppel Certificate.

Tenant's Initials 

ENVIRONMENTAL REQUIREMENTS

37. Tenant hereby covenants and agrees that if at any time it is determined that there are materials placed on the Leased Premises by Tenant, which, under any environmental requirements require special handling in collection, storage, treatment, or disposal, Tenant shall, within thirty (30) days after written notice thereof, take or cause to be taken, at its sole expense, such actions as may be necessary to comply with all environmental requirements. If Tenant shall fail to take such action, Landlord may make advances or payments towards performance or satisfaction of the same but shall be under no obligation to do so; and all sums so advanced or paid, including all sums advanced or paid in connection with any judicial or administrative investigation or proceeding relating thereto, including, without limitation, reasonable attorney's fees, fines, or other penalty payments, shall *be* at once repayable by Tenant as Additional Rent and shall bear interest at the rate of four percent (4%) per annum above the Prime Rate from time to time as published by the Wall Street Journal, from the date the same shall become due and payable until the date paid. Failure of Tenant to comply with all environmental requirements shall constitute and be a default under this Lease.

Tenant will remain totally liable hereunder regardless of any other provisions which may limit recourse.

EXCULPATION CLAUSE

38. Neither Landlord nor any principal, partner, member, officer, director, trustee or affiliate of Landlord (collectively, "Landlord Affiliates") shall have any personal liability under any provision of this Lease.

CORPORATE TENANTS

39. In the event Tenant is a corporation, the persons executing this Lease on behalf of Tenant hereby covenant and warrant that: i) Tenant is a duly constituted corporation qualified to do business in Maryland; ii) all Tenants franchises and corporate taxes have been paid to date; and such person(s) that is (are) executing this Lease are duly authorized by the Board of Directors of such corporation to execute and deliver this Lease on behalf of the corporation.

Tenant's Initials 

RULES AND REGULATIONS

40. Tenant agrees to be bound by the Rules and Regulations as set forth on the schedule attached hereto and labeled Exhibit "B" and made a part hereof. Landlord shall have the right, from time to time, to issue additional or amended Rules and Regulations regarding the use of the Building and Property. Tenant covenants that said additional or amended Rules and Regulations shall likewise be faithfully observed by Tenant, the employees of Tenant and all persons invited by Tenant into the Building. So long as they are applied equitably to all tenants of the building and Property.

EXPANSION CLAUSE

41. Provided Tenant is not in default under this Lease, and in the event Tenant requires to significantly increase its leased square footage, Tenant may lease a larger space in any available space in a building controlled by St. John Properties, Inc.

Landlord and Tenant shall then execute a new lease for the larger space and Tenant's current lease will terminate in conjunction with the commencement of the new lease.

RENEWAL OPTION

42. Provided Tenant is not then in default hereunder, Tenant may extend the term of this Lease and as it may be amended from time to time, for one (1) further successive period of five (5) years, by notifying Landlord in writing of its intention to do so at least one hundred eighty (180) days prior to the expiration of the then current term. The Annual Rent for each succeeding extension shall be on the fair market rent ("Fair Market Rent") based on the current rent for comparable space in the same general area and similar use in the vicinity of the Premises, taking into account all market conditions including without limitation: rent abatements, moving allowances, and customary brokers' commissions. All other terms and conditions of this Lease shall remain in full force and effect.

Tenant's Initials 

ANTENNAS

43. Landlord agrees that during the duration of the Lease Term, and any renewals thereof, they will not permit any third-party, tenant, non-tenant, and/or commercially operated cellular phone towers on the Building.

LETTER OF CREDIT

44. Provided that Tenant is not then in default, pursuant to Section 28 (Security Deposit & Financial Statements), Tenant shall *b e* reimbursed $75,000.00 of the security deposit within thirty (30) days after delivery to Landlord a Letter of Credit issued by a United States Bank acceptable from time to time by Landlord. In the event that Landlord at any time determines that the issuer of the Letter of Credit is not acceptable to Landlord, Landlord shall send written notice thereof to Tenant, and Tenant shall have thirty (30) days to replace the Letter of Credit with a Letter of Credit issued by an issuer acceptable to Landlord. Failure of Tenant to do so shall be a default under this Lease. Tenant shall maintain the aforesaid Letter of Credit in full force and effect according to the following amounts and schedule;

Year 1	January 1, 2014 — December 31, 2014	$	75,000.00
Year 2	January 1, 2015 — December 31, 2015	$	56,250.00
Year 3	January 1, 2016 — December 31, 2016	$	37,500.00
Remaining Term	No letter of credit shall be required	$	0.00

In the event that the Letter of Credit initially provides that its expiry is prior to ninety (90) days after the end of the term of this Lease, Tenant shall renew the Letter of Credit, in each instance for at least one (1) year, at least ninety (90) days prior to the expiry thereof, and Tenant shall promptly provide Landlord with written notice of each renewal. Tenant shall immediately notify Landlord of Tenant's receipt of notice that the Letter of Credit has not been renewed at least ninety (90) days prior to the expiry thereof or has been revoked or that the Letter of Credit may not be renewed as of any anniversary date of the Letter of Credit. If the Letter of Credit is not renewed as aforesaid, or if the issuer of the Letter of Credit states that the issuer will not renew the Letter of Credit, there shall be a default under this Lease, in which case Landlord may exercise all remedies available under this Lease, including, but not limited to, drawing up to the full amount of the Letter of Credit.

Upon Tenant's default in the performance of any of Tenant's obligations under this Lease, including payment of Rent and Additional Rent, which default continues beyond any applicable grace or cure period herein set forth, or in the event Landlord is notified or determines that the Letter of Credit is not being renewed as provided above, Landlord shall have the right (but not the obligation) to draw upon such Letter of Credit. Landlord shall apply the proceeds of such draw to all amounts owed by Tenant to Landlord, in such application as determined by Landlord in its sole discretion, including all costs and expenses, including reasonable legal fees, incurred by Landlord. Any surplus remaining from such draw shall be held by Landlord as a security deposit for the faithful performance of Tenant's obligations under this Lease, and Landlord shall have the right, but not the obligation, to apply such security deposit, or any portion thereof, to any amounts due by Tenant upon any subsequent default by Tenant hereunder, including all costs and expenses including reasonable legal fees incurred by Landlord. Such surplus, if not sooner applied, shall be returned to Tenant, without interest, within thirty (30) days after vacating of the Premises by Tenant and termination of this Lease provided (i) Tenant is not then in default under any provision of this Lease; (ii) Tenant has returned the Premises to Landlord in the condition required by this Lease; (iii) there is no damage to the Premises beyond ordinary wear and tear, and the Premises have been left in a clean condition and in good order, with all debris, rubbish and trash placed in proper containers; and (iv) Tenant's forwarding address has been left with Landlord. Tenant further agrees that Landlord shall be entitled to commingle said surplus with Landlord's own funds.

Tenant's Initials 

AS WITNESS THE HAND AND SEALS OF THE PARTIES HERETO THE DAY AND YEAR FIRST ABOVE WRITTEN:

WITNESS:

TENANT: AirPatrol Corporation

By: /s/ Cleve Adams
Printed Name: Cleve Adams
Title: Chief Executive Officer

WITNESS:

LANDLORD: St. John Properties, Inc.

By: /s/ Richard Williamson
Printed Name: Richard Williamson
Title: Senior Vice President

Tenant's Initials 

SECURITY DEPOSIT AGREEMENT

This is NOT a rent receipt.

Date July 19, 2013

Received from AirPatrol Corporation, the amount of 87,920.00, as security deposit for Leased Premises 8171 Maple Lawn Boulevard, Suite 310, Maple Lawn, Maryland 20759.

Landlord agrees that, subject to the conditions listed below, this security deposit will be returned in full within forty-five (45) days of vacancy. **However, in the event Tenant provides Landlord with a Letter of Credit pursuant to Section 44 (Letter of Credit) of the Lease, within thirty (30) days Landlord shall return to Tenant $75,000.00 of the security deposit, leaving a remaining balance of $12,920.00**

Tenant agrees that this security deposit may not be applied by Tenant as rent and that the full monthly rent will be paid on or before the first day of every month, including the last month of occupancy. Tenant further agrees that a mortgagee of the property demised by the Lease to which this Security Deposit Agreement is appended and/or a mortgagee thereof in possession of said property and/or a purchaser of said property at a foreclosure sale shall not have any liability to Tenant for this security deposit.

SECURITY DEPOSIT RELEASE PREREQUISITES:

1. Full term of Lease has expired
2. No damage to property beyond fair wear and tear.
3. Entire Leased Premises clean and in order.
4. No unpaid late charges or delinquent rents.
5. All keys returned to Landlord.
6. All debris and rubbish and discards placed in proper rubbish containers.
7. Forwarding address left with Landlord.

Tenant's Initials 

AS WITNESS THE HANDS AND SEALS OF THE PARTIES HERETO THE DAY AND YEAR FIRST ABOVE WRITTEN:

WITNESS:

TENANT: AirPatrol Corporation

By: /s/ Cleve Adams
Printed Name: Cleve Adams
Title: Chief Executive Officer

WITNESS:

LANDLORD: St. John Properties, Inc.

By: /s/ Richard Williamson
Printed Name: Richard Williamson
Title: Senior Vice President

Tenant's Initials 

Exhibit "B"

Maple Lawn I
RULES AND REGULATIONS

1. The common facilities, and the sidewalks, driveways, and other public portion of the Property (herein "Public Areas") shall not be obstructed or encumbered by any tenant or used for any purpose other than ingress or egress to and from its Leased Premises, and no tenant shall permit any of its employees, agents, licensees or invitees to congregate or loiter in any of the Public Areas. No tenant shall invite to, or permit to visit its Leased Premises, persons in such numbers or under such conditions as may interfere with the use and enjoyment by others of the Public Areas. Landlord reserves the right to control and operate, and to restrict and regulate the use of, the Public Areas and the public facilities, as well as facilities furnished for the common use of the tenants, in such manner as it deems best for the benefit of the tenants generally, including the right to allocate certain elevators and times of use of elevators for delivery service or moving of Tenant's property, and the right to designate which Building entrances shall be used by persons making deliveries in the Building. The employees, agents, licensees and invitees of any Tenant shall not loiter around the Public Areas or the front, roof or any part of the Building used In common by other occupants of the Building. No bicycles, vehicles, animals (except seeing-eye-dogs) fish or birds of any kind shall be brought into, or kept in or about any Leased Premises within the Building.

2. No doormat of any kind whatsoever shall be placed or left in any public hail or outside any entry door of the Leased Premises. Tenant does hereby further irrevocably constitute and appoint Landlord as its attorney-in-fact only to remove any object placed in violation of said Rules and Regulations, and to store the same at the expense of Tenant in such place or places as Landlord, as its sole discretion, may deem proper.

3. There shall not be used in any space, or in the Public Areas, either by any tenant or by others, in the moving or delivery of receipt of safes, freight, furniture, packages, boxes, crates, paper, office material or any other matter or thing, only hand trucks equipped with rubber tires, side guards and such other safeguards as Landlord shall require.

4. All removals, or the carrying in or out of any safes, freight, furniture, large packages, boxes, crates or any other object or matter of any description shall take place after Normal Building Hours or such hours and in such elevators as Landlord may determine, and which may involve overtime work for Landlord's employees. Tenant shall reimburse Landlord for extra costs incurred by Landlord as Additional Rent. Landlord reserves the right to inspect all objects and matter to be brought into the Building and to exclude from the Building all objects and matter which violate any of these Rules and Regulations or the Lease of which these Rules and Regulations are a part. Landlord shall in no way be liable to any tenant for damages or loss arising from the admission, exclusion or ejection of any person to or from the Leased Premises or the Building under the provisions of this Rule or of Rule 3 thereof.

5. Nothing shall be done or permitted in Tenant's Leased Premises, and nothing shall be brought into, or kept in or about the Leased Premises, which would impair or interfere with any of the HVAC, plumbing, electrical, structural components of the Building or the services of the Building or the proper and economic heating or cooling, cleaning or other services of the Building or the Leased Premises, nor shall there be installed by any tenant any ventilating, air-conditioning, electrical or other equipment of any kind which, in the judgment of Landlord, might cause any such impairment or interference. No tenant, or the employees, agents, licensees or invitees of any tenant, shall at any time bring or keep upon the Leased Premises Building or Property any flammable, combustible or explosive fluid, chemical or substance. When electric wiring of any kind is introduced, it must be connected as directed by Landlord, and shall be done only by contractors approved by Landlord. Plumbing facilities shall not be used for any purpose other than those for which they were constructed; and no sweepings, rubbish, ashes, newspapers or other substances of any kind shall be thrown into them. Waste and excessive or unusual use of electricity or water is prohibited.

Tenant's Initials 

6. Tenant shall not employ any person or persons other than Landlord's janitors for the purpose of cleaning its Leased Premises, without prior written consent of Landlord. Landlord shall not be responsible to any tenant for any loss of property from its Leased Premises however occurring, or for any damage done to the effects of any tenant by such janitors or any of its employees, or by any other person or any other cause. The janitorial service furnished by Landlord does not include the beating or cleaning of carpets or rugs. Tenant agrees to keep the Leased Premises in a neat, good and sanitary condition and to place garbage, trash, rubbish and all other disposables only where Landlord directs

7. No awnings or other projections shall be attached to the outside walls of the Building. No curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of a tenant's Leased Premises, without the consent of Landlord. Nothing shall be placed on the Building's window sills or projections. Such curtains, blinds shades or screens must be of a quality, type, design and color, and attached in the manner, approved by Landlord. If Landlord installs or allows Tenant to install any shades, blinds, curtains in the Leased Premises, Tenant shall not remove them without the prior written consent of Landlord. In order that the Building can be and will maintain a uniform appearance to those persons outside of the Building, each tenant occupying the perimeter areas of the Building shall (a) use only building standard lighting in areas where lighting is visible from the outside of the building and (b) use only building standard blinds in window areas which are visible from the outside of the building.

8. No sign, insignia, advertisement, lettering, notice or other object shall be exhibited, inscribed, painted or affixed by any tenant on any part of the exterior of the Building or Property or on doors, corridor walls, the Building directory or in the elevator cabs or any portion of the Leased Premises which may be seen from outside of the Building or on any windows or window spaces without the prior written approval of Landlord. If approved by Landlord, Tenant shall obtain all necessary approvals and permits from all governmental or quasi-governmental authorities in connection with such signs. Such signs shall, at the expense of each Tenant, be inscribed, painted or affixed by sign-maker as approved by Landlord. In the event of the violation of the foregoing by any tenant, Landlord may remove such signs without any liability, and may charge the expense incurred in such removal to the Tenant or tenants violating this Rule.

9. Landlord shall have the right to prohibit any advertising or identifying sign or by any tenant which, in the judgment of Landlord, tends to impair the appearance or reputation of the Building or the desirability of the Building as a building for offices, and upon written notice from Landlord such tenant shall refrain from the discontinue such advertising or identifying sign.

10. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by any tenant, nor shall any changes be made in locks or the mechanism thereof. Each tenant shall upon the expiration or sooner termination of the Lease of which these Rules and Regulations are a part, turn over to Landlord all keys to stores, offices and toilet rooms, either furnished to, or otherwise procured by, such tenant, and in the event of the loss of any keys furnished by Landlord, such tenant shall pay to Landlord the cost of replacement locks. Notwithstanding the forgoing, Tenant may, with Landlord's prior written consent, install a security system on its Leased Premises which uses master codes or cards instead of keys, provided that Tenant shall provide Landlord with the master code or card, for such system.

Tenant's Initials 

11. Landlord shall furnish to Tenant at the time of occupancy of the Leased Premises, two (2) keys to the entrance door(s) to the Leased Premises, and two (2) access cards to the Building. Any additional keys or access cards Tenant requires shall be purchased from Landlord and is payable as Additional Rent. The cost for each additional key is $5.00 per key. The cost for each additional access card is $15.00 per card. It is the Tenant's responsibility to record the serial number of each access card it assigns to its employees.

12. Tenant, before closing and leaving its Leased Premises at any time, shall see that all lights, computers, copying machines and all other non-essential electrical equipment are turned off. All entrance doors to Tenant's in its Leased Premises shall be kept locked by Tenant when its Leased Premises are not in use. Entrance doors shall not be left open at any time.

13. The use of the Building Property and any Leased Premises for sleeping quarters or for any immoral or illegal purpose is strictly prohibited at all times.

14. Canvassing, soliciting and peddling in the Building or on the Property are prohibited and each tenant shall cooperate to prevent the same.

15. No tenant shall cause or permit any odors of cooking or other processes, or any unusual or objectionable odors, to emanate from its Leased Premises which would annoy other tenants or create a public or private nuisance. No cooking shall be done in a tenant's Leased Premises except as is expressly permitted in the Lease unless consented to in writing by the Landlord.

16. No noise, including, but not limited to, music, the playing of musical instruments, recordings, radio or television, which, in the judgement of Landlord, might disturb other tenants in the Building, shall be made or permitted by any tenant.

17. Tenant shall not install a vending machine of any kind in the Building or on or about the Property.

18. Landlord hereby reserves to itself any and all rights not granted to Tenant hereunder, including, but not limited to, the following rights which are reserved to Landlord for its purposes in operating the Office Building:

(a) the exclusive right to the use of the name of the Building for all purposes, except that a tenant may use the name as its business address and for no other purpose;

(b) the right to change the name or address of the Building, without incurring any liability to any tenant for so doing;

(c) the right to install and maintain a sign or signs on the interior of the Building:

(d) the right to limit the space on the directory of the Building to be allotted to a tenant; and

(e) the right to grant anyone the right to conduct any particular business or undertaking in the Building.

19. Landlord reserves the right to rescind, alter, waive or add, any Rule or Regulation at any time prescribed for the Building when, in the reasonable judgment of Landlord, Landlord deems it necessary or desirable for the reputation, safety, character, security, care, appearance or interests of the Building, or the preservation of good order therein, or the operation or maintenance of the Building, or the equipment thereof, or the comfort of tenants or others in the Building. No rescission, alteration, waiver or addition of any Rule or Regulation in respect of one tenant shall operate as a rescission, alteration or waiver in respect of any other tenant.

Tenant's Initials 

AIRPATROL CORP.

8171 MAPLE LAWN BLVD.
SUITE '310'
MAPLE LAWN OFFICE 1
FULTON, MARYLAND 20759

CODE DATA:

ALL WORK SHALL COMPLY WITH STATE & LOCAL CODES AND ORDINANCES INCLUDING THE FOLLOWING:

2012 INTERNATIONAL BUILDING CODE
2012 LIFE SAFETY CODE
2012 INTERNATIONAL MECHANICAL CODE
2012 INTERNATIONAL ENERGY CONSERVATION CODE
2011 NATIONAL ELECTRICAL CODE WITH LOCAL AMENDMENTS (NFPS 70)
2009 NATIONAL STANDARD PLUMBING CODE ILLUSTRATED
2009 NATIONAL FUEL GAS CODE (NFPA 54)

BUILDING INFORMATION:

USE GROUP:	B
CONSTRUCTION TYPE:	IIB
HEIGHT:	45'-0"
NUMBER OF STORIES:	3
GROSS AREA:	105,826 SQ. FT.

TENANT INFORMATION:

TENANT USE:	B
TENANT AREA:	

INDEX

CONSTRUCTION NOTES

1. ALL NEW CONSTRUCTION TO CONFORM TO THE 2012 INTERNATIONAL BUILDING CODE, 2012 LIFE SAFETY CODE & ALL APPLICABLE LOCAL CODES & REGULATIONS.

2. THE HVAC SYSTEM SHALL HEAT & COOL UNIFORMLY THROUGHOUT OFFICE AREA IN COMPLIANCE WITH THE WITH THE 2012 INTERNATIONAL MECHANICAL CODE UNDER THE GUIDELINES OF ASHRAE 90A.

3. THE CONSTRUCTION & INSTALLATION OF ALL DUCT-WORK SHALL COMPLY WITH CHAPTER 6 OF THE 2012 INTERNATIONAL MECHANICAL CODE.

4. EXTERIOR BLOCK WALLS IN OFFICE AREA ARE FURRED OUT WITH 2 1/2" 25 GAUGE METAL STUDS, 24" O.C. WITH 3 1/2" R 13 FOIL BACK INSULATION & 1/2" DRYWALL. EXTERIOR DOORS & WINDOWS ARE TO BE TRIMMED AROUND UNLESS NOTED OTHERWISE.

5. ALL INTERIOR PARTITIONS TO BE 3 5/8" 25 GAUGE METAL STUDS 24" O.C. W/2 SIDES 1/2" DRYWALL TO THE UNDERSIDE OF THE CEILING EXCEPT WHERE NOTED OTHERWISE.

WALLS NOTED AS "SOUND INSULATED" PARTITIONS TO BE STC=44 RATED AND ARE TO RECEIVE 3" THERMO FIBER BATT INSULATION WITHIN THE WALL AND PLACED ON THE CEILING GRID EXTENDING 2' ON EACH SIDE OF THE STUDS UNLESS NOTED OTHERWISE.

6. ADA ACCESSIBLE RESTROOMS ARE PROVIDED IN THE COMMON AREA ON EACH FLOOR.

7. ALL RESTROOMS ARE MECHANICALLY VENTED TO THE EXTERIOR.

8. THE BUILDING IS FULLY SPRINKLERED.

9. INSTALL EXIT & EMERGENCY LIGHTING AS REQUIRED PER CODE.

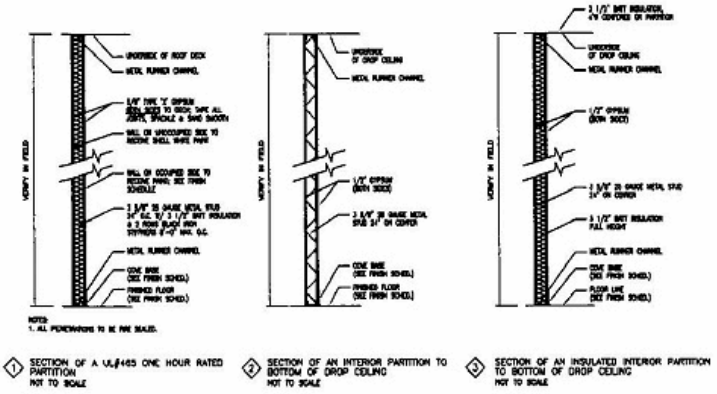
10. MAIN SUITE ENTRY DOOR TO BE 6'-0" X 8'-0" DOUBLE DOORS.

11. ALL NEW INTERIOR DOORS TO BE 3'-0" X 8'-0" X 1 3/4" SOLID CORE, STAIN GRADE BIRCH VENEER W/METAL FRAMES & LEVER HANDLES UNLESS NOTED OTHERWISE. SEE DOOR & HARDWARE SCHEDULE FOR ADDITIONAL INFORMATION.

12. EXISTING 2' X 2' CONTINUOUS ACOUSTICAL CEILING TILE & GRID AS 8'-4"± ABOVE FINISHED FLOOR TO REMAIN. PATCH WITH NEW AS NEEDED. SEE REFLECTED CEILING PLANS.

13. NEW GENERAL LIGHTING IS 2' X 4' 277 VOLT LAY-IN PARABOLIC FIXTURES W/ ALUMINUM 18 CELL GRILL TO MATCH EXISTING UNLESS NOTED OTHERWISE. ALL LIGHTS TO BE ON MOTION SENSORS UNLESS NOTED OTHERWISE.

14. ALL DOOR HANDLES ARE TO BE PASSAGE SETS UNLESS NOTED OTHERWISE.



NOTES:
1. ALL PENETRATIONS TO BE FIRE SEALED.

1 SECTION OF A UL#465 ONE HOUR RATED PARTITION
NOT TO SCALE

2 SECTION OF AN INTERIOR PARTITION TO BOTTOM OF DROP CEILING
NOT TO SCALE

3 SECTION OF AN INSULATED INTERIOR PARTITION TO BOTTOM OF DROP CEILING
NOT TO SCALE

FINISHES

1. ALL NEW DRYWALL PARTITIONS TO RECEIVE COATS TO COVER OF SATIN LATEX PAINT.

2. ALL NEW INTERIOR DOORS TO BE STAINED & URETHANED, MINWAX OR EQUAL TO MATCH EXISTING.

3. ALL INTERIOR DOOR FRAMES TO BE STAINED & URETHANED, MINWAX OR EQUAL TO MATCH EXISTING.

4. PROVIDE & INSTALL LOOP NYLON CARPET THROUGHOUT, EXCEPT WHERE NOTED OTHERWISE. CARPET ALLOWANCE TO BE $23/YD. INSTALLED W/TAX.

5. PROVIDE & INSTALL 12" X 12" X 1/8" VINYL COMPOSITION TILE, MANNINGTON OR EQUAL, WHERE NOTED "VCT" ON PLAN.

6. PROVIDE & INSTALL DECORRA VINYL PLANK FLOORING, #702913 WHERE NOTED "VINYL PLANK FLOOR" ON PLAN.

8. PROVIDE & INSTALL 4" VINYL COVE BASE, JOHNSONITE OR EQUAL, WHERE VINYL PLANK FLOORING IS TO BE INSTALLED.

7. PROVIDE & INSTALL 4" CARPET COVE BASE WHERE NEW CARPET IS TO BE INSTALLED.

8. EXISTING WOOD COVE BASE IS TO REMAIN IN EXISTING OFFICES.

9. COUNTER TOP TO BE SILESTONE, #2007-STELLAR MARINE.
NOTE: MAXIMUM ADA COUNTER HEIGHT IS 34" AFF

10. CABINETS TO BE MERILLAT "FUSION SQUARE SLAB PANEL" SEDONA WALL CABINETS TO BE 24"H.

NOTE: MINIMUM OF 60" OF COUNTER AND/OR BASE CABINETS IN KITCHENETTE/COFFEE AREA, INCLUSIVE OF SINK, TO BE ADA COMPLIANT.

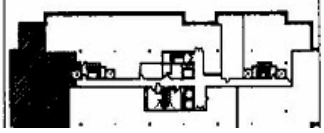
11. ALL NEW RECEPTACLES & SWITCHES TO MATCH EXISTING. ALL PLATE COVERS TO MATCH EXISTING.

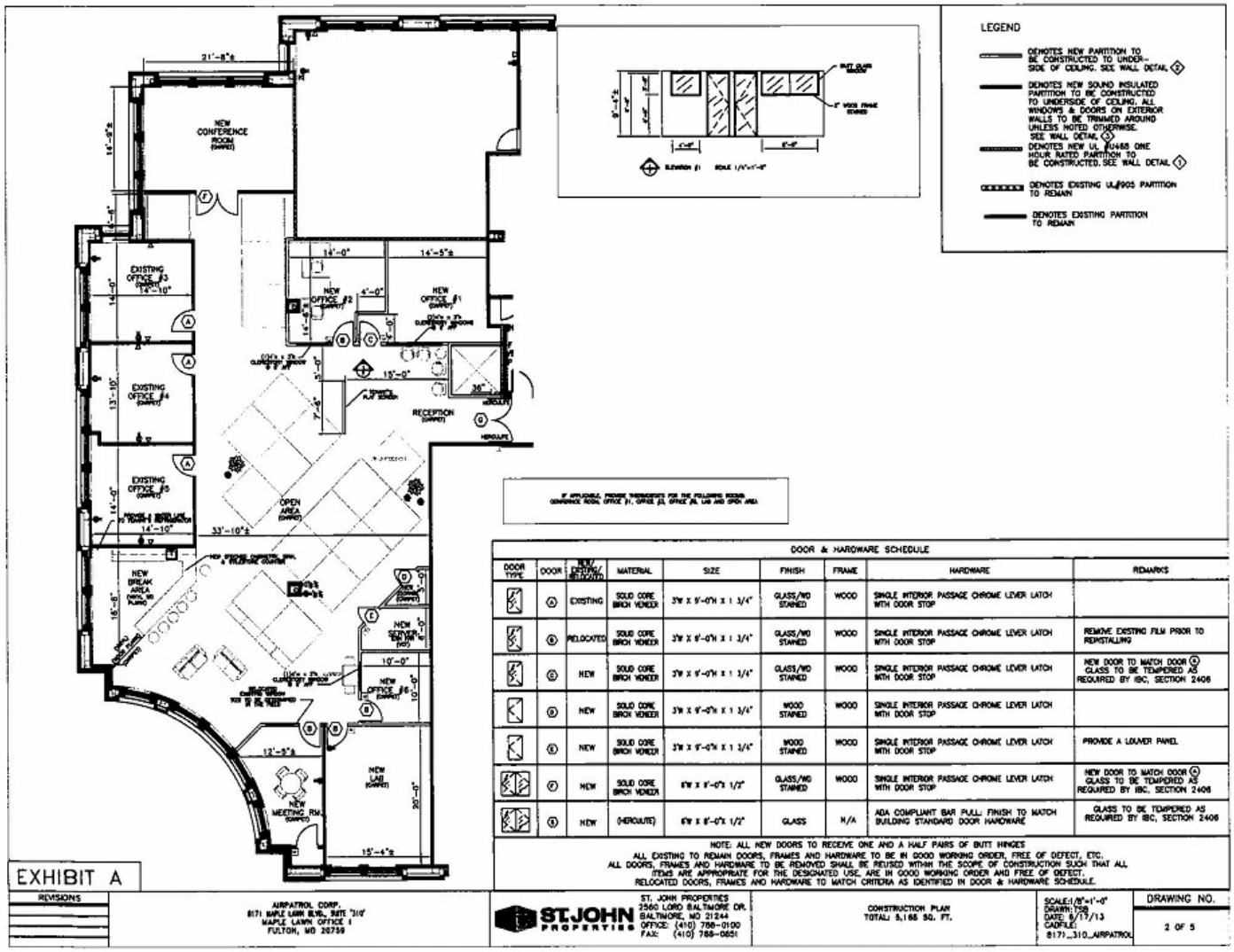
I CERTIFY THAT THESE DOCUMENTS WERE PREPARED OR APPROVED BY ME, AND THAT I AM A DULY LICENSED ARCHITECT IN THE STATE OF MARYLAND, LICENSE 7655, EXPIRATION DATE 9/12/2015.

PETER A. FILLAT III
PETER FILLAT ARCHITECTS
PETER A. FILLATT III, AIA, LEED AP PRINCIPAL
509 S EXETER STREET
SUITE 200
BALTIMORE, MARYLAND 21202

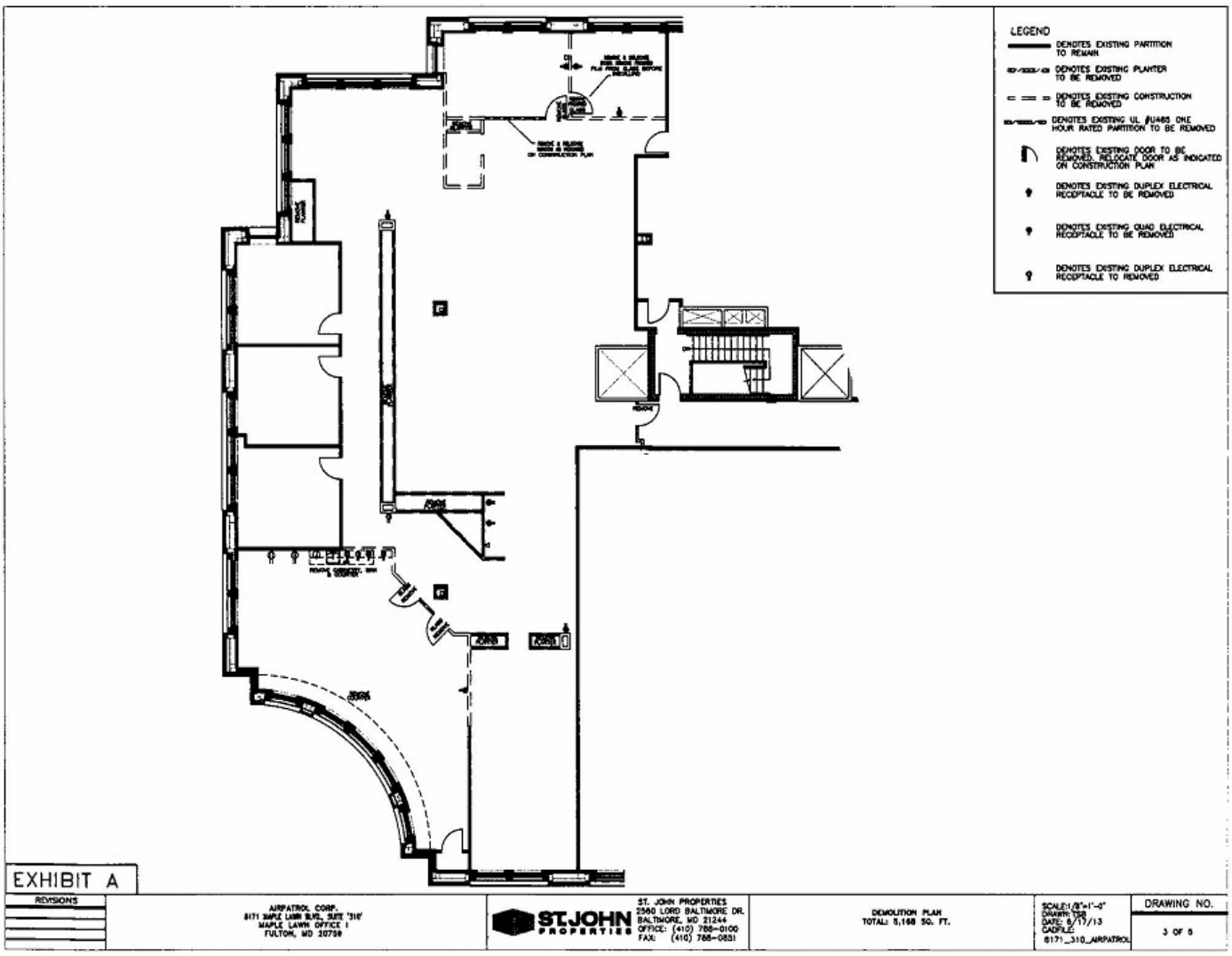
TELEPHONE: (410)576-9310 FAX: (410)576-8563

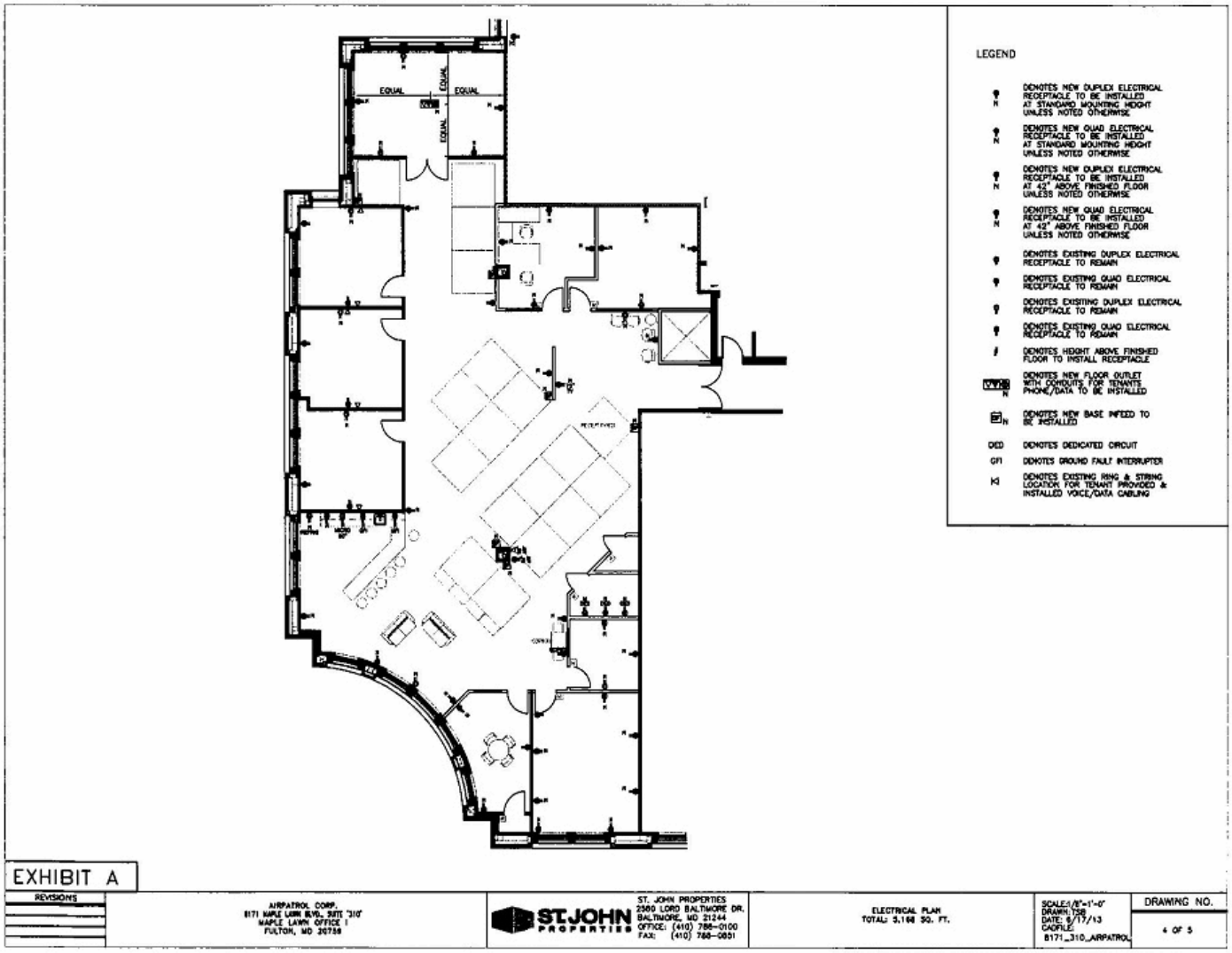
KEY PLAN
NOT TO SCALE





DOOR TYPE	DOOR	NEW/ EXISTING/ RELOCATED	MATERIAL	SIZE	FINISH	FRAME	HARDWARE	REMARKS
	A	EXISTING	SOLID CORE BIRCH VENEER	3'W X 9'-0"H X 1 3/4"	GLASS/WD STAINED	WOOD	SINGLE INTERIOR PASSAGE CHROME LEVER LATCH WITH DOOR STOP	
	B	RELOCATED	SOLID CORE BIRCH VENEER	3'W X 9'-0"H X 1 3/4"	GLASS/WD STAINED	WOOD	SINGLE INTERIOR PASSAGE CHROME LEVER LATCH WITH DOOR STOP	REMOVE EXISTING FILM PRIOR TO REINSTALLING
	C	NEW	SOLID CORE BIRCH VENEER	3'W X 9'-0"H X 1 3/4"	GLASS/WD STAINED	WOOD	SINGLE INTERIOR PASSAGE CHROME LEVER LATCH WITH DOOR STOP	NEW DOOR TO MATCH DOOR B GLASS TO BE TEMPERED AS REQUIRED BY IBC, SECTION 2406
	D	NEW	SOLID CORE BIRCH VENEER	3'W X 9'-0"H X 1 3/4"	WOOD STAINED	WOOD	SINGLE INTERIOR PASSAGE CHROME LEVER LATCH WITH DOOR STOP	
	E	NEW	SOLID CORE BIRCH VENEER	3'W X 9'-0"H X 1 3/4"	WOOD STAINED	WOOD	SINGLE INTERIOR PASSAGE CHROME LEVER LATCH WITH DOOR STOP	PROVIDE A LOUVER PANEL
	F	NEW	SOLID CORE BIRCH VENEER	8'W X 9'-0"H 1/2"	GLASS/WD STAINED	WOOD	SINGLE INTERIOR PASSAGE CHROME LEVER LATCH WITH DOOR STOP	NEW DOOR TO MATCH DOOR A GLASS TO BE TEMPERED AS REQUIRED BY IBC, SECTION 2406
	G	NEW	(HERCULITE)	8'W X 8'-0"H 1/2"	GLASS	N/A	ADA COMPLIANT BAR PULL: FINISH TO MATCH BUILDING STANDARD DOOR HARDWARE	GLASS TO BE TEMPERED AS REQUIRED BY IBC, SECTION 2406





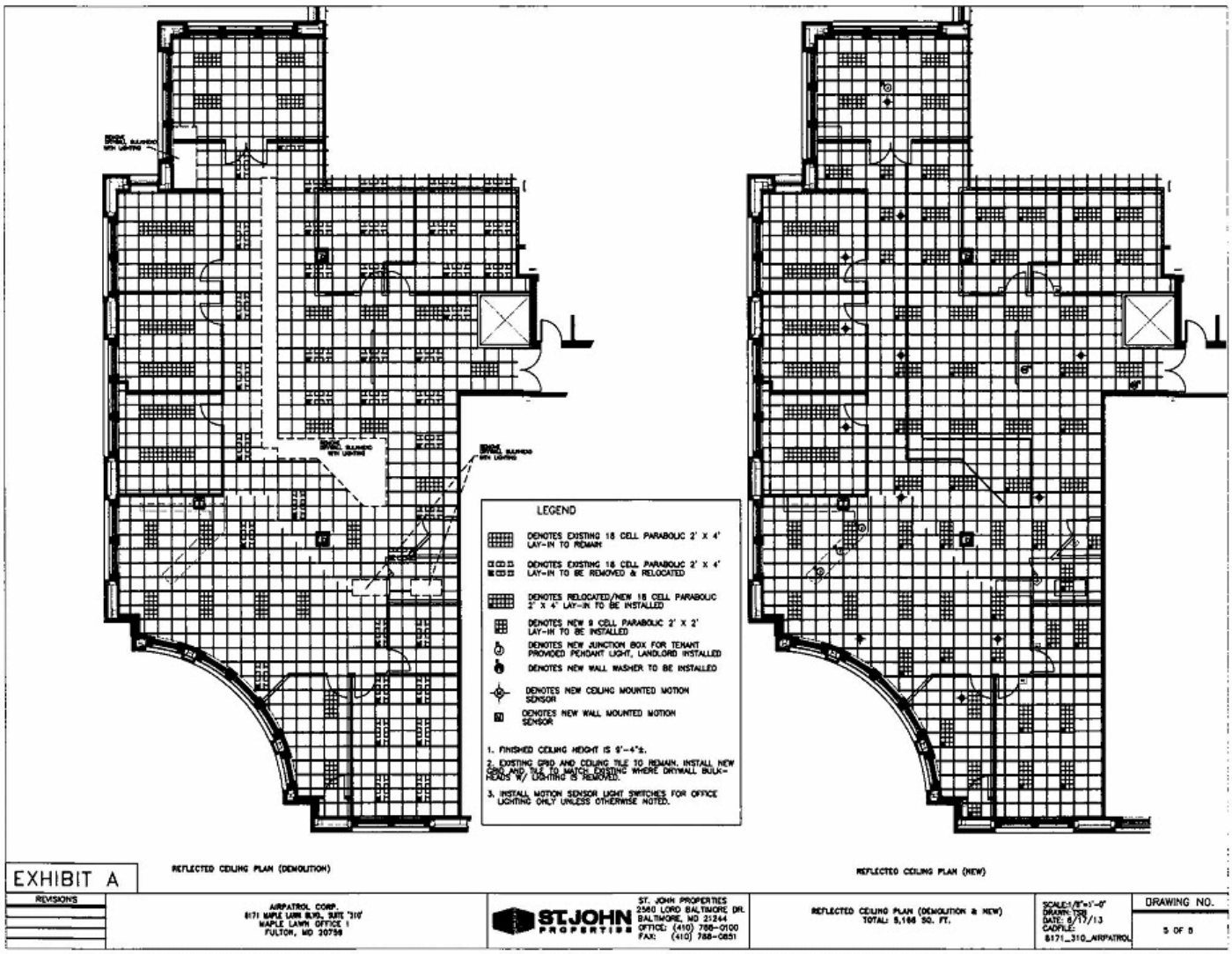


Exhibit 10.57

LEASE AGREEMENT

between

ECI TWO BAYSHORE LLC
as **"Landlord"**

and

SYSOREX GLOBAL HOLDINGS CORP.
as **"Tenant"**

Bayshore Standard Lease Form

TABLE OF CONTENTS

INDEX OF DEFINED TERMS

BASIC LEASE INFORMATION

Lease Date:	For identification purposes only, the date of this Lease is August 21, 2014
Landlord:	ECI TWO BAYSHORE LLC, a Delaware limited liability company
Tenant:	SYSOREX GLOBAL HOLDINGS CORP., a Nevada corporation
Building Addresses:	One building with the following address: 2479 East Bayshore Road Palo Alto, CA 94303
Rentable Area of Building:	Approximately 100,734 rentable square feet
Premises:	Address: 2479 East Bayshore Road Floor: First Suite Number: 195 Rentable Area: Approximately 4,377 rentable square feet
Term:	Sixty-four (64) full calendar months (plus any partial month at the beginning of the Term)
Scheduled Commencement Date:	1-Oct-14
Expiration Date:	The last day of the sixty-fourth (64^{th}) full calendar month in the Term
Base Rent:	Months 1 - 12: $3.25 per rentable square foot per month* Months 13 - 24: $3.35 per rentable square foot per month Months 25 - 36: $3.45 per rentable square foot per month Months 37 - 48: $3.55 per rentable square foot per month Months 49 - 60: $3.66 per rentable square foot per month Months 61 - 64: $3.77 per rentable square foot per month * Base Rent with respect to the Premises for the first four (4) full calendar months of the initial Term is subject to abatement pursuant to Section 3.1 of the Lease.
Maintenance, Operating Costs and Taxes:	This is a "triple net lease" where Tenant is responsible for maintenance, and reimbursing Landlord for operating costs and taxes, all in accordance with the applicable provisions of the Lease.
Tenant's Share:	4.35%
Security Deposit:	**$70,000.00,** subject to the terms of Section 4 of the Lease
Landlord's Address for Payment of Rent:	ECI Two Bayshore LLC Dept # 35100 P.O. Box 39000 San Francisco, CA. 94139
Business Hours:	8:00 a.m. — 6:00 p.m., Monday through Friday, except holidays

Landlord's Address for Notices:	ECI Two Bayshore LLC c/o Embarcadero Capital Partners, LLC 1301 Shoreway Road, Suite 250 Belmont, CA 94002 Attn: John Hamilton with a copy to: Mr. Gregory B. Shean Farella Braun + Martel LLP The Russ Building, 30th Floor 235 Montgomery Street San Francisco, CA 94104
Tenant's Address for Notices:	Prior to the Commencement Date: Sysorex Global Holdings Corp. 3375 Scott Boulevard, Suite 440 Santa Clara, CA 95054 From and after the Commencement Date: The Premises
Broker:	Cornish & Carey Commercial Newmark Knight Frank, representing Landlord and Tenant
Guarantor:	None as of the date of this Lease
Property Manager:	Embarcadero Realty Services LP
Additional Provisions:	37. Parking 38. Extension Option 39. Signage

Exhibits:

Exhibit A:	The Premises
Exhibit B:	Construction Rider
Exhibit C:	Building Rules
Exhibit D:	Additional Provisions

The Basic Lease Information set forth above is part of the Lease. In the event of any conflict between any provision in the Basic Lease Information and the Lease, the Lease shall control.

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THIS LEASE is made as of the Lease Date set forth in the Basic Lease Information, by and between the Landlord identified in the Basic Lease Information (**"Landlord"**), and the Tenant identified in the Basic Lease Information (**"Tenant"**). Landlord and Tenant hereby agree as follows:

1. PREMISES. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, upon the terms and subject to the conditions of this Lease, the office space identified in the Basic Lease Information as the Premises (the **"Premises"**), in the Office Building located at the address specified in the Basic Lease Information (the **"Building"**). The approximate configuration and location of the Premises is shown on Exhibit A. Landlord and Tenant agree that the rentable area of the Premises and the Building for all purposes under this Lease shall be the Rentable Areas specified in the Basic Lease Information. The Building, together with the parking areas dedicated to the Building and the parcel(s) of land on which the Building and such parking areas are situated are collectively called the **"Property"**. The surface parking areas serving the Property are referred to as the **"Parking Facility"**. Landlord agrees that the base Building Systems (as such term is defined in Section 5.1 below) shall be in working order as of the date Landlord delivers possession of the Premises to Tenant. Except to the extent caused by the acts or omissions of Tenant, Tenant Representatives and/or Visitors or by any alterations or improvements performed by or on behalf of Tenant, if such systems are not in working order as of the date Landlord delivers possession of the Premises to Tenant and Tenant provides Landlord with notice of the same within forty-five (45) days following the date Landlord delivers possession of the Premises to Tenant, Landlord shall be responsible for repairing or restoring the same, at Landlord's sole cost and expense. Pursuant to Civil Code section 1938, Landlord states that, as of the date of this Lease, the Premises has not undergone inspection by a "Certified Access Specialist" to determine whether the Premises meet all applicable construction-related accessibility standards under California Civil Code section 55.53.

2. TERM; POSSESSION. The term of this Lease (the **"Term"**) shall commence on the Commencement Date as described below and, unless sooner terminated, shall expire on the Expiration Date set forth in the Basic Lease Information (the **"Expiration Date"**). The **"Commencement Date"** shall be the later of (a) the date on which Landlord tenders possession of the Premises to Tenant (or, in the event of any **"Tenant Delay,"** as defined in the Construction Rider, the date on which Landlord could have done so had there been no such Tenant Delay); or (b) Scheduled Commencement Date. Landlord shall tender possession of the Premises to Tenant with all of Landlord's construction obligations, if any, **"Substantially Completed"** as provided in the Construction Rider attached as Exhibit B (the **"Construction Rider"**). The parties anticipate that the Commencement Date will occur on or about the Scheduled Commencement Date set forth in the Basic Lease Information (the **"Scheduled Commencement Date"**); provided, however, that Landlord shall not be liable for any claims, damages or liabilities if the Premises are not ready for occupancy by the Scheduled Commencement Date. When the Commencement Date has been established, Landlord and Tenant shall at the request of either party confirm the Commencement Date and Expiration Date in writing.

After the Commencement Date Tenant (and such employees of Tenant who maintain offices primarily in the Premises, and to whom Landlord has given access keys or cards pursuant to the provisions of this Lease) shall have access to the Premises 24 hours per day, 365 days per year, subject to (a) security controls, such as having keys and access cards to the Building and the Premises, (b) limitations and denial of access due to emergencies and Landlord's scheduled maintenance of Building Systems, and (c) limitations and denial of access due to reasons beyond the control of Landlord, such as actions by governmental authorities.

3. RENT.

3.1 Base Rent. Tenant agrees to pay to Landlord the Base Rent set forth in the Basic Lease Information, without prior notice or demand, on the first day of each and every calendar month during the Term, except that Base Rent for the first full calendar month in which Base Rent is payable shall be paid upon Tenant's execution of this Lease and Base Rent for any partial month at the beginning of the Term shall be paid on the Commencement Date. Base Rent for any partial month at the beginning or end of the Term shall be prorated based on the actual number of days in the month.

Notwithstanding anything in this Lease to the contrary, so long as Tenant is not in default under this Lease, Tenant shall be entitled to an abatement of Base Rent with respect to the Premises, as originally described in this Lease, in the amount of $14,225.25 per month for first four (4) full calendar months of the initial Term. The maximum total amount of Base Rent abated with respect to the Premises in accordance with the foregoing shall equal $56,901.00 (the **"Abated Base Rent").** If Tenant defaults under this Lease at any time during the Term and fails to cure such default within any applicable cure period under this Lease, then all Abated Base Rent shall immediately become due and payable. The payment by Tenant of the Abated Base Rent in the event of a default shall not limit or affect any of Landlord's other rights, pursuant to this Lease or at law or in equity. Only Base Rent shall be abated pursuant to this Section, as more particularly described herein, and Tenant's Share of Operating Costs and Taxes and all other Rent and other costs and charges specified in this Lease shall remain as due and payable pursuant to the provisions of this Lease.

If the Basic Lease Information provides for any change in Base Rent by reference to years or months (without specifying particular dates), the change will take effect on the applicable annual or monthly anniversary of the Commencement Date (which might not be the first day of a calendar month).

3.2 Additional Rent: Operating Costs and Taxes.

(a) Definitions.

(1) **"Operating Costs"** means all costs of managing, operating, maintaining and repairing the Property, including all costs, expenditures, fees and charges for: (A) operation, maintenance and repair of the Property (including maintenance, repair and replacement of glass, the roof covering or membrane, and landscaping); (B) utilities and services (including telecommunications facilities and equipment, recycling programs and trash removal), and associated supplies and materials; (C) compensation (including employment taxes and fringe benefits) for persons who perform duties in connection with the operation, management, maintenance and repair of the Building, such compensation to be appropriately allocated for persons who also perform duties unrelated to the Building; (D) property (including coverage for earthquake and flood if carried by Landlord), liability, rental income and other insurance relating to the Property, and expenditures for deductible amounts under such insurance, provided that, if applicable, the payment of Tenant's Share of any earthquake deductible which is included in Operating Costs shall not exceed One Hundred Thousand Dollars ($100,000.00) for any single earthquake event during the initial Term (the **"Earthquake Contribution Amount"**); provided, however, that Tenant shall pay as part of Operating Costs an initial Twenty-Five Thousand Dollars ($25,000.00) and the remaining amount (that is the amount in excess of Twenty-Five Thousand Dollars ($25,000.00) up to the Earthquake Contribution Amount (the **"Excess Deductible Share"**)) shall be amortized over a period of ten (10) years commencing the year following Tenant's initial $25,000.00 payment, with interest on the unamortized amount at one percent (1%) in excess of the Wall Street Journal prime lending rate announced from time to time. Tenant shall only pay the initial Twenty-Five Thousand Dollars ($25,000.00) in the year incurred and thereafter pay only the amortized portion of such Excess Deductible Share in equal monthly installments during each remaining Lease Year of the Tenn (including any extension thereof) following the year in which the initial payment was made; (E) licenses, permits and inspections; (F) subject to the terms of this Section 3.2, complying with the requirements of any law, statute, ordinance or governmental rule or regulation or any orders pursuant thereto (collectively **"Laws"**); (G) subject to the terms of this Section 3.2, amortization of capital improvements which are required to comply with Laws, or which are intended to reduce Operating Costs or improve the utility, efficiency or capacity of any Building System, or otherwise for the safety, comfort and convenience of tenants, or which are required to comply with present or future conservation programs, with interest on the unamortized balance at the rate paid by Landlord on funds borrowed to finance such capital improvements (or, if Landlord finances such improvements out of Landlord's funds without borrowing, the rate that Landlord would have paid to borrow such funds, as reasonably determined by Landlord), over such useful life as Landlord shall reasonably determine; (H) an office in the Building for the management of the Property, including expenses of furnishing and equipping such office and the rental value of any space occupied for such purposes; (I) property management fees (not to exceed three percent (3%) of the gross revenue of the Building); (J) accounting, legal and other professional services incurred in connection with the operation of the Property and the calculation of Operating Costs and Taxes; (K) a reasonable allowance for depreciation on machinery and equipment used to maintain the Property and on other personal property owned by Landlord in the Property (including window coverings and carpeting in common areas); (L) contesting the validity or applicability of any Laws that may affect the Property; (M) the Building's share of any shared or common area maintenance costs and expenses (including costs and expenses of operating, managing, owning and maintaining the Parking Facility and the common areas of the Property and any fitness center or conference center in the Property); (N) any reasonable costs incurred to make any alterations or improvements to the Building or Property necessary for any voluntary certification as "green" or sustainable, or other similar certifications, and any costs for such certification; and (O) any other cost, expenditure, fee or charge, whether or not hereinbefore described, which in accordance with generally accepted property management practices would be considered an expense of managing, operating, maintaining and repairing the Property. Operating Costs for any calendar year during which average occupancy of the Building is less than one hundred percent (100%) shall be calculated based upon the Operating Costs that would have been incurred if the Building had an average occupancy of one hundred percent (100%) during the entire calendar year. Landlord shall have the right, from time to time, to equitably allocate some or all of the costs for the Building among different portions or occupants of the Building (the **"Cost Pools"**), in Landlord's reasonable discretion. The Cost Pools may include, but shall not be limited to, the office space tenants, the retail space tenants and storage space of the Building. The costs within each Cost Pool shall be allocated and charged to the tenants in the Cost Pool in an equitable manner.

Operating Costs shall not include (1) capital improvements (except as specifically enumerated above); (ii) costs of special services rendered to individual tenants (including Tenant) for which a separate reimbursement is received; (iii) ground rent, and interest and principal payments on loans or indebtedness secured by the Building; (iv) costs of tenant improvements for Tenant or other tenants of the Building; (v) costs of services or other benefits of a type which are not available to Tenant but which are available to other tenants or occupants, and costs for which Landlord is reimbursed by other tenants of the Building other than through payment of tenants' shares of Operating Costs and Taxes; (vi) leasing commissions, attorneys' fees and other expenses incurred in connection with leasing space in the Building or enforcing such leases; (vii) depreciation or amortization, other than as specifically enumerated above; (viii) costs, fines or penalties incurred due to Landlord's violation of any Law; (ix) costs incurred by Landlord for the repair of damage to the Building, to the extent that Landlord is reimbursed for such costs by insurance proceeds, contractor warranties, guarantees, judgments or other third party sources; (x) marketing costs, leasing commissions, finders' fees, attorney's fees, costs, and disbursements and other expenses incurred in connection with leasing space in the Building or disputes with tenants, other occupants, or prospective tenants, or in enforcing leases, or legal fees incurred in connection with negotiating this Lease; (xi) costs of repairs directly resulting from the gross negligence or willful misconduct of Landlord; (xii) salaries, fringe benefits and other compensation of employees above the grade of general manager (or of equal level); (xiii) costs associated with the operation of the business of the partnership or entity which constitutes Landlord, or the operation of any parent, subsidiary or affiliate of Landlord, as the same are distinguished from the costs of operation of the Building, including without limitation, partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee, and costs of selling, syndicating, financing, mortgaging or hypothecating any of Landlord's interest in the Building; (xiv) costs, fines or penalties incurred due to Landlord's violation of any Law; (xv) any cost or expense related to removal, cleaning, abatement or remediation of Hazardous Materials existing as of the date of this Lease in or about the Building or common areas except to the extent such removal, cleaning, abatement or remediation is related to the general repair and maintenance of the Building; (xvi) the cost of complying with any Laws in effect (and as interpreted and enforced) as of the date of this Lease, provided that if any portion of the common areas of the Building that was in compliance with all applicable Laws on the date of this Lease becomes out of compliance due to normal wear and tear, the cost of bringing such portion of the Building into compliance shall be included in Operating Costs unless otherwise excluded pursuant to the terms hereof; and (xvii) attorney's fees and disbursements, brokerage commissions, transfer taxes, recording costs and taxes, title insurance premiums, title closer's fees and gratuities and other similar costs incurred in connection with the sale or transfer of an interest in Landlord or the Building.

(2) **"Taxes"** means: all real property taxes and general, special or district assessments or other governmental impositions, of whatever kind, nature or origin, imposed on or by reason of the ownership or use of the Property; governmental charges, fees or assessments for transit or traffic mitigation (including area-wide traffic improvement assessments and transportation system management fees), housing, police, fire or other governmental service or purported benefits to the Property; personal property taxes assessed on the personal property of Landlord used in the operation of the Property; service payments in lieu of taxes and taxes and assessments of every kind and nature whatsoever levied or assessed in addition to, in lieu of or in substitution for existing or additional real or personal property taxes on the Property or the personal property described above; any increases in the foregoing caused by changes in assessed valuation, tax rate or other factors or circumstances; and the reasonable cost of contesting by appropriate proceedings the amount or validity of any taxes, assessments or charges described above. To the extent paid by Tenant or other tenants as "Tenant's Taxes" (as defined in Section 8 - *Tenant's Taxes),* "Tenant's Taxes" shall be excluded from Taxes.

(3) **"Tenant's Share"** means the Rentable Area of the Premises divided by the total Rentable Area of the Building, as set forth in the Basic Lease Information. If the Rentable Area of the Premises is changed by Tenant's leasing of additional space hereunder or for any other reason, Tenant's Share shall be adjusted accordingly.

(b) Additional Rent.

(1) Tenant shall pay Landlord as **"Additional Rent"** for each calendar year or portion thereof during the Term Tenant's Share of the sum of (x) the amount of Operating Costs, and (y) the amount of Taxes.

(2) Prior to the Commencement Date and each calendar year thereafter, Landlord shall notify Tenant of Landlord's estimate of Operating Costs, Taxes and Tenant's Additional Rent for the following calendar year (or first partial year following the Commencement Date). Commencing on the Commencement Date, and in subsequent calendar years, on the first day of January of each calendar year and continuing on the first day of every month thereafter in such year, Tenant shall pay to Landlord one-twelfth (1/12th) of the Additional Rent, as reasonably estimated by Landlord for such full calendar year. If Landlord thereafter estimates that Operating Costs or Taxes for such year will vary from Landlord's prior estimate, Landlord may, by notice to Tenant, revise the estimate for such year (and Additional Rent shall thereafter be payable based on the revised estimate).

(3) As soon as reasonably practicable after the end of each calendar year, Landlord shall furnish Tenant a statement with respect to such year, showing Operating Costs, Taxes and Additional Rent for the year, and the total payments made by Tenant with respect thereto. Unless Tenant raises any objections to Landlord's statement within sixty (60) days after receipt of the same, such statement shall conclusively be deemed correct and Tenant shall have no right thereafter to dispute such statement or any item therein or the computation of Additional Rent based thereon. If Tenant does object to such statement, then Landlord shall provide Tenant with reasonable verification of the figures shown on the statement and the parties shall negotiate in good faith to resolve any disputes. Any objection of Tenant to Landlord's statement and resolution of any dispute shall not postpone the time for payment of any amounts due Tenant or Landlord based on Landlord's statement, nor shall any failure of Landlord to deliver Landlord's statement in a timely manner relieve Tenant of Tenant's obligation to pay any amounts due Landlord based on Landlord's statement.

(4) If Tenant's Additional Rent as finally determined for any calendar year exceeds the total payments made by Tenant on account thereof, Tenant shall pay Landlord the deficiency within ten (10) Business Days of Tenant's receipt of Landlord's statement. If the total payments made by Tenant on account thereof exceed Tenant's Additional Rent as finally determined for such year, Tenant's excess payment shall be credited toward the rent next due from Tenant under this Lease. For any partial calendar year at the beginning or end of the Term, Additional Rent shall be prorated on the basis of a 360-day year by computing Tenant's Share of the Operating Costs and Taxes for the entire year and then prorating such amount for the number of days during such year included in the Term. The obligations of Landlord to refund any overpayment of Additional Rent and of Tenant to pay any Additional Rent not previously paid shall survive the expiration or termination of this Lease, Landlord shall pay to Tenant or Tenant shall pay to Landlord, as the case may be, within ten (10) Business Days after Tenant's receipt of Landlord's final statement for the calendar year in which this Lease terminates, the difference between Tenant's Additional Rent for that year, as finally determined by Landlord, and the total amount previously paid by Tenant on account thereof.

If for any reason Taxes for any year during the Term are reduced, refunded or otherwise changed, Tenant's Additional Rent shall be adjusted accordingly. If Taxes are temporarily reduced as a result of space in the Project being leased to a tenant that is entitled to an exemption from property taxes or other taxes, then for purposes of determining Additional Rent for each year in which Taxes are reduced by any such exemption, Taxes for such year shall be calculated on the basis of the amount the Taxes for the year would have been in the absence of the exemption.

(c) Tenant's Review and Audit Right . Within sixty (60) days after Tenant receives Landlord's statement of Operating Costs for a calendar year, if Tenant in good faith questions or contests the accuracy of Landlord's statement of Operating Costs for such calendar year, then Tenant may give Landlord written notice (**"Review Notice"**) that Tenant intends to review Landlord's records of the Operating Costs for that calendar year to which the statement applies (**"Tenant's Review"**), subject to the following terms and conditions: (a) Tenant shall not conduct Tenant's Review at any time that Tenant is in default of any of the terms of this Lease; (b) Tenant's Review shall be done during normal business hours, at the office of the property manager for the Building, (c) Tenant shall not conduct Tenant's Review more than one (1) time for any calendar year, and (d) the Review Notice shall specify in detail which items of expense Tenant, in good faith, believes have been misstated. Failure of Tenant to give Landlord a Review Notice within the above sixty (60)-day period shall render the statement of Operating Costs conclusive and binding on Tenant for all purposes. Tenant's Review shall be conducted only by an employee of Tenant or a certified public accountant employed by Tenant on an hourly or fixed fee basis, and not on a contingency fee basis. Tenant acknowledges that Tenant's right to conduct Tenant's Review for the preceding calendar year is for the exclusive purpose of determining whether Landlord has complied with the terms of the Lease with respect to Operating Costs. Within a reasonable time after receipt of the Review Notice, Landlord shall make all pertinent records available for inspection that are reasonably necessary for Tenant to conduct Tenant's Review. Tenant shall not remove such records from the location where the same have been made available, but Tenant shall have the right to make copies of the same at Tenant's expense. If any records are maintained at a location other than the management office for the Building, Tenant may either inspect the records at such other location or pay for the reasonable cost of copying and shipping the records. Tenant shall have forty-five (45) days after Landlord shall have provided copies of or access to the relevant documents and data to complete Tenant's Review. Tenant shall deliver to Landlord a copy of the results of Tenant's Review within fifteen (15) days after completing Tenant's Review. If, after conducting Tenant's Review, Tenant disputes the amount of Operating Costs charged by Landlord, Tenant may, by written notice to Landlord, request an independent audit of such books and records (the **"Audit"**). The Audit shall be conducted by an independent certified public accountant (**"CPA"**) selected by Landlord, who is reasonably acceptable to Tenant, and who is with a certified public accounting firm licensed to do business in the State of California. Tenant shall be solely responsible for all costs, expenses and fees incurred for the Audit, provided, however, if the Audit shows that Landlord overstated Operating Costs for the subject year by more than five percent (5%), then Landlord shall pay all costs and expenses of the Audit. The records obtained by Tenant shall be treated as confidential. In no event shall Tenant be permitted to examine Landlord's records or to dispute any statement of Operating Costs unless Tenant has paid and continues to pay all Rent when due. Within thirty (30) days after final determination, the party that owes the other party an amount to bring the amounts actually paid into agreement with the amounts that should have been paid, shall pay such amounts to the other party. The provisions of this Subsection (e) shall survive the expiration of this Lease.

3.3 Payment of Rent. All amounts payable or reimbursable by Tenant under this Lease, including late charges and interest (collectively, **"Rent"**), shall constitute rent and shall be payable and recoverable as rent in the manner provided in this Lease. All sums payable to Landlord on demand under the terms of this Lease shall be payable within ten (10) Business Days after Landlord invoices Tenant therefor or otherwise makes demand of the amounts due. All rent shall be paid without offset or deduction in lawful money of the United States of America to Landlord at Landlord's Address for Payment of Rent as set forth in the Basic Lease Information, or to such other person or at such other place as Landlord may from time to time designate.

4. SECURITY DEPOSIT. On execution of this Lease, Tenant shall deposit with Landlord the amount specified in the Basic Lease Information as the Security Deposit, if any (the **"Security Deposit"**), as security for the performance of Tenant's obligations under this Lease. Landlord may (but shall have no obligation to) use the Security Deposit or any portion thereof to cure any breach or default by Tenant under this Lease (which breach or default continues beyond any applicable notice and cure period), to fulfill any of Tenant's obligations under this Lease, or to compensate Landlord for any damage Landlord incurs as a result of Tenant's failure to perform any of Tenant's obligations hereunder. In such event Tenant shall pay to Landlord on demand an amount sufficient to replenish the Security Deposit. If Tenant is not in default at the expiration or termination of this Lease, Landlord shall return to Tenant the Security Deposit or the balance thereof then held by Landlord and not applied as provided above. Landlord may commingle the Security Deposit with Landlord's general and other funds. Landlord shall not be required to pay interest on the Security Deposit to Tenant. Tenant waives the provisions of Section 1950.7 of the California Civil Code, and all other provisions of Law now in force or that become in force after the date of this Lease, which provide that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of Rent, to repair damage caused by Tenant, or to clean the Premises. Landlord and Tenant agree that Landlord may, in addition, claim and use those sums necessary to compensate Landlord for any foreseeable or unforeseeable loss or damage caused by the act or omission by Tenant, including, without limitation, any post default damages and such remedies to which Landlord is entitled under the provisions of Section 15.2 of this Lease. Subject to the remaining terms of this Section 4, and provided Tenant is not in default and has not been in default at any time preceding the effective date of any reduction of the Security Deposit (beyond any applicable notice and cure periods) (each a **"SD Reduction Effective Date"**), Tenant shall have the right to reduce the amount of the Security Deposit so that the new Security Deposit amounts will be as follows: (i) $50,000.00 effective as of the first day of the eighteenth (18^{th}) full calendar month of the initial Term; (ii) $30,000.00 effective as of the first day of the twenty-eighth (28^{th}) full calendar month of the initial Term; and (iii) $21,972.54 effective as of the first day of the thirty-seventh (37^{th}) full calendar month of the initial Term. Notwithstanding anything to the contrary contained herein, if Tenant has been in default under this Lease at any time prior to any SD Reduction Effective Date and Tenant has failed to cure such default within any applicable cure period, then Tenant shall have no further right to reduce the amount of the Security Deposit as described herein. If Tenant is entitled to a reduction in the Security Deposit, Tenant shall provide Landlord with written notice requesting that the Security Deposit be reduced as provided above (the **"Security Reduction Notice"**). If Tenant provides Landlord with a Security Reduction Notice, and Tenant is entitled to reduce the Security Deposit as provided herein, Landlord shall refund the applicable portion of the Security Deposit to Tenant within forty-five (45) days after the later to occur of (a) Landlord's receipt of the Security Reduction Notice, or (b) the date upon which Tenant is entitled to a reduction in the Security Deposit as provided above.

5. USE AND COMPLIANCE WITH LAWS.

5.1 Use. The Premises shall be used and occupied for general business office purposes and for no other use or purpose. Tenant shall comply with all present and future Laws relating to Tenant's use or occupancy of the Premises (and make any repairs, alterations or improvements as required to comply with all such Laws to the extent that such Laws relate to or are triggered by (a) Tenant's occupancy and particular use of the Premises (as opposed to general office use), or (b) any Alterations made by or on behalf of Tenant (excluding the Tenant Improvements)), and shall observe the "Building Rules" (as defined in Section 27 - *Rules and Regulations).* Tenant shall not do, bring, keep or sell anything in or about the Premises that is prohibited by, or that will cause a cancellation of or an increase in the existing premium for, any insurance policy covering the Property or any part thereof. Tenant shall not permit the Premises to be occupied or used in any manner that will constitute waste or a nuisance, or disturb the quiet enjoyment of or otherwise annoy other tenants in the Building. Without limiting the foregoing, the Premises shall not be used for educational activities, practice of medicine or any of the healing arts, providing social services, for any governmental use (including embassy or consulate use), or for personnel agency, customer service office, studios for radio, television or other media, travel agency or reservation center operations or uses. Tenant shall not, without the prior consent of Landlord, (i) bring into the Building or the Premises anything that may cause substantial noise, odor or vibration, overload the floors in the Premises or the Building or any of the heating, ventilating and air-conditioning (**"HVAC"**), mechanical, elevator, plumbing, electrical, fire protection, life safety, security or other systems in the Building (**"Building Systems"**), or jeopardize the structural integrity of the Building or any part thereof; (ii) connect to the utility systems of the Building any apparatus, machinery or other equipment other than typical low power task lighting or office equipment; or (iii) connect to any electrical circuit in the Premises any equipment or other load with aggregate electrical power requirements in excess of 80% of the rated connected load capacity of the circuit. Tenant's use of electricity shall never exceed the safe capacity of the feeders to the Property or the risers or wiring installation of the Building. Tenant agrees to reasonably cooperate with Landlord with respect to any voluntary "green" or sustainable programs with respect to the Premises; provided, however, that notwithstanding anything to the contrary, Tenant shall not be responsible to make any improvements or alterations to the Premises or to replace any equipment or property of Tenant in connection therewith unless Landlord agrees to pay for all costs for such improvements, alterations or replacements. The foregoing sentence shall not apply to Tenant's construction of the initial Tenant Improvements in the Premises.

5.2 Hazardous Materials.

(a) Definitions.

(1) "Hazardous Materials" shall mean any substance: (A) that now or in the future is regulated or governed by, requires investigation or remediation under, or is defined as a hazardous waste, hazardous substance, pollutant or contaminant under any governmental statute, code, ordinance, regulation, rule or order, and any amendment thereto, including the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. §9601 et seq., and the Resource Conservation and Recovery Act, 42 U.S.C. §6901 etsue., or (B) that is toxic, explosive, corrosive, flammable, radioactive, carcinogenic, dangerous or otherwise hazardous, including gasoline, diesel fuel, petroleum hydrocarbons, polychlorinated biphenyls (PCBs), asbestos, radon and urea formaldehyde foam insulation.

(2) "Environmental Requirements" shall mean all present and future Laws, orders, permits, licenses, approvals, authorizations and other requirements of any kind applicable to Hazardous Materials.

(3) "Handled by Tenant" and **"Handling by Tenant"** shall mean and refer to any installation, handling, generation, storage, use, disposal, discharge, release, abatement, removal, transportation, or any other activity of any type by Tenant or its agents, employees, contractors, licensees, assignees, sublessees, transferees or representatives (collectively, **"Representatives")** or its guests, customers, invitees, or visitors (collectively, **"Visitors"),** at or about the Premises in connection with or involving Hazardous Materials.

(4) "Environmental Losses" shall mean all costs and expenses of any kind, damages, including foreseeable and unforeseeable consequential damages, fines and penalties incurred in connection with any violation of and compliance with Environmental Requirements and all losses of any kind attributable to the diminution of value, loss of use or adverse effects on marketability or use of any portion of the Premises or Property.

(b) Tenant's Covenants. No Hazardous Materials shall be Handled by Tenant at or about the Premises or Property without Landlord's prior written consent, which consent may be granted, denied, or conditioned upon compliance with Landlord's requirements, all in Landlord's absolute discretion. Notwithstanding the foregoing, normal quantities and use of those Hazardous Materials customarily used in the conduct of general office activities, such as copier fluids and cleaning supplies (**"Permitted Hazardous Materials"**), may be used and stored at the Premises without Landlord's prior written consent, provided that Tenant's activities at or about the Premises and Property and the Handling by Tenant of all Hazardous Materials shall comply at all times with all Environmental Requirements. At the expiration or termination of the Lease, Tenant shall promptly remove from the Premises and Property all Hazardous Materials Handled by Tenant at the Premises or the Property. Tenant shall keep Landlord fully and promptly informed of all Handling by Tenant of Hazardous Materials other than Permitted Hazardous Materials. Tenant shall be responsible and liable for the compliance with all of the provisions of this Section by all of Tenant's Representatives and Visitors, and all of Tenant's obligations under this Section (including its indemnification obligations under paragraph (e) below) shall survive the expiration or termination of this Lease.

(c) Compliance. Tenant shall at Tenant's expense promptly take all actions required by any governmental agency or entity in connection with or as a result of the Handling by Tenant of Hazardous Materials at or about the Premises or Property, including inspection and testing, performing all cleanup, removal and remediation work required with respect to those Hazardous Materials, complying with all closure requirements and post-closure monitoring, and filing all required reports or plans. All of the foregoing work and all Handling by Tenant of all Hazardous Materials shall be performed in a good, safe and workmanlike manner by consultants qualified and licensed to undertake such work and in a manner that will not interfere with any other tenant's quiet enjoyment of the Property or Landlord's use, operation, leasing and sale of the Property. Tenant shall deliver to Landlord prior to delivery to any governmental agency, or promptly after receipt from any such agency, copies of all permits, manifests, closure or remedial action plans, notices, and all other documents relating to the Handling by Tenant of Hazardous Materials at or about the Premises or Property. If any lien attaches to the Premises or the Property in connection with or as a result of the Handling by Tenant of Hazardous Materials, and Tenant does not cause the same to be released, by payment, bonding or otherwise, within ten (10) days after the attachment thereof, Landlord shall have the right but not the obligation to cause the same to be released and any sums expended by Landlord (plus Landlord's administrative costs) in connection therewith shall be payable by Tenant on demand.

(d) Landlord's Rights. Landlord shall have the right, but not the obligation, to enter the Premises at any reasonable time and except in the case of the emergency, upon reasonable prior notice (i) to confirm Tenant's compliance with the provisions of this Section 5.2, and (ii) to perform Tenant's obligations under this Section if Tenant has failed to do so after reasonable notice to Tenant. Landlord shall also have the right to engage qualified Hazardous Materials consultants to inspect the Premises and review the Handling by Tenant of Hazardous Materials, including review of all permits, reports, plans, and other documents regarding same. Tenant shall pay to Landlord on demand the costs of Landlord's consultants' fees and all costs incurred by Landlord in performing Tenant's obligations under this Section. Landlord shall use reasonable efforts to minimize any interference with Tenant's business caused by Landlord's entry into the Premises, but Landlord shall not be responsible for any interference caused thereby.

(e) Tenant's Indemnification. The term Landlord Parties (**"Landlord Parties"**) refers singularly and collectively to Landlord and the shareholders, partners, venturers, and members of Landlord, and the respective officers, directors, employees, managers, owners and any affiliates or agents of such entities and persons. Tenant agrees to indemnify, defend, protect and hold harmless the Landlord Parties from all Environmental Losses and all other claims, actions, losses, damages, liabilities, costs and expenses of every kind, including reasonable attorneys', experts' and consultants' fees and costs, incurred at any time and arising from or in connection with the Handling by Tenant of Hazardous Materials at or about the Property or Tenant's failure to comply in full with all Environmental Requirements with respect to the Premises.

6. TENANT IMPROVEMENTS & ALTERATIONS.

6.1 Landlord and Tenant shall perform their respective obligations with respect to design and construction of any improvements to be constructed and installed in the Premises (the **"Tenant Improvements"**), as provided in the Construction Rider. Except for any Tenant Improvements to be constructed by Tenant as provided in the Construction Rider, Tenant shall not make any alterations, improvements or changes to the Premises, including installation of any security system or telephone or data communication wiring, (**"Alterations"**), without Landlord's prior written consent, which may be withheld in Landlord's reasonable discretion. Notwithstanding the foregoing, Tenant shall have the right, without the consent of, but with prior written notice to, Landlord, to make Alterations to the Premises which (i) are not structural in nature, (ii) are not visible from the exterior of the Building, (iii) do not affect or require modification of the Building Systems, (iv) do not affect the water tight character of the Building or its roof, (v) do not move any interior walls or otherwise change the layout of the Premises, and (vi) cost in the aggregate less than Fifty Thousand Dollars ($50,000.00) during any calendar year (**"Cosmetic Changes"**). Landlord may, in its sole discretion, withhold consent to any alteration, addition or improvement that may affect the structure of the Building or may adversely or materially affect, or otherwise require modification to, any Building System. Any such Alterations shall be completed by Tenant at Tenant's sole cost and expense: (i) with due diligence, in a good and workmanlike manner, using new materials; (ii) in compliance with plans and specifications approved by Landlord; (iii) in compliance with the construction rules and regulations promulgated by Landlord from time to time; (iv) in accordance with all applicable Laws (including all work, whether structural or non-structural, inside or outside the Premises, required to comply fully with all applicable Laws and necessitated by Tenant's work); and (v) subject to all conditions which Landlord may in Landlord's reasonable discretion impose. Such conditions may include requirements for Tenant to: (i) with respect to Alterations costing $15,000.00 or more, provide payment or performance bonds or additional insurance (from Tenant or Tenant's contractors, subcontractors or design professionals); (ii) use contractors or subcontractors designated by Landlord; and (iii) remove all or part of the Alterations prior to or upon expiration or termination of the Term, as designated by Landlord. Notwithstanding anything to the contrary contained herein, so long as Tenant's written request for consent for a proposed Alteration contains the following statement in large, bold and capped font **"PURSUANT TO SECTION 6 OF THE LEASE, IF LANDLORD CONSENTS TO THE SUBJECT ALTERATION, LANDLORD SHALL NOTIFY TENANT IN WRITING WHETHER OR NOT LANDLORD WILL REQUIRE SUCH ALTERATION TO BE REMOVED AT THE EXPIRATION OR EARLIER TERMINATION OF THE LEASE.",** at the time Landlord gives its consent for any Alterations, if it so does, Tenant shall also be notified whether or not Landlord will require that such Alterations be removed upon the expiration or earlier termination of this Lease. Notwithstanding anything to the contrary contained in this Lease, at the expiration or earlier termination of this Lease and otherwise in accordance with Paragraph 19.1 hereof, Tenant shall be required to remove all Alterations made to the Premises except for any such Alterations which Landlord expressly indicates or is deemed to have indicated shall not be required to be removed from the Premises by Tenant. If Tenant's written notice strictly complies with the foregoing and if Landlord fails to notify Tenant within twenty (20) days of Landlord's receipt of such notice whether Tenant shall be required to remove the subject alterations or improvements at the expiration or earlier termination of this Lease, it shall be assumed that Landlord shall require the removal of the subject Alterations. If any work outside the Premises, or any work on or adjustment to any of the Building Systems, is required in connection with or as a result of Tenant's work, such work shall be performed at Tenant's expense by contractors designated by Landlord. Landlord's right to review and approve (or withhold approval of) Tenant's plans, drawings, specifications, contractor(s) and other aspects of construction work proposed by Tenant is intended solely to protect Landlord, the Property and Landlord's interests. No approval or consent by Landlord shall be deemed or construed to be a representation or warranty by Landlord as to the adequacy, sufficiency, fitness or suitability thereof or compliance thereof with applicable Laws or other requirements. Except as otherwise provided in Landlord's consent, all Alterations shall upon installation become part of the realty and be the property of Landlord. Notwithstanding anything to the contrary contained in this Section 6, Tenant shall not be required to remove any portion of the Tenant Improvements described on the Work List as of the date of this Lease (as such terms are defined in the Construction Rider).

6.2 Before making any Alterations, Tenant shall submit to Landlord for Landlord's prior approval reasonably detailed final plans and specifications prepared by a licensed architect or engineer, a copy of the construction contract, including the name of the contractor and all subcontractors proposed by Tenant to make the Alterations and a copy of the contractor's license. Tenant shall reimburse Landlord upon demand for any expenses incurred by Landlord (not to exceed $2,500.00) in connection with any Alterations made by Tenant, including reasonable fees charged by Landlord's contractors or consultants to review plans and specifications prepared by Tenant and to update the existing as-built plans and specifications of the Building to reflect the Alterations. Before commencement of any Alterations Tenant shall (i) obtain all applicable permits, authorizations and governmental approvals and deliver copies of the same to Landlord, and (ii) give Landlord at least ten (10) days prior written notice and shall cooperate with Landlord in posting and maintaining notices of non-responsibility in connection with the Alterations. Within thirty (30) days following the completion of any Alterations Tenant shall deliver to Landlord "as built" plans showing the completed Alterations. The "as built" plans shall be "hard copy" on paper and in digital form (if done on CAD), and show the Alterations in reasonable detail, including (a) the location of walls, partitions and doors, including fire exits and ADA paths of travel, (b) electrical, plumbing and life safety fixtures, and (c) a reflected ceiling plan showing the location of heating, ventilating and air conditioning registers, lighting and life safety systems.

6.3 In connection with all Alterations (other than the Tenant Improvements), Landlord shall be entitled to a construction coordination fee equal to four percent (4%) of the first one hundred thousand dollars ($100,000) of construction costs, three percent (3%) of the next four hundred thousand dollars ($400,000) of construction costs, two percent (2%) of the next five hundred thousand dollars ($500,000) of construction costs, and one percent (1%) of any additional construction costs.

6.4 Tenant shall keep the Premises and the Property free and clear of all liens arising out of any work performed, materials furnished or obligations incurred by Tenant. If any such lien attaches to the Premises or the Property, and Tenant does not cause the same to be released by payment, bonding or otherwise within ten (10) days after the attachment thereof, Landlord shall have the right but not the obligation to cause the same to be released, and any sums expended by Landlord (plus Landlord's administrative costs) in connection therewith shall be payable by Tenant on demand with interest thereon from the date of expenditure by Landlord at the Interest Rate (as defined in Section 16.2 - *Interest).*

6.5 Subject to the provisions of Section 5 - *Use and Compliance with Laws* and the other provisions of this Section 6, Tenant may install and maintain furnishings, equipment, movable partitions, business equipment and other trade fixtures (**"Trade Fixtures"**) in the Premises, provided that the Trade Fixtures do not become an integral part of the Premises or the Building. Tenant shall promptly repair any damage to the Premises or the Building caused by any installation or removal of such Trade Fixtures.

7. MAINTENANCE AND REPAIRS.

7.1 By taking possession of the Premises Tenant agrees that the Premises are then in a good and tenantable condition. Subject to the terms of Section 1 above, Tenant at Tenant's expense but under the direction of Landlord, shall repair and maintain the Premises, including the interior walls, floor coverings, ceiling (ceiling tiles and grid), Tenant Improvements, Alterations, fire extinguishers, the portion of Building Systems exclusively serving the Premises (e.g., electrical outlets and fixtures, dedicated HVAC equipment, distribution systems and registers) and any appliances (including dishwashers, hot water heaters and garbage disposers) in the Premises, in good working condition (but in no event in a condition worse than the condition existing as of the date on which Landlord delivered possession of the Premises to Tenant), and keep the Premises in a clean, safe and orderly condition.

7.2 Landlord shall maintain or cause to be maintained in reasonably good order, condition and repair, the structural portions of the roof, foundations, floors and exterior walls of the Building, the portion of the Building Systems not covered by Tenant's obligations in Section 7.1, and the public and common areas of the Property, such as elevators, stairs, corridors and restrooms; provided, however, that Tenant shall pay the cost of repairs for any damage occasioned by Tenant's use of the Premises or the Property or any act or omission of Tenant or Tenant's Representatives or Visitors, to the extent not covered by the proceeds of Landlord's property insurance. Landlord shall be under no obligation to inspect the Premises. Tenant shall promptly report in writing to Landlord any defective condition known to Tenant which Landlord is required to repair. As a material part of the consideration for this Lease, Tenant hereby waives any benefits of any applicable existing or future Law, including the provisions of California Civil Code Sections 1932(1), 1941 and 1942, that allows a tenant to make repairs at its landlord's expense.

7.3 Landlord hereby reserves the right, at any time and from time to time, without liability to Tenant, and without constituting an eviction, constructive or otherwise, or entitling Tenant to any abatement of rent or to terminate this Lease or otherwise releasing Tenant from any of Tenant's obligations under this Lease:

(a) To make alterations, additions, repairs, improvements to or in or to decrease the size of area of, all or any part of the Building, the fixtures and equipment therein, and the Building Systems;

(b) To change the Building's name or street address;

(c) To install and maintain any and all signs on the exterior and interior of the Building;

(d) To reduce, increase, enclose or otherwise change at any time and from time to time the size, number, location, lay-out and nature of the Common Areas (including the Parking Facility) and other tenancies and premises in the Property and to create additional rentable areas through use or enclosure of common areas; and

(e) If any governmental authority promulgates or revises any Law or imposes mandatory or voluntary controls or guidelines on Landlord or the Property relating to the use or conservation of energy or utilities or the reduction of automobile or other emissions or reduction or management of traffic or parking on the Property (collectively **"Controls"**), to comply with such Controls, whether mandatory or voluntary, or make any alterations to the Property related thereto.

(f) In exercising its rights under this Section 7.3, Landlord agrees to use commercially reasonable efforts to minimize any interruption to or disruption of Tenant's use of the Premises.

8. TENANT'S TAXES. **"Tenant's Taxes"** shall mean (a) all taxes, assessments, license fees and other governmental charges or impositions levied or assessed against or with respect to Tenant's personal property or Trade Fixtures in the Premises, whether any such imposition is levied directly against Tenant or levied against Landlord or the Property, (b) all rental, excise, sales or transaction privilege taxes arising out of this Lease (excluding, however, state and federal personal or corporate income taxes measured by the income of Landlord from all sources) imposed by any taxing authority upon Landlord or upon Landlord's receipt of any rent payable by Tenant pursuant to the terms of this Lease (**"Rental Tax"**), and (c) any increase in Taxes attributable to inclusion of a value placed on Tenant's personal property, Trade Fixtures or Alterations. Tenant shall pay any Rental Tax to Landlord in addition to and at the same time as Base Rent is payable under this Lease, and shall pay all other Tenant's Taxes before delinquency (and, at Landlord's request, shall furnish Landlord satisfactory evidence thereof). If Landlord pays Tenant's Taxes or any portion thereof, Tenant shall reimburse Landlord upon demand for the amount of such payment, together with interest at the Interest Rate from the date of Landlord's payment to the date of Tenant's reimbursement.

9. UTILITIES AND SERVICES.

9.1 Description of Services. Description of Services. The Business Hours are specified in the Basic Lease Information (**"Business Hours"**). The business days are weekdays except public holidays (**"Business Days"**). During the Term Landlord shall furnish to the Premises for ordinary office use and occupancy: janitorial services on Business Days; and reasonable amounts of electricity for building standard lighting and use of office equipment requiring only 120 volt standard outlet power. Landlord shall furnish reasonable amounts of heat, ventilation and air-conditioning for the Premises during Business Hours. Landlord shall also provide the Building with normal fluorescent tube replacement for building standard fixtures, washing of perimeter windows, elevator service, and common area toilet room cleaning and supplies.

9.2 Payment for Additional Utilities and Services.

(a) Upon request by Tenant in accordance with the procedures established by Landlord from time to time for furnishing heating, ventilation and air conditioning service at times other than Business Hours on Business Days, Landlord shall furnish such service to Tenant and Tenant shall pay for such services on an hourly basis at the then prevailing rate established for the Building by Landlord. As of the date of this Lease, the prevailing rate for furnishing HVAC Service at times other than Business Hours on Business Days is $55.00 per hour per suite which may be changed from time to time in Landlord's sole discretion.

(b) If the temperature otherwise maintained in any portion of the Premises by the HVAC systems of the Building is affected as a result of (i) any lights, machines or equipment used by Tenant in the Premises, or (ii) the occupancy of the Premises by more than one person per 180 square feet of rentable area, then Landlord shall have the right to install any machinery or equipment reasonably necessary to restore the temperature, including modifications to the standard air-conditioning equipment. The cost of any such equipment and modifications, including the cost of installation and any additional cost of operation and maintenance of the same, shall be paid by Tenant to Landlord upon demand.

(c) If Tenant's usage of electricity, water or any other utility service exceeds the use of such utility Landlord reasonably determines to be typical, normal and customary for the Building, Landlord may determine the amount of such excess use by any reasonable means (including the installation at Landlord's request but at Tenant's expense of a separate meter or other measuring device) and charge Tenant for the cost of such excess usage. Examples of excess electrical usage include, but are not limited to, material consumption of electricity outside Building Hours, or consumption of extraordinary amounts of electricity at any time, such as for the operation of above standard server(s) for an office tenant occupying comparable space, for dedicated HVAC equipment for the Premises, or for other equipment requiring power in excess of standard 120 volt outlet power; provided, that Tenant shall be permitted to operate small normal and customary servers that require normal electrical consumption, as reasonably determined by Landlord, and that are otherwise in compliance with the terms and conditions of this Lease. In addition, Landlord may impose a reasonable charge for the use of any additional or unusual janitorial services required by Tenant because of any unusual Tenant Improvements or Alterations, the carelessness of Tenant or the nature of Tenant's business (including hours of operation).

9.3 Interruption of Services. In the event of an interruption in, or failure or inability to provide any of the services or utilities described in Section 9.1 - "Description of Services" (a **"Service Failure"**), such Service Failure shall not, regardless of its duration, constitute an eviction of Tenant, constructive or otherwise, or impose upon Landlord any liability whatsoever, including, but not limited to, liability for consequential damages or loss of business by Tenant or, except as provided below in this Section 9.3, entitle Tenant to an abatement of rent or to terminate this Lease.

(a) If any Service Failure not caused by Tenant or its Representatives prevents Tenant from reasonably using a material portion of the Premises and Tenant in fact ceases to use such portion of the Premises, Tenant shall be entitled to an abatement of Base Rent and Additional Rent with respect to the portion of the Premises that Tenant is prevented from using by reason of such Service Failure in the following circumstances: (i) if Landlord fails to commence reasonable efforts to remedy the Service Failure within five (5) Business Days following the occurrence of the Service Failure, and such failure has persisted and continuously prevented Tenant from using a material portion of the Premises during that period, the abatement of rent shall commence on the sixth (6th) Business Day following the Service Failure and continue until Tenant is no longer so prevented from using such portion of the Premises; and (ii) if the Service Failure in all events is not remedied within thirty (30) days following the occurrence of the Service Failure and Tenant in fact does not use such portion of the Premises for an uninterrupted period of thirty (30) days or more by reason of such Service Failure, the abatement of rent shall commence no later than the thirty-first (31st) day following the occurrence of the Service Failure and continue until Tenant is no longer so prevented from using such portion of the Premises.

(b) If a Service Failure is caused by Tenant or its Representatives, Landlord shall nonetheless remedy the Service Failure, at the expense of Tenant, pursuant to Landlord's maintenance and repair obligations under Section 7 - "Maintenance and Repair" or Section 12.1 "Landlord's Duty to Repair," as the case may be, but Tenant shall not be entitled to an abatement of rent or to terminate this Lease as a result of any such Service Failure.

(c) Notwithstanding Tenant's entitlement to rent abatement under the preceding provisions, Tenant shall continue to pay Tenant's then current rent until such time as Landlord and Tenant agree on the amount of the rent abatement. If Landlord and Tenant are unable to agree on the amount of such abatement within ten (10) Business Days of the date they commence negotiations regarding the abatement, then either party may submit the matter to binding arbitration pursuant to Sections 1280 et seq. of the California Code of Civil Procedure.

(d) If any Service Failure is caused by fire or other casualty then the provisions of Section 12 – "Damage or Destruction" shall control.

(e) Where the cause of a Service Failure is within the control of a public utility or other public or quasi-public entity outside Landlord's control, notification to such utility or entity of the Service Failure and request to remedy the failure shall constitute "reasonable efforts" by Landlord to remedy the Service Failure.

(f) Tenant hereby waives the provisions of California Civil Code Section 1932(1) or any other applicable existing or future law, ordinance or governmental regulation permitting the termination of this Lease due to such interruption, failure or inability.

9.4 Sole Electrical Representative. Landlord shall maintain exclusive control over and be the sole representative with respect to reception, utilization and distribution of electric power, regardless of point or means of origin, use or generation. Tenant shall not have the right to contract directly with any provider of electrical power or services.

9.5 Telecommunications. Tenant shall have the right to contract directly with telecommunications and media service providers (each a **"Telecommunications Provider"**) of Tenant's choice, subject to the provisions of this Section 9.5 and other provisions of this Lease. Upon request from Tenant Landlord agrees to deliver to Tenant a list of Telecommunication Providers then serving the Building. If Tenant desires to (a) obtain service from or enter into a contract with any Telecommunication Provider which at the time of Tenant's request does not serve the Building, or (b) obtain services which will require installation of new equipment by a Telecommunication Provider then serving the Building, then prior to providing service, any such Telecommunication Provider must enter into a written agreement with Landlord, acceptable to Landlord in Landlord's sole discretion, setting forth the terms and conditions of the access to be granted to any such Telecommunication Provider. Landlord shall not be obligated to incur any expense, liability or costs in connection with any Telecommunication Provider proposed by Tenant. All installations made by Telecommunication Providers shall be subject to Landlord's prior written approval and shall be made in accordance with the provisions of Section 6 of this Lease.

9.6 Direct Billing. If Tenant is billed directly by a public utility with respect to Tenant's electrical usage at the Premises, then, upon request, Tenant shall provide monthly electrical utility usage for the Premises to Landlord for the period of time requested by Landlord (in electronic or paper format) or, at Landlord's option, provide any written authorization or other documentation required for Landlord to request information regarding Tenant's electricity usage with respect to the Premises directly from the applicable utility company.

10. EXCULPATION AND INDEMNIFICATION.

10.1 Landlord's Indemnification of Tenant. Landlord shall indemnify, protect, defend and hold Tenant harmless from and against any claims, actions, liabilities, damages, costs or expenses, including reasonable consultants', expert witnesses' and attorneys' fees and costs incurred in defending against the same (**"Claims"**) asserted by any third party against Tenant for loss, injury or damage, to the extent such loss, injury or damage is caused by the willful misconduct or gross negligent acts or omissions of Landlord or its authorized representatives.

10.2 Tenant's Indemnification of Landlord. Tenant shall indemnify, protect, defend and hold the Landlord Parties harmless from and against Claims arising from (a) the acts or omissions of Tenant or Tenant's Representatives or Tenant's Visitors in or about the Property, or (b) any construction or other work or maintenance undertaken by Tenant on the Premises or elsewhere in the Property (including any design defects), or (c) any breach or default under this Lease by Tenant, or (d) any loss, injury or damage, howsoever and by whomsoever caused, to any person or property arising out of or relating to Tenant's occupancy or operation, and occurring in or about the Premises or the elsewhere in the Property, excepting only Claims described in this clause (d) to the extent they are caused by the willful misconduct or gross negligent acts or omissions of Landlord or its authorized representatives.

10.3 Damage to Tenant and Tenant's Property. The Landlord Parties shall not be liable to Tenant for any loss, injury or other damage to Tenant or to Tenant's property in or about the Premises or the Property from any cause (including defects in the Property or in any equipment in the Property; fire, explosion or other casualty; bursting, rupture, leakage or overflow of any plumbing or other pipes or lines, sprinklers, tanks, drains, drinking fountains or washstands in, above, or about the Premises or the Property; or acts of other tenants in the Property), unless caused by the gross negligence or willful misconduct of Landlord or its authorized representative or agents. Except as otherwise provided in this Section 10, Tenant hereby waives all claims against Landlord Parties for any such loss, injury or damage and the cost and expense of defending against claims relating thereto, including any loss, injury or damage caused by Landlord's negligence (active or passive) or willful misconduct. Notwithstanding any other provision of this Lease to the contrary, in no event shall Landlord be liable to Tenant for any punitive or consequential damages or damages for loss of business by Tenant.

10.4 Survival. The obligations of the parties under this Section 10 shall survive the expiration or termination of this Lease.

11. INSURANCE.

11.1 Tenant's Insurance.

(a) Liability Insurance. Tenant shall at all times throughout the Term (and any

time prior to the Tenn during which Tenant is granted access to the Premises) maintain in full force, commercial general liability insurance providing coverage on an occurrence form basis with limits of not less than Two Million Dollars ($2,000,000.00) each occurrence for bodily injury and property damage combined, Two Million Dollars ($2,000,000.00) annual general aggregate, and Two Million Dollars ($2,000,000.00) products and completed operations annual aggregate. Tenant's liability insurance policy or policies shall: (i) include premises and operations liability coverage, products and completed operations liability coverage, broad form property damage coverage including completed operations, blanket contractual liability coverage including, to the maximum extent possible, coverage for the indemnification obligations of Tenant under this Lease, and personal and advertising injury coverage; (ii) provide that the insurance company has the duty to defend all named and additional insureds under the policy; (iii) provide that defense costs are paid in addition to and do not deplete any of the policy limits; (iv) cover liabilities arising out of or incurred in connection with Tenant's use or occupancy of the Premises or the Property; (v) extend coverage to cover liability for the actions of Tenant's Representatives and Visitors; and (vi) either designate separate limits for the Property acceptable to Landlord, or provide that the entire insured limits are available for occurrences relating to the Property. Each policy of liability insurance required by this Section shall: (i) contain a separation of insureds clause or otherwise provide cross-liability coverage; (ii) provide that any waiver of subrogation rights or release prior to a loss does not void coverage; (iii) provide that it is primary insurance; (iv) name as additional insureds the Landlord Parties, the Property Manager identified in the Basic Lease Information (the **"Property Manager"**), all Mortgagees (as defined in Section 20.2 of this Lease) and such other parties in interest as Landlord may reasonably designate to Tenant in writing; and (v) provide that any failure to comply with the reporting provisions under the policies shall not affect coverage provided such additional insureds. Such additional insureds shall be provided at least the same extent of coverage as is provided to Tenant under such policies. All endorsements effecting such additional insured status shall be at least as broad as additional insured endorsement form number CG 20 11 01 96 promulgated by the Insurance Services Office.

(b) Property Insurance. Tenant shall at all times (including any construction or installation periods, whether or not included in the Term) maintain in effect with respect to any Alterations and Tenant's Trade Fixtures and personal property, commercial property insurance providing coverage, on an "all risk" or "special form" basis, in an amount equal to at least 90% of the full replacement cost of the covered property. Tenant may carry such insurance under a blanket policy, provided that such policy provides coverage equivalent to a separate policy. During the Term, the proceeds from any such policies of insurance shall be used for the repair or replacement of the Alterations, Trade Fixtures and personal property so insured. The Landlord Parties shall be provided coverage under such insurance to the extent of their insurable interest and, if requested by Landlord, both Landlord and Tenant shall sign all documents reasonably necessary or proper in connection with the settlement of any claim or loss under such insurance. Landlord will have no obligation to carry insurance on any Alterations or on Tenant's Trade Fixtures or personal property.

(c) Requirements For All Policies. Each policy of insurance required under this Section 11.1 shall: (i) be in a form, and written by an insurer, reasonably acceptable to Landlord, (ii) be maintained at Tenant's sole cost and expense, and (iii) require at least ten (10) days' written notice to Landlord prior to any cancellation, nonrenewal or modification of insurance coverage. Insurance companies issuing such policies shall have rating classifications of "A" or better and financial size category ratings of "VIII" or better according to the latest edition of the A.M. Best Key Rating Guide. All insurance companies issuing such policies shall be admitted carriers licensed to do business in the state where the Property is located. Any deductible amount under such insurance shall not exceed $20,000. Tenant shall provide to Landlord, upon request, evidence that the insurance required to be carried by Tenant pursuant to this Section, including any endorsement effecting the additional insured status, is in full force and effect and that premiums therefor have been paid.

(d) Updating Coverage. Tenant shall increase the amounts of insurance as required by any Mortgagee, and, not more frequently than once every three (3) years, as recommended by Landlord's insurance broker, if, in the opinion of either of them, the amount of insurance then required under this Lease is not adequate; provided, however, that except to the extent required by any Mortgagee, the levels and types of insurance so requested by Landlord are commensurate with the levels and types of coverage then being required by landlords of comparable buildings in the vicinity of the Building. Any limits set forth in this Lease on the amount or type of coverage required by Tenant's insurance shall not limit the liability of Tenant under this Lease.

(e) Certificates of Insurance. Prior to any entry into or occupancy of the Premises by Tenant, and not less than ten (10) days prior to expiration of any policy thereafter, Tenant shall furnish to Landlord a certificate of insurance reflecting that the insurance required by this Section is in force, accompanied by an endorsement showing the required additional insureds satisfactory to Landlord in substance and form.

11.2 Landlord's Insurance. During the Term, to the extent such coverages are available at a commercially reasonable cost, Landlord shall maintain in effect insurance on the Building with responsible insurers, on an "all risk" or "special form" basis, insuring the Building and the Tenant Improvements in an amount equal to at least 90% of the replacement cost thereof, excluding land, foundations, footings and underground installations. Landlord may, but shall not be obligated to, carry insurance against additional perils and/or in greater amounts.

11.3 Mutual Waiver of Right of Recovery & Waiver of Subrogation. Landlord and Tenant each hereby waive any right of recovery against each other and their respective partners, managers, members, shareholders, officers, directors and authorized representatives for any loss or damage that is covered by any policy of property insurance maintained by either party (or required by this Lease to be maintained) with respect to the Premises or the Property or any operation therein, regardless of cause, including negligence (active or passive) of the party benefiting from the waiver. If any such policy of insurance relating to this Lease or to the Premises or the Property does not permit the foregoing waiver or if the coverage under any such policy would be invalidated as a result of such waiver, the party maintaining such policy shall obtain from the insurer under such policy a waiver of all right of recovery by way of subrogation against either party in connection with any claim, loss or damage covered by such policy.

12. DAMAGE OR DESTRUCTION.

12.1 Landlord's Duty to Repair.

(a) If all or a substantial part of the Premises are rendered untenantable or inaccessible by damage to all or any part of the Property from fire or other casualty during the Term, then, unless either party is entitled to and elects to terminate this Lease pursuant to Sections 12.2 - *Landlord's Right to Terminate* and 12.3 - *Tenant's Right to Terminate,* Landlord shall, at its expense, use reasonable efforts to repair and restore the Premises and/or the Property, as the case may be, to substantially their former condition to the extent permitted by then applicable Laws; provided, however, that in no event shall Landlord have any obligation for repair or restoration beyond the extent of insurance proceeds received by Landlord for such repair or restoration, or for any of Tenant's personal property, Trade Fixtures or Alterations.

(b) If Landlord is required or elects to repair damage to the Premises and/or the Property, this Lease shall continue in effect, but Tenant's Base Rent and Additional Rent shall be abated with regard to any portion of the Premises that Tenant is prevented from using by reason of such damage or its repair from the date of the casualty until substantial completion of Landlord's repair of the affected portion of the Premises as required under this Lease. In no event shall Landlord be liable to Tenant by reason of any injury to or interference with Tenant's business or property arising from fire or other casualty or by reason of any repairs to any part of the Property necessitated by such casualty.

12.2 Landlord's Right to Terminate. Landlord may elect to terminate this Lease following damage by fire or other casualty under the following circumstances:

(a) If, in the reasonable judgment of Landlord, the Premises and the Property cannot be substantially repaired and restored under applicable Laws within nine (9) months from the date of the casualty;

(b) If, in the reasonable judgment of Landlord, adequate proceeds are not, for any reason, made available to Landlord from Landlord's insurance policies (and/or from Landlord's funds made available for such purpose, at Landlord's sole option) to make the required repairs;

(c) If the Building is damaged or destroyed to the extent that, in the reasonable judgment of Landlord, the cost to repair and restore the Building would exceed fifteen percent (15%) of the full replacement cost of the Building, whether or not the Premises are at all damaged or destroyed; or

(d) If the fire or other casualty occurs during the last year of the Term or if upon completion of repair and restoration, there would be less than one (1) year remaining in the Term.

If any of the circumstances described in subparagraphs (a), (b), (c) or (d) of this Section 12.2 occur or arise, Landlord shall give Tenant notice within ninety (90) days after the date of the casualty, specifying whether Landlord elects to terminate this Lease as provided above and, if not, Landlord's estimate of the time required to complete Landlord's repair obligations under this Lease.

12.3 Tenant's Right to Terminate. If all or a substantial part of the Premises are rendered untenantable or inaccessible by damage to all or any part of the Property from fire or other casualty, and Landlord does not elect to terminate as provided above, then Tenant may elect to terminate this Lease if Landlord's estimate of the time required to complete Landlord's repair obligations under this Lease is greater than nine (9) months, in which event Tenant may elect to terminate this Lease by giving Landlord notice of such election to terminate within thirty (30) days after Landlord's notice to Tenant pursuant to Section 12.2 - *Landlord's Right to Terminate.* In addition to Landlord's and Tenant's right to terminate as provided herein, Tenant shall have the right to terminate this Lease if: (i) a material portion of the Premises is rendered untenantable by fire or other casualty and such damage cannot reasonably be repaired (as determined by Landlord) within ninety (90) days after Landlord's receipt of all required permits to restore the Premises; (ii) there is less than one (1) year of the Term remaining on the date of such casualty; (iii) the casualty was not caused by the negligence or willful misconduct of Tenant or any of Tenant's Representatives or Visitors; and (iv) Tenant provides Landlord with written notice of its intent to terminate within thirty (30) days after the date Tenant is notified that the damage cannot be repaired within such sixty (60) day period.

12.4 Waiver. Landlord and Tenant each hereby waive the provisions of California Civil Code Sections 1932(2), 1933(4) and any other applicable existing or future Law permitting the termination of a lease agreement in the event of damage or destruction under any circumstances other than as provided in Sections 12.2 - *Landlord's Right to Terminate* and 12.3 - *Tenant's Right to Terminate.*

13. CONDEMNATION.

13.1 Definitions.

(a) **"Award"** shall mean all compensation, sums, or anything of value awarded, paid or received on a total or partial Condemnation.

(b) **"Condemnation"** shall mean (i) a permanent taking (or a temporary taking for a period extending beyond the end of the Term) pursuant to the exercise of the power of condemnation or eminent domain by any public or quasi-public authority, private corporation or individual having such power (**"Condemnor"**), whether by legal proceedings or otherwise, or (ii) a voluntary sale or transfer by Landlord to any such authority, either under threat of condemnation or while legal proceedings for condemnation are pending.

(c) **"Date of Condemnation"** shall mean the earlier of the date that title to the property taken is vested in the Condemnor or the date the Condemnor has the right to possession of the property being condemned.

13.2 Effect on Lease.

(a) If the Premises are totally taken by Condemnation, this Lease shall terminate as of the Date of Condemnation. If a portion but not all of the Premises is taken by Condemnation, this Lease shall remain in effect; provided, however, that if the portion of the Premises remaining after the Condemnation will be unsuitable for Tenant's continued use, then upon notice to Landlord within thirty (30) days after Landlord notifies Tenant of the Condemnation, Tenant may terminate this Lease effective as of the Date of Condemnation.

(b) If fifteen percent (15%) or more of the Property or of the parcel(s) of land on which the Building is situated or of the Parking Facility or of the floor area in the Building is taken by Condemnation, or if as a result of any Condemnation the Building is no longer reasonably suitable for use as an office building, whether or not any portion of the Premises is taken, Landlord may elect to terminate this Lease, effective as of the Date of Condemnation, by notice to Tenant within thirty (30) days after the Date of Condemnation.

(c) If all or a portion of the Premises is temporarily taken by a Condemnor for a period not extending beyond the end of the Term, this Lease shall remain in full force and effect.

13.3 Restoration. If this Lease is not terminated as provided in Section 13.2 - *Effect on Lease,* Landlord, at its expense, shall diligently proceed to repair and restore the Premises to substantially its former condition (to the extent permitted by then applicable Laws) and/or repair and restore the Building to an architecturally complete office building; provided, however, that Landlord's obligations to so repair and restore shall be limited to the amount of any Award received by Landlord and not required to be paid to any Mortgagee (as defined in Section 20.2 below). In no event shall Landlord have any obligation to repair or replace any improvements in the Premises beyond the amount of any Award received by Landlord for such repair or to repair or replace any of Tenant's personal property, Trade Fixtures, or Alterations.

13.4 Abatement and Reduction of Rent. If any portion of the Premises is taken in a Condemnation or is rendered permanently untenantable by repairs necessitated by the Condemnation, and this Lease is not terminated, the Base Rent and Additional Rent payable under this Lease shall be proportionally reduced as of the Date of Condemnation based upon the percentage of rentable square feet in the Premises so taken or rendered permanently untenantable. In addition, if this Lease remains in effect following a Condemnation and Landlord proceeds to repair and restore the Premises, the Base Rent and Additional Rent payable under this Lease shall be abated during the period of such repair or restoration to the extent such repairs prevent Tenant's use of the Premises.

13.5 Awards. Any Award made shall be paid to Landlord, and Tenant hereby assigns to Landlord, and waives all interest in or claim to, any such Award, including any claim for the value of the unexpired Term; provided, however, that Tenant shall be entitled to receive, or to prosecute a separate claim for, an Award for a temporary taking of the Premises or a portion thereof by a Condemnor where this Lease is not terminated (to the extent such Award relates to the unexpired Term), or an Award or portion thereof separately designated for relocation expenses or the interruption of or damage to Tenant's business or as compensation for Tenant's personal property, Trade Fixtures or Alterations, provided that in no event will any Award to Tenant reduce any Award to which Landlord would otherwise be entitled.

13.6 Waiver. Landlord and Tenant each hereby waive the provisions of California Code of Civil Procedure Section 1265.130 and any other applicable existing or future Law allowing either party to petition for a termination of this Lease upon a partial taking of the Premises and/or the Property.

14. ASSIGNMENT AND SUBLETTING.

14.1 Landlord's Consent Required. Tenant shall not assign this Lease or any interest therein, or sublet or license or permit the use or occupancy of the Premises or any part thereof by or for the benefit of anyone other than Tenant, or in any other manner transfer all or any part of Tenant's interest under this Lease (each and all a **"Transfer"**), without the prior written consent of Landlord, which consent (subject to the other provisions of this Section 14) shall not be unreasonably withheld. Subject to the terms of Section 14.9 below, if Tenant is a business entity, any direct or indirect transfer of fifty percent (50%) or more of the ownership interest of the entity (whether in a single transaction or in the aggregate through more than one transaction), including a merger or consolidation, shall be deemed a Transfer. Notwithstanding any provision in this Lease to the contrary, Tenant shall not mortgage, pledge, hypothecate or otherwise encumber this Lease or all or any part of Tenant's interest under this Lease. Any assignee, subtenant, user or other transferee under any proposed Transfer is herein called a **"Proposed Transferee"**. Any assignee, subtenant, user or other transferee is herein called a **"Transferee"**.

14.2 Reasonable Consent.

(a) At least forty-five (45) days prior to any proposed Transfer, Tenant shall submit in writing to Landlord (i) the name and legal composition of the Proposed Transferee; (ii) the nature of the business proposed to be carried on in the Premises; (iii) a current balance sheet, and income and cash flow statements for the last two years and such other reasonable financial and other information concerning the Proposed Transferee as Landlord may request; and (iv) a copy of the proposed assignment, sublease or other agreement governing the proposed Transfer in final form. Within fifteen (15) Business Days after Landlord shall have received all such information it shall notify Tenant whether it approves or disapproves such Transfer or if it elects to proceed under Section 14.7 - *Landlord's Right to Space.*

(b) Tenant acknowledges and agrees that, among other circumstances for which Landlord could reasonably withhold consent to a proposed Transfer, it shall be reasonable for Landlord to withhold consent where (i) the Proposed Transferee does not intend itself to occupy the entire portion of the Premises assigned or sublet, (ii) Landlord reasonably disapproves of the Proposed Transferee's business operating ability or history, reputation or creditworthiness or the character of the business to be conducted by the Proposed Transferee at the Premises, (iii) the Proposed Transferee is a governmental agency or unit or an existing tenant or an affiliate of an existing tenant (other than Tenant) in the Building, (iv) the proposed Transfer would violate any "exclusive" rights of any tenants in the Building, (v) Landlord or Landlord's agent has shown space in the Building to the Proposed Transferee or responded to any inquiries from the Proposed Transferee or the Proposed Transferee's agent concerning availability of space in the Building, at any time within the preceding nine months, (vi) a proposed Transfer would violate any Encumbrance, (vii) any Mortgagee objects to the proposed Transfer, or (viii) the proposed agreement governing the Transfer purports to expand the Tenant's rights under the Lease, or modify or constrain any of Landlord's rights under the Lease, or (ix) Landlord otherwise determines that the proposed Transfer would have the effect of decreasing the value of the Property or increasing the expenses associated with operating, maintaining and repairing the Property. In no event may Tenant publicly offer or advertise all or any portion of the Premises for assignment or sublease at a rental less than seventy-five percent (75%) of that then sought by Landlord for a direct lease (non-sublease) of comparable space in the Building; provided, however, that the foregoing shall not be deemed to be a minimum requirement on the actual sublease rental rate Tenant may charge an approved or permitted subtenant in any applicable sublease.

14.3 Excess Consideration. If Landlord consents to a Transfer, Tenant shall pay to Landlord, as Additional Rent, within ten (10) days after receipt by Tenant, fifty percent (50%) of all **"Transfer Consideration"**, which shall mean any consideration paid or payable by the Transferee for the Transfer. In the case of a sublease, Transfer Consideration includes any "key money" or other non-rent consideration payable in connection with the sublease, plus the excess of the rent payable by the subtenant over the amount of Base Rent and Additional Rent payable hereunder applicable to the subleased space, less the direct, out-of-pocket expenses and costs for necessary Alterations, reasonable attorneys' fees and brokerage commission costs paid by Tenant to procure the subtenant. Any such costs for Alterations, reasonable attorneys' fees and brokerage commissions shall be amortized on a straight basis over the term of the sublease. In the case of an assignment (including any Transfer resulting from a change in ownership, merger or consolidation), Transfer Consideration includes the value of the Lease (whether or not expressly allocated or otherwise provided for in such transaction) and any other consideration paid or payable by the Transferee for the assignment of the Lease, less the direct, out-of-pocket expenses and costs for reasonably necessary Alterations made for the subject transfer, reasonable attorneys' fees, and reasonable brokerage commissions paid by Tenant to procure the assignment.

14.4 No Release Of Tenant. No consent by Landlord to any Transfer shall relieve Tenant of any obligation to be performed by Tenant under this Lease, whether occurring before or after such consent, assignment, subletting or other Transfer. Each Transferee shall be jointly and severally liable with Tenant (and Tenant shall be jointly and severally liable with each Transferee) for the payment of rent (or, in the case of a sublease, rent in the amount set forth in the sublease) and for the performance of all other terms and provisions of this Lease. The consent by Landlord to any Transfer shall not relieve Tenant or any such Transferee from the obligation to obtain Landlord's express prior written consent to any subsequent Transfer by Tenant or any Transferee. The acceptance of rent by Landlord from any other person (whether or not such person is an occupant of the Premises) shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any Transfer.

14.5 Expenses and Attorneys' Fees. Tenant shall pay to Landlord on demand all costs and expenses (including reasonable attorneys' fees which fees shall not to exceed $2,500.00 per request for Landlord's consent to a proposed Transfer so long as the documentation is commercially reasonable and Tenant and/or the proposed Transferee does not materially or unreasonably negotiate the terms and conditions of Landlord's consent documentation) incurred by Landlord in connection with reviewing or consenting to any proposed Transfer (including any request for consent to, or any waiver of Landlord's rights in connection with, any security interest in any of Tenant's property at the Premises).

14.6 Effectiveness of Transfer. Prior to the date on which any Transfer becomes effective (whether or not requiring Landlord's consent), Tenant shall deliver to Landlord a counterpart of the fully executed Transfer document and Landlord's standard form of Consent to Assignment or Consent to Sublease executed by Tenant and the Transferee in which each of Tenant and the Transferee confirms its obligations pursuant to this Lease. Failure or refusal of a Transferee to execute any such instrument shall not release or discharge the Transferee from liability as provided herein. The voluntary, involuntary or other surrender of this Lease by Tenant, or a mutual cancellation by Landlord and Tenant, shall not work a merger, and any such surrender or cancellation shall, at the option of Landlord, either terminate all or any existing subleases or operate as an assignment to Landlord of any or all of such subleases.

14.7 Landlord's Right to Space. Notwithstanding any of the above provisions of this Section to the contrary, if Tenant notifies Landlord that it desires to enter into a Transfer, Landlord, in lieu of consenting to such Transfer, may elect (a) in the case of an assignment or a sublease of the entire Premises, to terminate this Lease, or (b) in the case of a sublease for a term greater than fifty (50%) of the remaining term of this Lease and which sublease results in more than fifty percent (50%) of the entire Premises being subleased at any given time, to terminate this Lease as it relates to the space proposed to be subleased by Tenant. In such event, this Lease will terminate (or the space proposed to be subleased will be removed from the Premises subject to this Lease and the Base Rent and Tenant's Share under this Lease shall be proportionately reduced) on the earlier of (x) sixty (60) days after the date of Landlord's notice to Tenant making the election set forth in this Section 14.7, or (y) the date the Transfer was proposed to be effective, if such date is specified in Tenant's notice to Landlord regarding the proposed Transfer, and Landlord may lease such space to any party, including the prospective Transferee identified by Tenant. Notwithstanding the provisions of this Section 14.7 to the contrary, if (i) Tenant proposes to sublease a portion of the Premises, and (ii) Landlord elects to terminate this Lease with respect to the space Tenant proposes to sublease, then Tenant shall have the right to rescind (a **"Rescission"**) any such termination by Landlord only with respect to any sublease which cumulatively, whether through one (1) or more subleases, does not result in Tenant subleasing, in the aggregate, more than seventy-five percent (75%) of the rentable area in the Premises. Any Rescission shall be effective, if at all, only by Tenant giving Landlord written notice (**"Tenant's Rescission Notice"**) within five (5) Business Days following Landlord's written notice of termination pursuant to the provisions of this Section 14.7. Upon Tenant giving Tenant's Rescission Notice, (iii) this Lease shall remain in full force and effect in accordance with the provisions contained herein, and (iv) Tenant shall be deemed to have withdrawn the request for consent to a sublease, and the proposed sublease which was the basis for Landlord's termination under the provisions of this Section 14.7 shall be void, and of no force and effect. Tenant shall not have the right to rescind Landlord's termination of a sublease which cumulatively would result in Tenant subleasing more than seventy-five percent (75%) of the rentable area in the Premises.

14.8 Assignment of Sublease Rents. Tenant hereby absolutely and irrevocably assigns to Landlord any and all rights to receive rent and other consideration from any sublease and agrees that Landlord, as assignee or as attorney-in-fact for Tenant for purposes hereof, or a receiver for Tenant appointed on Landlord's application may (but shall not be obligated to) collect such rents and other consideration and apply the same toward Tenant's obligations to Landlord under this Lease; provided, however, that Landlord grants to Tenant at all times prior to occurrence of any breach or default by Tenant (which breach or default continues beyond any applicable notice and cure periods) a revocable license to collect such rents (which license shall automatically and without notice be and be deemed to have been revoked and terminated immediately upon any Event of Default).

14.9 Permitted Transfers. Notwithstanding any provision contained in the Section 14 to the contrary, Tenant shall have the right, without the consent of Landlord, upon ten (10) days prior written notice to Landlord, to Transfer this Lease to any of the following entities (each a **"Permitted Transferee"**, a Transfer to a Permitted Transferee being a **"Permitted Transfer"**), so long as the Permitted Transferee has a tangible net worth sufficient to fulfill the obligations of the original Tenant under this Lease being assumed by the Permitted Transferee and no less than the tangible net worth of Tenant immediately prior to such Transfer, and so long as such Transfer is not objectionable to Landlord under any of Subsections 14.2(b)(iii), (iv), (vi), (viii) or (ix) of this Lease: (i) a successor corporation related to Tenant by merger, consolidation, or non-bankruptcy reorganization, (ii) a purchaser of at least ninety percent (90%) of Tenant's assets as an ongoing concern, or (iii) an "Affiliate" of Tenant. The provisions of Sections 14.3 and 14.7 shall not apply with respect to a Permitted Transfer, but any Permitted Transfer pursuant to the provisions of this Section 14.9 shall be subject to all of the other provisions of this Lease. Tenant shall remain liable under this Lease after any such transfer. For the purposes of this Article 14, the term **"Affiliate"** of Tenant shall mean and refer to any entity controlling, controlled by or under common control with Tenant or Tenant's parent or subsidiary, as the case may be. **"Control"** as used herein shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such controlled entity; and the ownership, or possession of the right to vote, in the ordinary direction of its affairs, of at least fifty percent (50%) of the voting interest in any entity. Notwithstanding Tenant's right to make a Permitted Transfer pursuant to the provisions of this Section 14.9, Tenant may not, through use of its rights under this Article 14 in two or more transactions (whether separate transactions or steps or phases of a single transaction), at one time or over time, whether by first assigning this Lease to a subsidiary and then merging the subsidiary into another entity or selling the stock of the subsidiary or by other means, assign or sublease the Premises, or transfer control of Tenant, to any person or entity which is not a subsidiary, affiliate or controlling corporation of the original Tenant, as then constituted, existing prior to the commencement of such transactions, without first obtaining Landlord's prior written consent and complying with all other applicable provisions of this Section 14.

15. DEFAULT AND REMEDIES.

15.1 Events of Default. The occurrence of any of the following shall constitute an **"Event of Default"** by Tenant:

(a) Tenant fails to make any payment of Rent when due, or any amount required to replenish the Security Deposit as provided in Section 4 above, if payment in full is not received by Landlord within three (3) days after written notice that it is due. If Landlord accepts any past due Rent, such acceptance shall not be a waiver of any other prior breach by Tenant under this Lease, other than the failure of Tenant to pay the particular past due Rent which Landlord has accepted.

(b) Tenant abandons the Premises and fails to pay rent hereunder.

(c) Tenant fails timely to deliver any subordination document, estoppel certificate or financial statement requested by Landlord within the applicable time period specified in Sections 20 - *Encumbrances* - and 21 - *Estoppel Certificates and Financial Statements* - below.

(d) Tenant violates the restrictions on Transfer set forth in Section 14 *Assignment and Subletting.*

(e) Tenant ceases doing business as a going concern; makes an assignment for the benefit of creditors; is adjudicated an insolvent, files a petition (or files an answer admitting the material allegations of a petition) seeking relief under any state or federal bankruptcy or other statute, law or regulation affecting creditors' rights; all or substantially all of Tenant's assets are subject to judicial seizure or attachment and are not released within 30 days, or Tenant consents to or acquiesces in the appointment of a trustee, receiver or liquidator for Tenant or for all or any substantial part of Tenant's assets.

(f) Tenant fails, within ninety (90) days after the commencement of any proceedings against Tenant seeking relief under any state or federal bankruptcy or other statute, law or regulation affecting creditors' rights, to have such proceedings dismissed, or Tenant fails, within ninety (90) days after an appointment, without Tenant's consent or acquiescence, of any trustee, receiver or liquidator for Tenant or for all or any substantial part of Tenant's assets, to have such appointment vacated.

(g) Tenant fails to perform or comply with any provision of this Lease other than those described in (a) through (f) above, and does not fully cure such failure within thirty (30) days after notice to Tenant or, if such failure cannot be cured within such thirty (30)-day period, Tenant fails within such thirty (30)-day period to commence, and thereafter diligently proceed with, all actions necessary to cure such failure as soon as reasonably possible but in all events within one hundred twenty (120) days of such notice; provided, however, that if Landlord in Landlord's reasonable judgment determines, at the end of said thirty (30)-day period, that such failure cannot or will not be cured by Tenant within such one hundred twenty (120) days, then such failure shall constitute an Event of Default immediately upon such notice to Tenant.

15.2 Remedies. Upon the occurrence of an Event of Default, Landlord shall have the following remedies, which shall not be exclusive but shall be cumulative and shall be in addition to any other remedies now or hereafter allowed by law:

(a) Landlord may terminate Tenant's right to possession of the Premises at any time by written notice to Tenant. Tenant expressly acknowledges that in the absence of such written notice from Landlord, no other act of Landlord, including re-entry into the Premises, efforts to relet the Premises, reletting of the Premises for Tenant's account, storage of Tenant's personal property and Trade Fixtures, acceptance of keys to the Premises from Tenant or exercise of any other rights and remedies under this Section, shall constitute an acceptance of Tenant's surrender of the Premises or constitute a termination of this Lease or of Tenant's right to possession of the Premises. Upon such termination in writing of Tenant's right to possession of the Premises, as herein provided, this Lease shall terminate and Landlord shall be entitled to recover damages from Tenant as provided in California Civil Code Section 1951.2 and any other applicable existing or future Law providing for recovery of damages for such breach, including the worth at the time of award of the amount by which the rent which would be payable by Tenant hereunder for the remainder of the Term after the date of the award of damages, including Additional Rent as reasonably estimated by Landlord, exceeds the amount of such rental loss as Tenant proves could have been reasonably avoided, discounted at the discount rate published by the Federal Reserve Bank of San Francisco for member banks at the time of the award plus one percent (1%).

(b) Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations).

(c) Landlord may cure the Event of Default at Tenant's expense. If Landlord pays any sum or incurs any expense in curing the Event of Default, Tenant shall reimburse Landlord upon demand for• the amount of such payment or expense with interest at the Interest Rate from the date the sum is paid or the expense is incurred until Landlord is reimbursed by Tenant.

(d) Landlord may remove all Tenant's property from the Premises, and such property may be stored by Landlord in a public warehouse or elsewhere at the sole cost and for the account of Tenant. If Landlord does not elect to store any or all of Tenant's property left in the Premises, Landlord may consider such property to be abandoned by Tenant, and Landlord may thereupon dispose of such property in any manner deemed appropriate by Landlord. Any proceeds realized by Landlord on the disposal of any such property shall be applied first to offset all expenses of storage and sale, then credited against Tenant's outstanding obligations to Landlord under this Lease, and any balance remaining after satisfaction of all obligations of Tenant under this Lease shall be delivered to Tenant.

16. LATE CHARGE AND INTEREST.

16.1 Late Charge. If any payment of Rent is not received by Landlord when due, Tenant shall pay to Landlord on demand as a late charge an additional amount equal to four percent (4%) of the overdue payment. A late charge shall not be imposed more than once on any particular installment not paid when due, but imposition of a late charge on any payment not made when due does not eliminate or supersede late charges imposed on other (prior) payments not made when due or preclude imposition of a late charge on other installments or payments not made when due.

16.2 Interest. In addition to the late charges referred to above, which are intended to defray Landlord's costs resulting from late payments, any payment from Tenant to Landlord not paid when due shall at Landlord's option bear interest from the date due until paid to Landlord by Tenant at the rate of twelve percent (12%) per annum or the maximum lawful rate that Landlord may charge to Tenant under applicable laws, whichever is less (the **"Interest Rate"**). Acceptance of any late charge and/or interest shall not constitute a waiver of Tenant's default with respect to the overdue sum or prevent Landlord from exercising any of its other rights and remedies under this Lease.

17. WAIVER. No provisions of this Lease shall be deemed waived by either party unless such waiver is in a writing signed by such party. The waiver by either party of any breach of any provision of this Lease shall not be deemed a waiver of such provision or of any subsequent breach of the same or any other provision of this Lease. No delay or omission in the exercise of any right or remedy of either party upon any default by the other party shall impair such right or remedy or be construed as a waiver. Landlord's acceptance of any payments of rent due under this Lease shall not be deemed a waiver of any default by Tenant under this Lease (including Tenant's recurrent failure to timely pay rent) other than Tenant's nonpayment of the accepted sums, and no endorsement or statement on any check or payment or in any letter or document accompanying any check or payment shall be deemed an accord and satisfaction. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any subsequent act by Tenant.

18. ENTRY, INSPECTION AND CLOSURE. Upon reasonable oral or written notice to Tenant (and without notice in emergencies), Landlord and its authorized representatives may enter the Premises at all reasonable times to: (a) determine whether the Premises are in good condition, (b) determine whether Tenant is complying with its obligations under this Lease, (c) perform any maintenance or repair of the Premises or the Building that Landlord has the right or obligation to perform, (d) install or repair improvements for other tenants where access to the Premises is required for such installation or repair, (e) serve, post or keep posted any notices required or allowed under the provisions of this Lease, (f) show the Premises to prospective brokers, agents, buyers, transferees, Mortgagees or tenants provided that Landlord may only show the Premises to prospective tenants during the last nine (9) months of the Term, or (g) do any other act or thing necessary for the safety or preservation of the Premises or the Building. When reasonably necessary Landlord may temporarily close entrances, doors, corridors, elevators or other facilities in the Building without liability to Tenant by reason of such closure. Landlord shall use commercially reasonable efforts to conduct its activities under this Section in a manner that will minimize inconvenience to Tenant without incurring additional expense to Landlord. In no event shall Tenant be entitled to an abatement of rent on account of any entry by Landlord, and Landlord shall not be liable in any manner for any inconvenience, loss of business or other damage to Tenant or other persons arising out of Landlord's entry on the Premises in accordance with this Section. No action by Landlord pursuant to this paragraph shall constitute an eviction of Tenant, constructive or otherwise, entitle Tenant to an abatement of rent or to terminate this Lease or otherwise release Tenant from any of Tenant's obligations under this Lease.

19. SURRENDER AND HOLDING OVER.

19.1 Surrender. Upon the expiration or termination of this Lease, Tenant shall surrender the Premises and all Tenant Improvements and Alterations to Landlord broom-clean and in their original condition, except for reasonable wear and tear, damage from casualty or condemnation, any changes resulting from approved Alterations and Landlord's express obligations hereunder; provided, however, that prior to the expiration or termination of this Lease Tenant shall, at Landlord's request, remove all telephone and other cabling installed in the Building by Tenant and remove from the Premises all Tenant's personal property and any Trade Fixtures and, subject to Section 6.1 — *Tenant Improvements & Alterations,* all Alterations that Landlord has elected to require Tenant to remove as provided in Section 6.1 - *Tenant Improvements & Alterations,* and repair any damage caused by such removal. If such removal is not completed before the expiration or termination of the Term, Landlord shall have the right (but no obligation) to remove the same, and Tenant shall pay Landlord on demand for all costs of removal and storage thereof and for the rental value of the Premises for the period from the end of the Term through the end of the time reasonably required for such removal. Landlord shall also have the right to retain or dispose of all or any portion of such property if Tenant does not pay all such costs and retrieve the property within ten (10) days after notice from Landlord (in which event title to all such property described in Landlord's notice shall be transferred to and vest in Landlord). Tenant waives all Claims against Landlord for any damage or loss to Tenant resulting from Landlord's removal, storage, retention, or disposition of any such property. Upon expiration or termination of this Lease or of Tenant's possession, whichever is earliest, Tenant shall surrender all keys to the Premises or any other part of the Building and shall deliver to Landlord all keys for or make known to Landlord the combination of locks on all safes, cabinets and vaults that may be located in the Premises. Tenant's obligations under this Section shall survive the expiration or termination of this Lease.

19.2 Holding Over. If Tenant (directly or through any Transferee or other successor-in-interest of Tenant) remains in possession of the Premises after the expiration or termination of this Lease, Tenant's continued possession shall be on the basis of a tenancy at the sufferance of Landlord. No act or omission by Landlord, other than its specific written consent, shall constitute permission for Tenant to continue in possession of the Premises, and if such consent is given or declared to have been given by a court judgment, Landlord may terminate Tenant's holdover tenancy at any time upon seven (7) days written notice. In such event, Tenant shall continue to comply with or perform all the terms and obligations of Tenant under this Lease, except that the monthly Base Rent shall be one hundred fifty percent (150%) of the Base Rent payable in the last full month prior to the termination hereof on a per diem basis for each day Tenant remains in possession for the first sixty (60) days of any such holdover period. Commencing on the sixty first (61st) day, such rate shall be increased to two hundred percent (200%) of the Base Rent payable in the last full month prior to the termination hereof Acceptance by Landlord of rent after such termination shall not constitute a renewal or extension of this Lease; and nothing contained in this provision shall be deemed to waive Landlord's right of re-entry or any other right hereunder or at law. Tenant shall indemnify, defend and hold Landlord harmless from and against all Claims arising or resulting directly or indirectly from Tenant's failure to timely surrender the Premises, including (i) any rent payable by or any loss, cost, or damages claimed by any prospective tenant of the Premises, and (ii) Landlord's damages as a result of such prospective tenant rescinding or refusing to enter into the prospective lease of the Premises by reason of such failure to timely surrender the Premises.

20. ENCUMBRANCES.

20.1 Subordination. This Lease is expressly made subject and subordinate to any mortgage, deed of trust, ground lease, underlying lease or like encumbrance affecting any part of the Property or any interest of Landlord therein which is now existing or hereafter executed or recorded (**"Encumbrance"**); provided, however, that such subordination shall only be effective, as to future Encumbrances, if the holder of the Encumbrance agrees in writing that this Lease shall survive the termination of the Encumbrance by lapse of time, foreclosure or otherwise so long as Tenant is not in default under this Lease beyond any applicable notice and cure period. Provided the conditions of the preceding sentence are satisfied, Tenant shall execute and deliver to Landlord, within ten (10) Business Days after written request therefor by Landlord and in a form reasonably requested by Landlord, and the holder of any Encumbrance, any additional documents evidencing the subordination of this Lease with respect to any such Encumbrance and the nondisturbance agreement of the holder of any such Encumbrance, which documents may include customary commercially reasonable terms, such as the agreement of Tenant to provide such holder notice and opportunity to cure any Landlord default under the Lease (including the opportunity to take possession of the Property as provided in the Encumbrance). If the interest of Landlord in the Property is transferred pursuant to or in lieu of proceedings for enforcement of any Encumbrance (including, without limitation, any judicial foreclosure or foreclosure by a power of sale in a deed of trust), Tenant shall, at the request of the new owner, immediately attorn to, and become the tenant of, the new owner, and this Lease shall continue in full force and effect as a direct lease between the transferee and Tenant on the terms and conditions set forth in this Lease and, at such new owner's request, shall execute a new lease confirming the lease terms of this Lease. In furtherance of the foregoing, any such successor to the Landlord shall not be liable for any offsets, defenses, claims, counterclaims, liabilities or obligations of the "landlord" under the Lease accruing prior to the date that such new owner exercises its rights pursuant to the preceding sentence.

20.2 Mortgagee Protection. Tenant agrees to give any holder of any Encumbrance covering any part of the Property (**"Mortgagee"**), by registered mail, a copy of any notice of default served upon Landlord, provided that prior to such notice Tenant has been notified in writing (by way of notice of assignment of rents and leases, or otherwise) of the address of such Mortgagee. If Landlord shall have failed to cure such default within thirty (30) days from the effective date of such notice of default, then the Mortgagee shall have an additional thirty (30) days within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary to cure such default (including the time necessary to foreclose or otherwise terminate its Encumbrance, if necessary to effect such cure), and this Lease shall not be terminated so long as such remedies are being diligently pursued.

21. ESTOPPEL CERTIFICATES AND FINANCIAL STATEMENTS.

21.1 Estoppel Certificates. Within ten (10) Business Days after written request therefor, Tenant shall execute and deliver to Landlord, in a form provided by or satisfactory to Landlord, a certificate stating that this Lease is in full force and effect, describing this Lease and any amendments or modifications hereto, acknowledging that this Lease is subordinate or prior, as the case may be, to any Encumbrance and stating any other information Landlord may reasonably request, including the commencement and expiration dates of the Term, the monthly Base Rent, the date to which Rent has been paid, the amount of any security deposit or prepaid rent, whether either party hereto is in default under the terms of the Lease, whether Landlord has completed its construction obligations hereunder (if any), and whether Tenant has accepted the Premises. Any person or entity purchasing, acquiring an interest in or extending financing with respect to the Property shall be entitled to rely upon any such certificate. If Tenant fails to deliver such certificate within ten (10) Business Days after Landlord's second written request therefor, Tenant shall be liable to Landlord for any damages incurred by Landlord including any profits or other benefits from any financing of the Property or any interest therein which are lost or made unavailable as a result, directly or indirectly, of Tenant's failure or refusal to timely execute or deliver such estoppel certificate.

21.2 Financial Statements. Within ten (10) days after written request therefor, but not more than once a year, Tenant shall deliver to Landlord a copy of the financial statements (including at least a year end balance sheet, a statement of profit and loss, and a statement of cash flows) of Tenant (and of each guarantor of Tenant's obligations under this Lease) for each of the three most recently completed years, prepared in accordance with generally accepted accounting principles (and, if such is Tenant's normal practice, audited by an independent certified public accountant), all then available subsequent interim statements, and such other financial information as may reasonably be requested by Landlord or required by any Mortgagee.

22. NOTICES. Any notice, demand, request, consent or approval that either party desires or is required to give to the other party under this Lease shall be in writing and shall be served personally, delivered by messenger or courier service, or sent by U.S. certified mail, return receipt requested, postage prepaid, addressed to the other party at the party's address for notices set forth in the Basic Lease Information. Any notice required pursuant to any Laws may be incorporated into, given concurrently with or given separately from any notice required under this Lease. Notices shall be deemed to have been given and be effective on the earlier of (a) receipt (or refusal of delivery or receipt); or (b) one (1) day after acceptance by the independent service for delivery, if sent by independent messenger or courier service, or three (3) days after mailing if sent by mail in accordance with this Section. Either party may change its address for notices hereunder, effective fifteen (15) days after notice to the other party complying with this Section. If Tenant sublets the Premises, notices from Landlord shall be effective on the subtenant when given to Tenant pursuant to this Section.

23. ATTORNEYS' FEES. In the event of any dispute between Landlord and Tenant in any way related to this Lease, and whether involving contract and/or tort claims, the non-prevailing party shall pay to the prevailing party all reasonable attorneys' fees and costs and expenses of any type, without restriction by statute, court rule or otherwise, incurred by the prevailing party in connection with any action or proceeding (including any appeal and the enforcement of any judgment or award), whether or not the dispute is litigated or prosecuted to final judgment (collectively, **"Fees"**). The "prevailing party" shall be determined based upon an assessment of which party's major arguments or positions taken in the action or proceeding could fairly be said to have prevailed (whether by compromise, settlement, abandonment by the other party of its claim or defense, final decision, after any appeals, or otherwise) over the other party's major arguments or positions on major disputed issues. Any Fees incurred in enforcing a judgment shall be recoverable separately from any other amount included in the judgment and shall survive and not be merged in the judgment. The Fees shall be deemed an "actual pecuniary loss" within the meaning of Bankruptcy Code Section 365(b)(1)(B), and notwithstanding the foregoing, all Fees incurred by either party in any bankruptcy case filed by or against the other party, from and after the order for relief until this Lease is rejected or assumed in such bankruptcy case, will be "obligations of the debtor" as that phrase is used in Bankruptcy Code Section 365(d)(3).

24. QUIET POSSESSION. Subject to Tenant's full and timely performance of all of Tenant's obligations under this Lease and subject to the terms of this Lease, including Section 20 *Encumbrances,* Tenant shall have the quiet possession of the Premises throughout the Term as against any persons or entities lawfully claiming by, through or under Landlord.

25. SECURITY MEASURES. Landlord may, but shall be under no obligation to, implement security measures for the Property, such as the registration or search of all persons entering or leaving the Building, requiring identification for access to the Building, evacuation of the Building for cause, suspected cause, or for drill purposes, the issuance of magnetic pass cards or keys for Building or elevator access and other actions that Landlord deems necessary or appropriate to prevent any threat of property loss or damage, bodily injury or business interruption; provided, however, that such measures shall be implemented in a way as not to materially inconvenience tenants of the Building unreasonably. If Landlord uses an access card system, Landlord may require Tenant to pay Landlord a deposit for each after-hours Building access card issued to Tenant. Tenant shall be responsible for any loss, theft or breakage of any such cards, which must be returned by Tenant to Landlord upon expiration or earlier termination of the Lease. Landlord may retain the deposit for any card not so returned. Landlord shall at all times have the right to change, alter or reduce any such security services or measures. Tenant shall cooperate and comply with, and cause Tenant's Representatives and Visitors to cooperate and comply with, such security measures. Landlord, its agents and employees shall have no liability to Tenant or its Representatives or Visitors for the implementation or exercise of, or the failure to implement or exercise, any such security measures or for any resulting disturbance of Tenant's use or enjoyment of the Premises.

26. FORCE MAJEURE. If Landlord is delayed, interrupted or prevented from performing any of its obligations under this Lease, including its obligations under the Construction Rider (if any), and such delay, interruption or prevention is due to fire, act of God, governmental act or failure to act, terrorist act, labor dispute, unavailability of labor or materials or any other cause outside the reasonable control of Landlord, then the time for performance of the affected obligations of Landlord shall be extended for a period equivalent to the period of such delay, interruption or prevention.

27. RULES AND REGULATIONS. Tenant shall be bound by and shall comply with the rules and regulations attached to and made a part of this Lease as Exhibit C to the extent those rules and regulations are not in conflict with the terms of this Lease, as well as any reasonable rules and regulations hereafter adopted by Landlord for all tenants of the Building, upon notice to Tenant thereof (collectively, the **"Building Rules"**). Landlord shall not be responsible to Tenant or to any other person for any violation of, or failure to observe, the Building Rules by any other tenant or other person.

28. LANDLORD'S LIABILITY. The term "Landlord," as used in this Lease, shall mean only the owner or owners of the Building at the time in question. In the event of any conveyance of title to the Building, then from and after the date of such conveyance, the transferor Landlord shall be relieved of all liability with respect to Landlord's obligations to be performed under this Lease after the date of such conveyance. Notwithstanding any other term or provision of this Lease, the liability of Landlord for its obligations under this Lease is limited solely to Landlord's interest in the Building as the same may from time to time be encumbered, and no personal liability shall at any time be asserted or enforceable against any other assets of Landlord or against Landlord's partners or members or its or their respective partners, shareholders, members, directors, officers or managers on account of any of Landlord's obligations or actions under this Lease.

29. CONSENTS AND APPROVALS.

29.1 Determination in Good Faith. Wherever the consent, approval, judgment or determination of Landlord is required or permitted under this Lease, Landlord may exercise its good faith business judgment in granting or withholding such consent or approval or in making such judgment or determination without reference to any extrinsic standard of reasonableness, unless the specific provision contained in this Lease providing for such consent, approval, judgment or determination specifies that Landlord's consent or approval is not to be unreasonably withheld, or that such judgment or determination is to be reasonable, or otherwise specifies the standards under which Landlord may withhold its consent. If it is determined that Landlord failed to give its consent where it was required to do so under this Lease, Tenant shall be entitled to injunctive relief but shall not to be entitled to monetary damages or to terminate this Lease for such failure.

29.2 No Liability Imposed on Landlord. The review and/or approval by Landlord of any item or matter to be reviewed or approved by Landlord under the terms of this Lease or any Exhibits or Addenda hereto shall not impose upon Landlord any liability for the accuracy or sufficiency of any such item or matter or the quality or suitability of such item for its intended use. Any such review or approval is for the sole purpose of protecting Landlord's interest in the Property, and no third parties, including Tenant or the Representatives and Visitors of Tenant or any person or entity claiming by, through or under Tenant, shall have any rights as a consequence thereof

30. WAIVER OF RIGHT TO JURY TRIAL. To the extent permitted by applicable Law, Landlord and Tenant waive their respective rights to trial by jury of any contract or tort claim, counterclaim, cross-complaint, or cause of action in any action, proceeding, or hearing brought by either party against the other on any matter arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, or Tenant's use or occupancy of the Premises, including any claim of injury or damage or the enforcement of any remedy under any current or future law, statute, regulation, code, or ordinance.

31. BROKERS. Landlord shall pay the fee or commission of the broker or brokers identified in the Basic Lease Information (the **"Broker"**) in accordance with Landlord's separate written agreement with the Broker, if any. Tenant warrants and represents to Landlord that in the negotiating or making of this Lease neither Tenant nor anyone acting on Tenant's behalf has dealt with any broker or finder who might be entitled to a fee or commission for this Lease other than the Broker. Tenant shall indemnify and hold Landlord harmless from any claim or claims, including costs, expenses and attorney's fees incurred by Landlord asserted by any other broker or finder for a fee or commission based upon any dealings with or statements made by Tenant or Tenant's Representatives. Landlord shall indemnify and hold Tenant harmless from any claim or claims, including costs, expenses and attorney's fees incurred by Tenant asserted by any other broker or finder for a fee or commission based upon any dealings with or statements made by Landlord or Landlord's Representatives.

32. RELOCATION OF PREMISES. For the purpose of maintaining an economical and proper distribution of tenants acceptable to Landlord throughout the Building, commencing on the first day of the twenty-fifth (25^{th}) month of the initial Term of this Lease, Landlord shall have the right from time to time during the Term to relocate the Premises within the Building (but during the initial Term of this Lease, Landlord shall not exercise such right to relocate Tenant more than one (1) time), provided that (a) the rentable and usable area of the new Premises is of equivalent size to the existing Premises, subject to a variation of up to fifteen percent (15%), (b) Landlord, not Tenant, shall pay the cost of providing tenant improvements in the new Premises (Tenant shall have no liability for any construction management fee related to any such tenant improvements), which shall be substantially comparable to those in the existing Premises, (c) if Tenant relocates into larger Premises under the provisions of this Section, then during the remainder of the initial Term the total Base Rent and Additional Rent shall not increase after such relocation for comparable dates as Tenant would otherwise pay in the existing Premises prior to such relocation, (d) Landlord shall pay reasonable costs (to the extent such costs are submitted in writing to Landlord and approved in writing by Landlord prior to such move) of (i) moving Tenant's Trade Fixtures and personal property to the new Premises, (ii) relocating wiring and cabling to the new Premises and (iii) new stationery and business cards to replace the then existing stock on hand in the Premises and which may be required by any change in address, and (e) the new Premises shall be located on the ground floor of the Building. Landlord shall deliver to Tenant written notice of Landlord's election to relocate the Premises, specifying the new location and the amount of rent payable therefor, at least one hundred twenty (120) days prior to the date the relocation is to be effective.

33. OFAC. Tenant hereby represents and warrants that neither Tenant, nor any persons or entities holding any legal or beneficial interest whatsoever in Tenant, are (i) the target of any sanctions program that is established by Executive Order of the President or published by the Office of Foreign Assets Control, U.S. Department of the Treasury (**"OFAC"**); (ii) designated by the President or OFAC pursuant to the Trading with the Enemy Act, 50 U.S.C. App. § 5, the International Emergency Economic Powers Act, 50 §§ 1701-06, the Patriot Act, Public Law 107-56, Executive Order 13224 (September 23, 2001) or any Executive Order of the President issued pursuant to such statutes; or (iii) named on the following list that is published by OFAC: "List of Specially Designated Nationals and Blocked Persons." If the foregoing representation is untrue at any time during the Term, an Event of Default will be deemed to have occurred, without the necessity of notice to Tenant.

34. ENTIRE AGREEMENT. This Lease, including the Exhibits and any Addenda attached hereto, and the documents referred to herein, if any, constitute the entire agreement between Landlord and Tenant with respect to the leasing of space by Tenant in the Building, and supersede all prior or contemporaneous agreements, understandings, proposals and other representations by or between Landlord and Tenant, whether written or oral, all of which are merged herein. Neither Landlord nor Landlord's agents have made any representations or warranties with respect to the Premises, the Building, the Property or this Lease except as expressly set forth herein, and no rights, easements or licenses shall be acquired by Tenant by implication or otherwise unless expressly set forth herein. The submission of this Lease for examination does not constitute an option for the Premises and this Lease shall become effective as a binding agreement only upon execution and delivery thereof by Landlord to Tenant.

35. MISCELLANEOUS. This Lease may not be amended or modified except by a writing signed by Landlord and Tenant. Subject to Section 14 - *Assignment and Subletting* and Section 28 - *Landlord's Liability,* this Lease shall be binding on and shall inure to the benefit of the parties and their respective successors, assigns and legal representatives. The determination that any provisions hereof may be void, invalid, illegal or unenforceable shall not impair any other provisions hereof and all such other provisions of this Lease shall remain in full force and effect. The unenforceability, invalidity or illegality of any provision of this Lease under particular circumstances shall not render unenforceable, invalid or illegal other provisions of this Lease, or the same provisions under other circumstances. This Lease shall be construed and interpreted in accordance with the laws (excluding conflict of laws principles) of the State in which the Building is located. The provisions of this Lease shall be construed in accordance with the fair meaning of the language used and shall not be strictly construed against either party, even if such party drafted the provision in question. When required by the context of this Lease, the singular includes the plural. Wherever the term "including" is used in this Lease, it shall be interpreted as meaning "including, but not limited to" the matter or matters thereafter enumerated. The captions contained in this Lease are for purposes of convenience only and are not to be used to interpret or construe this Lease. If more than one person or entity is identified as Tenant hereunder, the obligations of each and all of them under this Lease shall be joint and several. Time is of the essence with respect to this Lease, except as to the conditions relating to the delivery of possession of the Premises to Tenant. Neither Landlord nor Tenant shall record this Lease. This Lease may be executed and delivered by facsimile in one or more counterparts, each of which shall constitute one and the same Lease. If this Lease is signed and delivered in such manner, Landlord and Tenant shall promptly deliver an original signed version to the other. Any digital image copy of this Lease (to the extent fully executed and delivered) shall be treated by the parties as a true and correct original of the same and admissible as best evidence to the extent permitted by a court of proper jurisdiction.

36. AUTHORITY. If Tenant is a corporation, partnership, limited liability company or other form of business entity, Tenant warrants and represents that Tenant is a duly organized and validly existing entity, that Tenant has full right and authority to enter into this Lease and that the persons signing on behalf of Tenant are authorized to do so and have the power to bind Tenant to this Lease. Tenant shall provide Landlord upon request with evidence reasonably satisfactory to Landlord confirming the foregoing representations.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Landlord and Tenant have entered into this Lease as of the date first above written.

TENANT:

SYSOREX GLOBAL HOLDINGS CORP.,
a Nevada corporation

By: /S/ NADIR ALI
Name: NADIR ALI
Title: CEO

By: /s/ WENDY LOUNDERMON
Name: WENDY LOUNDERMON
Title: CFO

LANDLORD:

ECI TWO BAYSHORE LLC,
a Delaware limited liability company

By: Embarcadero Capital Investors Two LP,
a Delaware limited partnership,
its sole member

By: Embarcadero Capital Partners LLC,
a Delaware limited liability company,
its sole general partner

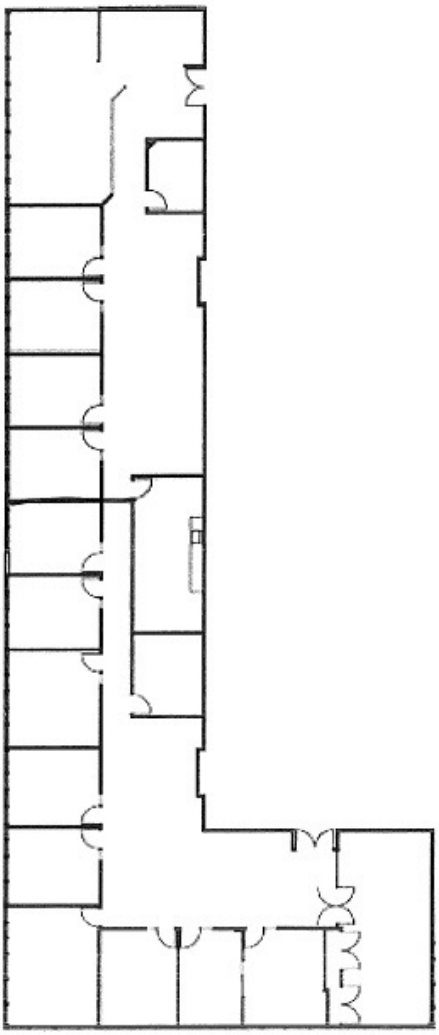
By: /s/ ERIC YOPES
ERIC YOPES
MANAGER

(For corporate entities, signature by TWO corporate officers is required: one by (x) the chairman of the board, the president, or any vice president; and the other by (y) the secretary, any assistant secretary, the chief financial officer, or any assistant treasurer.)

EXHIBIT A

ATTACHED TO AND FORMING A PART OF
LEASE AGREEMENT
DATED AS OF AUGUST 21, 2014
BETWEEN
ECI TWO BAYSHORE LLC, AS LANDLORD,
AND
SYSOREX GLOBAL HOLDINGS CORP., AS TENANT ("LEASE")

THE PREMISES



Initials

EXHIBIT B

ATTACHED TO AND FORMING A PART OF
LEASE AGREEMENT
DATED AS OF AUGUST 21, 2014
BETWEEN
ECI TWO BAYSHORE LLC, AS LANDLORD,
AND
SYSOREX GLOBAL HOLDINGS CORP., AS TENANT ("LEASE")

CONSTRUCTION RIDER

1 . Tenant Improvements. Landlord shall with reasonable diligence through a contractor, and/or subcontractors, designated by Landlord perform the Work List (as defined below) items in the Premises as provided for in this Construction Rider ("**Tenant Improvements**"). Upon request by Landlord, Tenant shall designate in writing an individual authorized to act as Tenant's Representative with respect to all approvals, directions and authorizations pursuant to this Construction Rider. Landlord shall have no obligation to perform any work to prepare the Premises for use or occupancy by Tenant except as expressly provided herein and as otherwise expressly provided in Section 1 of the Lease. Landlord, at its sole cost and expense (subject to the terms and provisions of Section 1.1 below) shall perform improvements to the Premises in accordance with the following work list (the "**Work List**") using Building standard methods, materials and finishes and as otherwise reasonably determined by Landlord.

WORK LIST

(a) Construct a kitchen in the Premises with a sink, upper and lower cabinetry and a dishwasher;

(b) Replace existing carpeting in the Premises with new Building standard carpeting, as selected by Tenant;

(c) Repaint currently painted exposed, interior walls of the Premises in a color selected by Tenant;

(d) Install glass entry doors in the Premises that are substantially similar to the glass entry doors currently installed in Suite 185 of the Building;

(e) Construct the "Division" demising wall, as shown on the plan attached hereto as Schedule 1;

(f) Remove one (1) wall in the Premises, as shown on the plan attached hereto as Schedule 1; and

(g) Remove the closet located in the conference room within the Premises, as shown on the plan attached hereto as Schedule 1.

Initials

1.1. All other work and upgrades, subject to Landlord's approval, shall be at Tenant's sole cost and expense, plus any applicable state sales or use tax thereon, payable upon demand as Additional Rent. Tenant shall be responsible for any Tenant Delay (defined below) in completion of the Tenant Improvements resulting from any such other work and upgrades requested or performed by Tenant.

1.2. Landlord's supervision or performance of any work for or on behalf of Tenant shall not be deemed to be a representation by Landlord that such work complies with applicable insurance requirements or that the improvements constructed will be adequate for Tenant's use.

1.3. Construction. Landlord shall proceed with reasonable diligence to cause the Tenant Improvements to be Substantially Completed on or prior to the Scheduled Commencement Date. The Tenant Improvements shall be deemed to be **"Substantially Completed"** when they have been completed except for finishing details, minor omissions, decorations and mechanical adjustments of the type normally found on an architectural "punch list". (The definition of Substantially Completed shall also define the terms **"Substantial Completion"** and **"Substantially Complete.")**

Following Substantial Completion of the Tenant Improvements and before Tenant takes possession of the Premises (or as soon thereafter as may be reasonably practicable and in any event within thirty (30) days after Substantial Completion), Landlord and Tenant shall inspect the Premises and jointly prepare a "punch list" of agreed items of construction remaining to be completed. Landlord shall complete the items set forth in the punch list as soon as reasonably possible. Landlord, as part of the Tenant Improvements, shall use commercially reasonable efforts to correct all such items within thirty (30) days following the completion of the punch list. Tenant shall cooperate with and accommodate Landlord and Landlord's contractor in completing the items on the punch list.

1.4. Changes. If Tenant requests any change, addition or alteration in or to the Tenant Improvements (whether one or more, hereinafter called **"Changes"),** Landlord shall notify Tenant of the estimated cost of such Changes (the **"Cost Estimate").** Within two (2) days after receipt of such Cost Estimate, Tenant shall notify Landlord in writing whether Tenant approves the Changes. If Tenant approves the Changes, Landlord shall proceed with the Changes and Tenant shall be liable for any additional cost **("Additional Cost")** resulting from the Changes. If Tenant fails to approve the Changes within such two (2) day period, Landlord shall have the option to continue construction of the Tenant Improvements disregarding the requested Changes. Tenant shall be responsible for any Tenant Delay (defined below) in completion of the Premises resulting from any Changes. Tenant shall pay Landlord 100% of any Additional Cost based upon the Cost Estimate within five (5) business days of Landlord's demand therefor. Landlord will use reasonable care in preparing the Cost Estimate, but it is an estimate only and does not limit Tenant's obligation to pay for the actual Additional Cost of the Tenant Improvements, whether or not it exceeds the estimated amounts.

1.5. Delays. Tenant shall be responsible for, and shall pay to Landlord, any and all costs and expenses incurred by Landlord in connection with any delay in the commencement or completion of any Tenant Improvements and any increase in the cost of Tenant Improvements caused by (i) any delays in obtaining any items or materials constituting part of the Tenant Improvements requested by Tenant, (ii) the inclusion by Tenant in the Tenant Improvements of any materials, equipment, fixtures or other items in the nature of "long lead" items (including any items that are rare or not readily available, and any custom fabricated items), (iii) any requested Changes (including, without limitation, any delays caused by Landlord's review of such requested Changes), (iv) Tenant's failure to select Building standard paint, laminate and carpet for the Tenant Improvements within ten (10) business days following the full execution of this Lease; or (v) any other delay requested or caused by Tenant (collectively, **"Tenant Delays"**).

2. Delivery of Premises. Upon Substantial Completion of the Tenant Improvements, Landlord shall deliver possession of the Premises to Tenant. If Landlord has not Substantially Completed the Tenant Improvements and tendered possession of the Premises to Tenant on or before the Scheduled Commencement Date specified in Section 2 - *Term; Possession* of the Lease, or if Landlord is unable for any other reason to deliver possession of the Premises to Tenant on or before such date, neither Landlord nor its representatives shall be liable to Tenant for any damage resulting from the delay in completing such construction obligations and/or delivering possession to Tenant and the Lease shall remain in full force and effect. If any delays in Substantially Completing the Tenant Improvements are attributable to Tenant Delays, then the Premises shall be deemed to have been Substantially Completed and delivered to Tenant on the date on which Landlord could have Substantially Completed the Premises and tendered the Premises to Tenant but for such Tenant Delays. If Tenant fails to perform any of Tenant's obligations under this Construction Rider within the time periods specified herein, Landlord may treat such failure of performance as an Event of Default under the Lease.

3. Ownership of Tenant Improvements. All Tenant Improvements, whether installed by Landlord or Tenant, shall become a part of the Premises, shall be the property of Landlord and, subject to the provisions of the Lease, shall be surrendered by Tenant with the Premises, without any compensation to Tenant, at the expiration or termination of the Lease in accordance with the provisions of the Lease.

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SCHEDULE 1 TO EXHIBIT B

PLANS

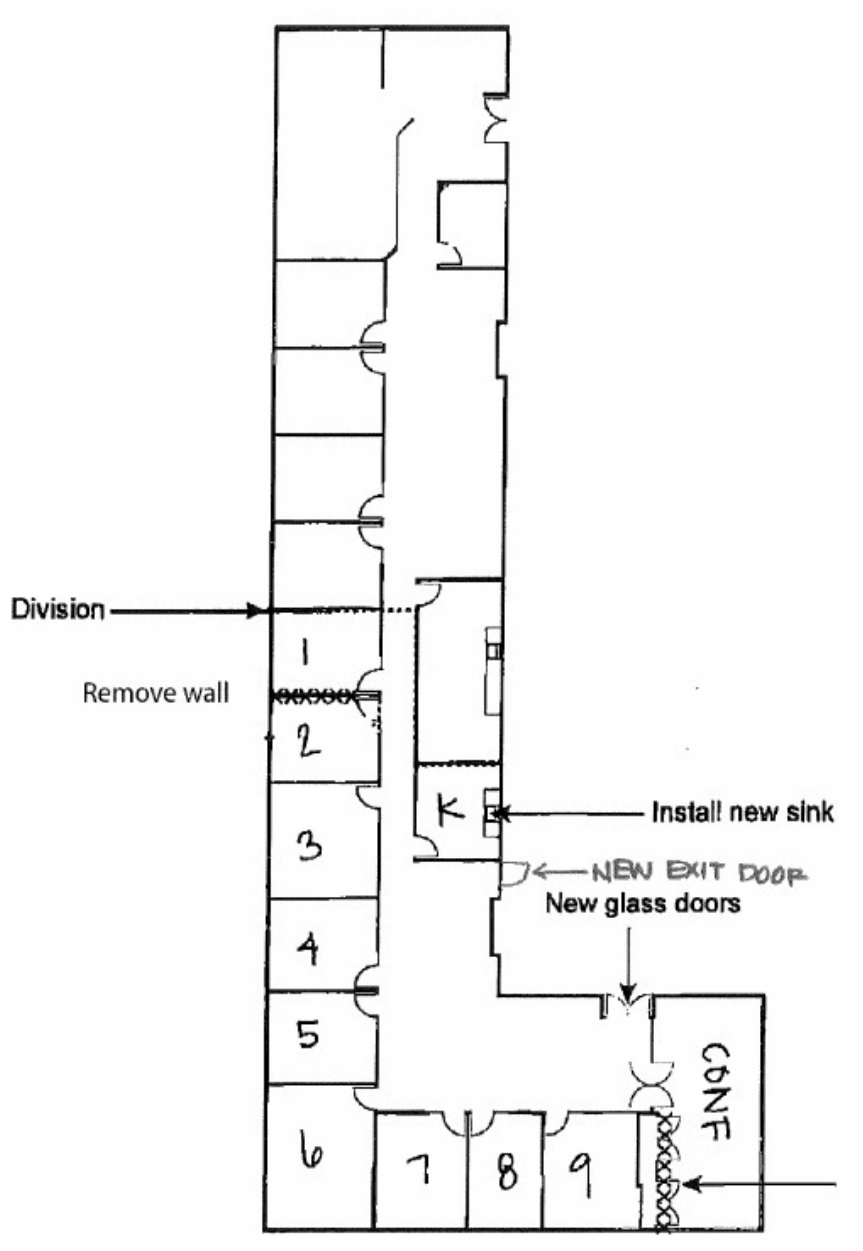

EXHIBIT C

ATTACHED TO AND FORMING A PART OF
LEASE AGREEMENT
DATED AS OF AUGUST 21, 2014
BETWEEN
ECI TWO BAYSHORE LLC, AS LANDLORD,
AND
SYSOREX GLOBAL HOLDINGS CORP., AS TENANT ("LEASE")

BUILDING RULES

The following Building Rules are additional provisions of the foregoing Lease to which they are attached. The capitalized terms used herein have the same meanings as these terms are given in the Lease.

1. Use of Common Areas. Tenant will not obstruct the halls, passages, exits, entrances, elevators or stairways of the Building ("**Interior Common Areas**") or the Common Areas, and Tenant will not use the Interior Common Areas or the Common Areas for any purpose other than ingress and egress to and from the Premises. The Interior Common Areas and the Common Areas are not open to the general public and Landlord reserves the right to control and prevent access to the Interior Common Areas and the Common Areas of any person whose presence, in Landlord's opinion, would be prejudicial to the safety, reputation and interests of the Building and its tenants.

2 , No Access to Roof. Tenant has no right of access to the roof of the Building and will not install, repair or replace any antenna, aerial, aerial wires, fan, air-conditioner or other device on the roof of the Building, without the prior written consent of Landlord. Any such device installed without Landlord's written consent is subject to removal at Tenant's expense without notice at any time. In any event Tenant will be liable for any damages or repairs incurred or required as a result of its installation, use, repair, maintenance or removal of such devices on the roof and agrees to indemnify and hold harmless Landlord from any liability, loss, damage, cost or expense, including reasonable attorneys' fees, arising from any activities of Tenant or of Tenant's Representatives on the roof of the Building.

3. Signage. No sign, placard, picture, name, advertisement or notice visible from the exterior of the Premises will be inscribed, painted, affixed or otherwise displayed by Tenant on or in any part of the Building without the prior written consent of Landlord which consent may be withheld in Landlord's sole discretion. Landlord may, at its election and at any time, adopt and furnish Tenant with general guidelines relating to signs in or on the Building. All signage approved by Landlord shall be inscribed, painted or affixed in a professional manner and at Tenant's sole cost and expense and by a contractor approved in advance and in writing by Landlord.

Initials

4. Prohibited Uses. The Premises will not be used for manufacturing, for the storage of merchandise held for sale to the general public, for lodging or for the sale of goods to the general public. Tenant will not permit any food preparation on the Premises except that Tenant may use Underwriters' Laboratory approved equipment for brewing coffee, tea, hot chocolate and similar beverages so long as such use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations and provided such activity does not generate odors outside of the Premises. Tenant shall not permit its employees, invitees or guests to smoke in the Premises or the lobbies, passages, corridors, elevators, vending rooms, rest rooms, stairways or any other area shared in common with other tenants in the Building. Nor shall the tenant permit its employees, invitees, or guests to loiter at the Building entrances for the purposes of smoking. Landlord may, but shall not be required to, designate an area for smoking outside the Building. No vending or dispensing machines of any kind (other than a water and/or soda dispensing machine) may be maintained in any leased premises without the prior written permission of Landlord. Tenant shall not conduct any activity on or about the Premises or Building which will draw pickets, demonstrators, or the like. Tenant shall be responsible for and hold Landlord harmless from any and all delays, damages and extra costs suffered by Landlord as a result of any dispute with any labor unions concerning the wage, hours, terms or conditions of the employment of any such labor.

5. Janitorial Services. Tenant will not employ any person for the purpose of cleaning the Premises or permit any person to enter the Building for such purpose other than Landlord's janitorial service, except with Landlord's prior written consent. Tenant will not necessitate, and will be liable for the cost of, any undue amount of janitorial labor by reason of Tenant's carelessness in or indifference to the preservation of good order and cleanliness in the Premises. Janitorial service will not be furnished to areas in the Premises on nights when such areas are occupied after 9:30 p.m., unless such service is extended by written agreement to a later hour in specifically designated areas of the Premises.

6. Keys and Locks. Landlord will furnish Tenant, free of charge, two keys to each door or lock in the Premises. Landlord may make a reasonable charge for any additional or replacement keys. Tenant will not duplicate any keys, alter any locks or install any new or additional lock or bolt on any door of its Premises or on any other part of the Building without the prior written consent of Landlord and, in any event, Tenant will provide Landlord with a key for any such lock. On the termination of the Lease, Tenant will deliver to Landlord all keys to any locks or doors in the Building which have been obtained by Tenant.

7. Freight. Upon not less than twenty-four hours prior notice to Landlord, which notice may be oral, an elevator will be made available for Tenant's use for transportation of freight, subject to such scheduling as Landlord in its discretion deems appropriate. Tenant shall not transport freight in loads exceeding the weight limitations of such elevator. Landlord reserves the right to prescribe the weight, size and position of all equipment, materials, furniture or other property brought into the Building, and no property will be received in the Building or carried up or down the freight elevator or stairs except during such hours and along such routes and by such persons as may be designated by Landlord. Landlord reserves the right to require that heavy objects will stand on wood strips of such length and thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such property from any cause, and Tenant will be liable for all damage or injuries caused by moving or maintaining such property.

8. Nuisances and Dangerous Substances. Tenant will not conduct itself or permit Tenant's Representatives or Visitors to conduct themselves, in the Premises or anywhere on or in the Property in a manner which is offensive or unduly annoying to any other Tenant or Landlord's property managers. Tenant will not install or operate any phonograph, radio receiver, musical instrument, or television or other similar device in any part of the Common Areas and shall not operate any such device installed in the Premises in such manner as to disturb or annoy other tenants of the Building. Tenant will not use or keep in the Premises or the Property any kerosene, gasoline or other combustible fluid or material other than limited quantities thereof reasonably necessary for the maintenance of office equipment, or, without Landlord's prior written approval, use any method of heating or air conditioning other than that supplied by Landlord. Tenant will not use or keep any foul or noxious gas or substance in the Premises or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors or vibrations, or interfere in any way with other tenants or those having business therein. Tenant will not bring or keep any animals in or about the Premises or the Property.

9. Building Name and Address. Without Landlord's prior written consent, Tenant will not use the name of the Building in connection with or in promoting or advertising Tenant's business except as Tenant's address.

10. Building Directory. A directory for the Building will be provided for the display of the name and location of tenants. Landlord reserves the right to approve any additional names Tenant desires to place in the directory and, if so approved, Landlord may assess a reasonable charge for adding such additional names.

11. Window Coverings. No curtains, draperies, blinds, shutters, shades, awnings, screens or other coverings, window ventilators, hangings, decorations or similar equipment shall be attached to, hung or placed in, or used in or with any window of the Building without the prior written consent of Landlord, and Landlord shall have the right to control all lighting within the Premises that may be visible from the exterior of the Building.

12. Floor Coverings. Tenant will not lay or otherwise affix linoleum, tile, carpet or any other floor covering to the floor of the Premises in any manner except as approved in writing by Landlord. Tenant will be liable for the cost of repair of any damage resulting from the violation of this rule or the removal of any floor covering by Tenant or its contractors, employees or invitees.

13. Wiring and Cabling Installations. Landlord will direct Tenant's electricians and other vendors as to where and how data, telephone, and electrical wires and cables are to be installed. No boring or cutting for wires or cables will be allowed without the prior written consent of Landlord. The location of burglar alarms, smoke detectors, telephones, call boxes and other office equipment affixed to the Premises shall be subject to the written approval of Landlord.

14. Office Closing Procedures. Tenant will see that the doors of the Premises are closed and locked and that all water faucets, water apparatus and utilities are shut off before Tenant or its employees leave the Premises, so as to prevent waste or damage. Tenant will be liable for all damage or injuries sustained by other tenants or occupants of the Building or Landlord resulting from Tenant's carelessness in this regard or violation of this rule. Tenant will keep the doors to the Building corridors closed at all times except for ingress and egress.

15. Plumbing Facilities. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be disposed of therein. Tenant will be liable for any breakage, stoppage or damage resulting from the violation of this rule by Tenant, its employees or invitees.

16. Use of Hand Trucks. Tenant will not use or permit to be used in the Premises or in the Common Areas any hand trucks, carts or dollies except those equipped with rubber tires and side guards or such other equipment as Landlord may approve.

17. Refuse. Tenant shall store all Tenant's trash and garbage within the Premises or in other facilities designated By Landlord for such purpose. Tenant shall not place in any trash box or receptacle any material which cannot be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the city in which the Building is located without being in violation of any law or ordinance governing such disposal. All trash and garbage removal shall be made in accordance with directions issued from time to time by Landlord, only through such Common Areas provided for such purposes and at such times as Landlord may designate. Tenant shall comply with the requirements of any recycling program adopted by Landlord for the Building.

18. Soliciting. Canvassing, peddling, soliciting and distribution of handbills or any other written materials in the Building are prohibited, and Tenant will cooperate to prevent the same.

19. Parking. Tenant will use, and cause Tenant's Representatives and Visitors to use, any parking spaces to which Tenant is entitled under the Lease in a manner consistent with Landlord's directional signs and markings in the Parking Facility. Specifically, but without limitation, Tenant will not park, or permit Tenant's Representatives or Visitors to park, in a manner that impedes access to and from the Building or the Parking Facility or that violates space reservations for handicapped drivers registered as such with the California Department of Motor Vehicles. Landlord may use such reasonable means as may be necessary to enforce the directional signs and markings in the Parking Facility, including but not limited to towing services, and Landlord will not be liable for any damage to vehicles towed as a result of noncompliance with such parking regulations.

20. Fire, Security and Safety Regulations. Tenant will comply with all safety, security, fire protection and evacuation measures and procedures established by Landlord or any governmental agency.

21. Responsibility for Theft. Tenant assumes any and all responsibility for protecting the Premises from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed.

22. Sales and Auctions. Tenant will not conduct or permit to be conducted any sale by auction in, upon or from the Premises or elsewhere in the Property, whether said auction be voluntary, involuntary, pursuant to any assignment for the payment of creditors or pursuant to any bankruptcy or other insolvency proceeding.

23. Waiver of Rules. Landlord may waive any one or more of these Building Rules for the benefit of any particular tenant or tenants, but no such waiver by Landlord will be construed as a waiver of such Building Rules in favor of any other tenant or tenants nor prevent Landlord from thereafter enforcing these Building Rules against any or all of the tenants of the Building.

24. Effect on Lease. These Building Rules are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of the Lease. In the event of a conflict between the Building Rules and the remainder of the terms of the Lease, the remainder of the terms of the Lease shall control. Violation of these Building Rules constitutes a failure to fully perform the provisions of the Lease, as referred to in Section 15.1 - *"Events of Default"*.

25. Non-Discriminatory Enforcement. Subject to the provisions of the Lease (and the provisions of other leases with respect to other tenants), Landlord shall use reasonable efforts to enforce these Building Rules in a non-discriminatory manner, but in no event shall Landlord have any liability for any failure or refusal to do so (and Tenant's sole and exclusive remedy for any such failure or refusal shall be injunctive relief preventing Landlord from enforcing any of the Building Rules against Tenant in a manner that discriminates against Tenant).

26. Additional and Amended Rules. Landlord reserves the right to rescind or amend these Building Rules and/or adopt any other and reasonable rules and regulations as in its judgment may from time to time be needed for the safety, care and cleanliness of the Building and for the preservation of good order therein.

27. Crane and Rigging Operations. For safety purposes, crane or rigging operations are required to be pre-planned so that no building occupants are working or are allowed under a loaded crane during operation. The only exception to this rule is trained crane company employees who are responsible for hooking and unhooking the materials to the crane, or who are helping to guide the materials into position and who are all operating subject to OSHA code compliance. To protect Landlord's rights and to insure the safety of all Building occupants, all rigging and crane work at or about the Building must take place outside of normal Business Hours. All rigging or crane lifts must be scheduled with Landlord no less than fourteen (14) days prior to the scheduled rigging date and approval is subject to the Landlords ability to reasonably coordinate with tenants occupying the space below the affected rigging or crane lifting area. To prevent materials from falling, the material must be rigged using self-closing safety latches. All crane operations, rigging and latching must be done by qualified riggers or operators operating under full compliance with Federal, State and Local codes.

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EXHIBIT D

ATTACHED TO AND FORMING A PART OF
LEASE AGREEMENT
DATED AS OF AUGUST 21, 2014
BETWEEN
ECI TWO BAYSHORE LLC, AS LANDLORD,
AND
SYSOREX GLOBAL HOLDINGS CORP., AS TENANT ("LEASE")

ADDITIONAL PROVISIONS RIDER

37. PARKING.

37.1 Tenant's Parking Rights. Landlord shall provide Tenant, on an unassigned and non-exclusive basis, 3.3 parking spaces in the Parking Facility for each 1,000 rentable square feet of office space leased to Tenant (which based on the rentable square footage of the Premises as originally described in the Lease, is fourteen (14) parking spaces) for use by Tenant and Tenant's Representatives and Visitors, at the users' sole risk, in the Parking Facility. The parking spaces to be made available to Tenant hereunder may contain a reasonable mix of spaces for compact cars and up to ten percent (10%) of the unassigned spaces may also be designated by Landlord as Building visitors' parking.

37.2 Availability of Parking Spaces. Landlord shall take reasonable actions to ensure the availability of the parking spaces leased by Tenant, but Landlord does not guarantee the availability of those spaces at all times against the actions of other tenants of the Building and users of the Parking Facility. Access to the Parking Facility may, at Landlord's option, be regulated by card, pass, bumper sticker, decal or other appropriate identification issued by Landlord. Landlord retains the right to revoke the parking privileges of any user of the Parking Facility who violates the rules and regulations governing use of the Parking Facility (and Tenant shall be responsible for causing any employee of Tenant or other person using parking spaces allocated to Tenant to comply with all parking rules and regulations).

37.3 Assignment and Subletting. Notwithstanding any other provision of this Lease to the contrary, and except with respect to a Permitted Transferee, Tenant shall not assign its rights to the parking spaces or any interest therein, or sublease or otherwise allow the use of all or any part of the parking spaces to or by any other person, except (i) to a Permitted Transferee, or (ii) with Landlord's prior written consent, which may be granted or withheld by Landlord in its sole discretion. In the event of any separate assignment or sublease of parking space rights that is approved by Landlord, Landlord shall be entitled to receive, as additional Rent hereunder, one hundred percent (100%) of any profit received by Tenant in connection with such assignment or sublease.

Initials

37.4 Condemnation, Damage or Destruction. In the event the Parking Facility is the subject of a Condemnation, or is damaged or destroyed, and the Lease is not terminated, and if in such event the available number of parking spaces in the Parking Facility is permanently reduced, then Tenant's rights to use parking spaces hereunder may, at the election of Landlord, thereafter be reduced in proportion to the reduction of the total number of parking spaces in the Parking Facility. In such event, Landlord reserves the right to reduce the number of parking spaces to which Tenant is entitled or to relocate some or all of the parking spaces to which Tenant is entitled to other areas in the Parking Facility.

38. EXTENSION OPTION. Provided that Sysorex Global Holdings Corp. has not assigned this Lease (except to a Peimitted Transferee pursuant to a Permitted Transfer) or sublet any or all of the Premises (it being intended that all rights pursuant to this provision are and shall be personal to the original Tenant under this Lease and any Permitted Transferee which is an assignee pursuant to a Permitted Transfer and shall not otherwise be transferable or exercisable for the benefit of any Transferee), and provided Tenant is not in default beyond any applicable notice and cure periods under this Lease at the time of exercise or at any time thereafter until the beginning of such extension of the Term, Tenant shall have the option (the "**Extension Option**") to extend the Term for one (1) additional consecutive period of three (3) years (the "**Extension Period**"), by giving written notice to Landlord of the exercise of such Extension Option at least nine (9) months, but not more than twelve (12) months, prior to the expiration of the initial Term. The exercise of the Extension Option by Tenant shall be irrevocable and shall cover the entire Premises leased by Tenant pursuant to this Lease. Upon such exercise, the term of the Lease shall automatically be extended for the Extension Period without the execution of any further instrument by the parties; provided that Landlord and Tenant shall, if requested by either party, execute and acknowledge an instrument confirming the exercise of the Extension Option. The Extension Option shall terminate if not exercised precisely in the manner provided herein. Any extension of the Term shall be upon all the terms and conditions set forth in this Lease and all Exhibits thereto, except that: (i) Tenant shall have no further option to extend the Term of the Lease; (ii) Landlord shall not be obligated to contribute funds toward the cost of any remodeling, renovation, alteration or improvement work in the Premises; (iii) Landlord shall not be obligated to pay any fee or commission to any broker; and (iv) Base Rent for the Extension Period shall be the then Fair Market Base Rental (as defined below) for the Premises for the space and term involved, which shall be determined as set forth below.

38.1 "**Fair Market Base Rental**" shall mean the "fair market" Base Rent at the time or times in question for the applicable space in the Building, based on the prevailing rentals then being charged to tenants in the Building and tenants in other office buildings in the general vicinity of the Building of comparable location and quality as the Building, for leases with terms approximately equal to the term for which Fair Market Base Rental is being determined, taking into account: the desirability, location in the building, size and quality of the space, including interior finishes and other tenant improvements; included services and related operating expenses and tax and expense stops or other escalation clauses; and any other special rights of Tenant under this Lease in comparison to typical market leases (e.g. for parking, signage, and extension or expansion options). Fair Market Base Rental shall also reflect the then prevailing rental structure for comparable office buildings in the general vicinity of the Building, so that if, for example, at the time Fair Market Base Rental is being determined the prevailing rental structure includes periodic rental adjustments or escalations, Fair Market Base Rental shall reflect such rental structure.

38.2 Landlord and Tenant shall endeavor to agree upon the Fair Market Base Rental. If they are unable to so agree within thirty (30) days after receipt by Landlord of Tenant's notice of exercise of the Extension Option, Landlord and Tenant shall mutually select a licensed real estate broker who is active in the leasing of office space in the general vicinity of the Property. Landlord shall submit Landlord's determination of Fair Market Base Rental and Tenant shall submit Tenant's determination of Fair Market Base Rental to such broker, at such time or times and in such manner as Landlord and Tenant shall agree (or as directed by the broker if Landlord and Tenant do not promptly agree). The broker shall select either Landlord's or Tenant's determination as the Fair Market Base Rental, and such determination shall be binding on Landlord and Tenant. If Tenant's determination is selected as the Fair Market Base Rental, then Landlord shall bear all of the broker's cost and fees. If Landlord's determination is selected as the Fair Market Base Rental, then Tenant shall bear all of the broker's cost and fees.

38.3 In the event the Fair Market Base Rental for the Extension Period has not been determined at such time as Tenant is obligated to pay Base Rent for the Extension Period, Tenant shall pay as Base Rent pending such determination, the Base Rent in effect for such space immediately prior to the Extension Period; provided, that upon the determination of the applicable Fair Market Base Rental, any shortage of Base Rent paid, together with interest at the rate specified in the Lease, shall be paid to Landlord by Tenant.

38.4 In no event shall the Base Rent during the Extension Period be less than the Base Rent in effect immediately prior to such Extension Period.

38.5 The term of this Lease, whether consisting of the Initial Term alone or the Initial Term as extended by the Extension Period (if the Extension Option is exercised), is referred to in this Lease as the "Term."

38.6 Notwithstanding anything herein to the contrary, the Extension Option is subject and subordinate to the expansion rights (whether such rights are designated as a right of first offer, right of first refusal, expansion option or otherwise) of any tenant of the Building existing on the date hereof

39. SIGNAGE. Landlord shall provide and install, at Landlord's sole cost and expense, the initial signage for Tenant in the Building directory and at the entry to the Premises. Such signage (and any replacement or modification thereof) shall consist of Building standard materials and shall comply with Landlord's then current Building specifications. Any required maintenance, repair or changes (which changes shall be subject to Landlord's prior written approval) to such signage shall be performed by Landlord at Tenant's sole cost and expense, which costs shall be paid to Landlord within thirty (30) days of Landlord's demand. At Landlord's option, upon the expiration or earlier termination of this Lease, Tenant shall, at Tenant's sole cost and expense, remove any such signage and repair any damage to the Building caused by such signage.

June 20, 2014.

Craig Harper
475 Boynton Ave.
Berkeley, CA 94707
(510) 502-1729
craig.harper@me.com

Craig:

I would like to formally extend you a conditional offer to join Lilien Systems ("the Company" aka "Lilien") as a full-time, salaried employee in the position of Chief Technology Officer – Sysorex. Your responsibilities will be as stated on the CTO Job Description, and as otherwise directed by the Company.

Your effective start date will be on or around June 24, 2014. Should you accept, you will report to me, Nadir Ali, CEO – Sysorex.

Please find the details of the compensation and benefits offer below, additional details are contained in the Supplemental Offer Letter Terms and Conditions.

Compensation
Your compensation will be broken into three distinct categories: Base Salary, Lilien Systems Profitability Bonus, AirPatrol Revenue Bonus, and Sales Commission.

Base Salary Compensation
Lilien Systems will pay you a base salary of $200,000 per year.

Lilien Profitability Bonus
Your Quarterly Lilien Profitability Bonus is based upon the company's quarterly Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) Percentage. EBITDA is Gross Revenue minus Cost of Goods Sold and all Operating Expenses (excluding interest, income taxes, depreciation and amortization). EBITDA % is EBITDA divided by Gross Revenue.

Quarterly EBITDA %	Quarterly Bonus Amount
< 1.00%	$0
1.00%	$4,000
2.00%	$8,000
3.00%	$12,000
4.00%	$16,000
5.00%	$20,000

Sysorex Gross Profit Bonus
Your Sysorex Gross Profit Bonus compensation plan covers all Sysorex Global Holdings Corporation's Gross Profit (Net Revenues minus Cost of Sales) as reported on Sysorex's Quarterly SEC Filings (this amount was $4,350,468 on the 10-Q filed 5/15/14). This plan is based on calendar quarters. Your Quarterly Sales Gross Profit Goals are:

Quarter	Quarterly Gross Profit Goal
2014 Q3	$8,800,000
2014 Q4	$10,700,000

The Sysorex Gross Profit Bonus amounts are as follows:

% of Goal	Quarterly Bonus
< 70%	$0
70%	$4,000
85%	$8,000
100%	$12,000
115%	$16,000
130%	$20,000

Quarterly Sales Commission
Your Quarterly Sales Commission plan covers Gross Profit for all Lilien products and services sold by Lilien into the following accounts (because of your connections): AT&T, Dubai World's Fair, Dubai Royal Family TV Station, The Coca-Cola Company, Nordstrom, Caesars Entertainment, Starbucks and Capital One. Commission will be 5% of Gross Profit (GP) – GP is recognized upon Lilien invoicing the customer.

Auto Allowance
Auto allowance is $585.00 per month, payable $292.50 semi-monthly.

Stock Options
Subject to Board approval, you will be given 75,000 Sysorex Employee Stock Options subject to the terms and conditions of Sysorex's Stock Option Plan and Stock Option Agreement. These options will vest over a period of four years beginning on the first anniversary of your hire date.

Benefits
You will be eligible for all the benefits Lilien Systems normally provides to its full-time employees, including health insurance, long-term disability insurance, a retirement plan and paid vacation. Your position also provides for the following benefits: a company PDA with cellular phone and data service or reimbursement, an auto allowance or mileage expense reimbursement, paid certification training and necessary business travel. These benefits are outlined in the Employee Handbook, a copy of which will be provided to you.

Paid Time Off	13 vacation days per year, 9 paid holidays, and up to 6 days paid sick leave
Cell phone / PDA	Company provided or reimbursed
Long-Term Disability Insurance	60% of average W-2 compensation to retirement
Retirement Plan	401(k) plan with brokerage account option

Expected Earnings
Here are your Expected Earnings under this offer:

Compensation / Benefit	Baseline	On Target Earnings	130% of Goal
Base Salary	$200,000	$200,000	$200,000
Lilien Profitability Bonus	$0	$48,000	$80,000
Sysorex Gross Profit Bonus	$0	$48,000	$80,000
Quarterly Sales Commission	$0	Unknown	Unknown
Auto Allowance	$7,020	$7,020	$7,020
Total Annual Compensation	**$207,020**	**$303,020**	**$367,020**

The Team
Lilien has been in business for over 30 years and brings unsurpassed commitment, technical expertise, and business vision to each and every customer. At the heart of our commitment to superior service are our employees – solution architects, engineers, account managers and customer service staff, all focused on delivering the best solutions for our customers. We pride ourselves on hiring the best and brightest employees and providing them with a professional and friendly environment in which to work.

We invite you to join the Sysorex family and look forward to enjoying a long and mutually beneficial relationship; we believe that you possess the skills and traits that will allow you to be very successful in this position.

To indicate your acceptance of the Company's offer, which is subject to the Supplemental Offer Letter Terms and Conditions, please sign this letter using DocuSign.

Sincerely,

DocuSigned by:
Nadir Ali
5E350B3FF7B1480...
6/20/2014

Nadir Ali
CEO – Sysorex

Accepted By:

DocuSigned by:
Craig Harper
0F5B0F9AC71040D...
6/20/2014

Craig Harper

Entire Agreement
Please understand that this does not constitute a contract of employment for any length of time.

Should you accept this offer, your employment will be on an at-will basis, meaning that the Company can terminate your employment or you can resign at any time with or without prior notice or cause.

Neither this letter nor the at-will nature of your employment may be modified except by a written agreement, signed by you and an authorized Company representative. The provisions of this letter are severable, and if any part of the letter is legally unenforceable, the other provisions shall remain fully valid and enforceable. The Offer Letter and Supplemental Offer Letter Terms and Conditions sets forth the entire agreement and understanding regarding the matters addressed herein and supersedes any and all previous agreements or understandings between you and the Company, whether written or oral (other than the Employee Handbook, a Confidentiality and Non-Solicitation Agreement, Arbitration Agreement, and other documents you may sign upon your hire). The Company reserves the right to alter or modify the terms and/or conditions of your employment on an at-will basis.

This is a W-4 classification of employment, meaning that taxes will be deducted from your paychecks, and you will receive a W-2 at the end of the tax year. At this time, the Company is not aware of any deductions that will be made from your pay.

Introductory Period
The first ninety (90) days of your employment is an introductory period. The Company will closely monitor your employment during this period. This is also your opportunity to determine whether your position suits you. In short, the introductory period is a mutual opportunity to assess one another.

Throughout the introductory period, the Company will assess your selection as an employee. Employees who fail to demonstrate the commitment, performance and attitude expected by the Company may be terminated at any time during the introductory period. However, completion of the introductory period does not change or alter the at-will employment relationship. You continue to have the right to terminate your employment at any time, with or without notice, and the Company has a similar right.

Salary
Base salary will be paid semimonthly (twice per month; on the 15th and end of month).

Lilien Profitability Bonus
Please note that the Lilien Profitability Bonus amounts are not stackable. In addition, Lilien Systems reserves the right to adjust the quarterly goals and bonus amounts in its discretion, on written notice to you.

Lilien Profitability Bonus is payable within 60 days following the end of the calendar quarter – for example, Q1 (Jan-Mar) Compensation will be paid by the end of May. This compensation will not be prorated for a partial quarter of employment – if you leave Lilien Systems for any reason, mid-

quarter, you will not receive any portion of the Lilien Profitability Bonus for that quarter. You must be employed in good standing (including compliance with all company policies including up to date expense reports) by Lilien Systems at the time Lilien Profitability Bonus is paid in order to be eligible to receive it.

Sysorex Gross Profit Bonus
Please note that the Sysorex Gross Profit Bonus amounts are not stackable. In addition, Lilien Systems reserves the right to adjust the quarterly goals and bonus amounts in its discretion, on written notice to you.

Sysorex Gross Profit Bonus Bonus is payable within 60 days following the end of the calendar quarter – for example, Q1 (Jan-Mar) Compensation will be paid by the end of May. This compensation will not be prorated for a partial quarter of employment – if you leave Lilien Systems for any reason, mid-quarter, you will not receive any portion of the Sysorex Gross Profit Bonus for that quarter. You must be employed in good standing (including compliance with all company policies including up to date expense reports) by Lilien Systems at the time Sysorex Gross Profit Bonus is paid in order to be eligible to receive it.

Quarterly Sales Commission
Lilien Systems reserves the right to adjust your Quarterly Sales Commission goals and rates on written notice to you. Quarterly Sales Commission is payable within 60 days following the end of the calendar quarter – for example, Q1 (Jan-Mar) Commission will be paid by the end of May. This Quarterly Sales Commission will not be prorated for a partial quarter of employment – if you leave Lilien Systems for any reason, mid-quarter, you will not be eligible for any portion of the Quarterly Sales Commission for that quarter. In addition, Lilien Systems reserves the right to adjust the quarterly goals and commission rates in its discretion, on written notice to you.

Auto Allowance
In order to receive auto allowance you must have a valid driver's license, a vehicle in good working order, and proof of insurance. If any of these conditions are not met (including your vehicle being inoperable for more than ten days) you must notify your supervisor and human resources immediately. Failure to meet these conditions will result in suspension of auto allowance payments.

Performance Reviews
Your performance will be reviewed periodically, with your first formal review approximately one year after hire, and you will have a formal performance and salary review each year on or about the anniversary of your original hire. This assumes of course that you remain with the Company for that length of time. As stated above, you are and will remain an at-will employee.

Standard Benefits
You will be eligible for all the benefits Lilien Systems normally provides to its full-time employees, including health insurance, long-term disability insurance, a retirement plan and paid vacation. These benefits are outlined in the Employee Handbook, a copy of which will be provided to you.

Health Benefits and Insurance

Lilien Systems belongs to a Professional Employer Organization (PEO). The health insurance plans include Aetna and Kaiser Permanente (HMO, PPO and HSA-Compatible plans available). The company will pay 100% of the employee's individual monthly health insurance premium for a selected plan from each carrier. The company does not pay for spouse or family coverage.

Premiums above the employee's base premium are deducted from employee paychecks, but can be deducted on a pre-tax basis through our Section 125 Premium Only Plan. The Section 125 Flexible Spending Account Plan is offered through ADP (reimbursement of qualified out-of-pocket medical, dental and vision expenses, as well as dependent care expenses). You become eligible to enroll in the health insurance and Section 125 Plan effective the first day of the month following your hire date. The company pays for long-term disability insurance coverage for you in full.

Retirement Plan
We also have a 401(k) plan, allowing you to invest up to 15% of your annual compensation into a retirement account (up to the limit allowed by Federal law, which is $17,500 for 2014). There is a 90-day waiting period to enroll in the 401(k) plan.

Documentation
As a condition of employment, you will be required to sign the Employee Proprietary Information and Inventions Agreement, which will apply during your employment with the Company and thereafter. We also request that you sign the Mutual Agreement to Arbitrate Claims. These Agreements will be provided for your review. Upon acceptance of this offer of employment, the Agreements must be signed in the presence of, and witnessed by your hiring manager or an officer of the Company.

For purposes of federal immigration law, you will be required to provide the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided within three (3) business days of your date of hire, or our employment relationship with you may be terminated. Likewise, this offer is subject to revocation subject to the discovery of any substantive misrepresentation which may be discovered upon investigation of references, employment history, etc. In the event of any dispute or claim relating to or arising out of our employment relationship, you and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in Marin County, California.

Acknowledged by:

DocuSigned by:
Craig Harper
0F5B0F9AC71040D...

6/20/2014

Craig Harper

SYSOREX

Bret:

This letter confirms the terms of your compensation plan effective January 1, 2016. Your compensation will be broken into eight distinct categories: Base Salary, Quarterly Sales Commission, Quarterly PSG Bonus, Quarterly Gross Profit % Bonus, Quarterly Revenue Bonus, Quarterly Shoom Revenue Bonus, and Quarterly SGS Revenue Bonus. The Company reserves the right to modify the terms of this compensation plan at any time upon written notice to you. This is not a guarantee that your salary or compensation will remain the same or increase at any time.

Base Salary

Your base salary is $180,000 per year, payable semi-monthly (twice per month; on the 15th and end of month).

Quarterly Sales Commission

Your Quarterly Sales Commission plan covers Gross Profit for all products and services, with the exception of AirPatrol, Shoom and Lightminer, sold by all Sysorex USA Enterprise Account Managers (EAMs). Your Quarterly Gross Profit goals is $3,500,000. Gross Profit is recognized upon Sysorex USA invoicing the customer. Your Quarterly Commission rates are:

% of Lilien Gross Profit Goal	Quarterly Sales Commission Rate (on Gross Profit)
< 80%	0.00%
80%	1.00%
100%	1.25%
115%	1.50%
130%	2.00%

In addition, you will receive commission on all sales/net revenue for AirPatrol and Lightminer products sold by all Sysorex USA Enterprise Account Managers (EAMs). Your quota for 2016 includes $10,000,000 in AirPatrol net revenues and $3,000,000 in Lightminer net revenues. The commission rates are based on the discount from established list prices and are as follows:

Discount Level	% of net revenues	Product Lines	Territory
0-19%	2.00%	AirPatrol, and Lightminer	All Sysorex USA EAMs
20-29%	1.00%		
30-39%	0.66%		
40%	0.50%		
40% +	0.33%		

Sysorex reserves the right to adjust your Quarterly Sales Commission goals and rates on written notice to you. Quarterly Sales Commission is payable within 60 days following the end of the calendar quarter – for example, Q1 (Jan-Mar) Commission will be paid by the end of May. This Quarterly Sales Commission will not be prorated for a partial quarter of employment – if you leave Sysorex for any reason, mid-quarter, you will not be eligible for any portion of the Quarterly Sales Commission for that quarter. In addition, Sysorex reserves the right to adjust the quarterly goals and commission rates in its discretion, on written notice to you.

Should you reach 100% of your Annual Gross Profit Goal (the sum of your Quarterly Gross Profit goals), any Quarterly Sales Commissions (for that year) that were below that level will be retroactively uplifted to the 100% Quarterly Sales Commission Rate (currently 1.80%) less any recoverable draws or paid bonuses.

Quarterly PSG Bonus

Your Quarterly PSG Bonus covers all Sysorex USA branded services delivered by our Professional Services Group (or our subcontractors) that are sold by all EAMs. Your bonus will be based on the actual customer sale price of the services. In order for a project to qualify for this bonus it must be invoiced. Your Quarterly PSG Goals for 2016 are as follows:

Quarter	Lilien PSG Goal	Product Lines	Territory
2015 Q1	$1,750,000	All Lilien Systems Branded Professional Services	All Lilien Systems EAMs
2015 Q2	$1,750,000		
2015 Q3	$1,750,000		
2015 Q4	$1,750,000		

Your Quarterly PSG Bonus amounts are as follows:

% of Lilien PSG Goal	Quarterly PSG Bonus
< 80%	$0
80%	$6,000
100%	$18,000
115%	$24,000
130%	$30,000

Please note that the quarterly bonus amounts are not stackable. Sysorex reserves the right to adjust the quarterly goals and bonus amounts at its discretion upon written notice to you.

Quarterly Gross Profit % Bonus

Your Quarterly Gross Profit % Bonus covers all Sysorex USA products and services. Your bonus will be based on achieving some level of Quarterly Sales Commission and/or Quarterly PSG Bonus, as

applicable, greater than zero. The following amounts will be payable for each product or service based on the below:

For aggregate sales invoiced in the period related to the HW/SW reseller business:

Gross Profit %	Quarterly Bonus Amount
< 17.00%	$0
17.00%-17.99%	$2,000
18.00%-18.99%	$3,000
19.00%-19.99%	$4,000
20.00%-20.99%	$6,000
21.00%+	$8,000

For aggregate sales invoiced in the period related to services (PSG):

Gross Profit %	Quarterly Bonus Amount
< 38.00%	$0
38.00%-39.99%	$2,000
40.00%-41.99%	$3,000
42.00%-43.99%	$4,000
44.00%-45.99%	$6,000
46.00%+	$8,000

For aggregate sales invoiced in the period related to the sales of AirPatrol and Lightminer products:

Quarterly Gross Profit %	% of net Revenues
70% +	0.25%

Sysorex reserves the right to adjust your Quarterly Gross Profit % goals and rates on written notice to you. Quarterly Gross Profit bonus is payable within 60 days following the end of the calendar quarter – for example, Q1 (Jan-Mar) Bonus will be paid by the end of May. This Quarterly Gross Profit % bonus will not be prorated for a partial quarter of employment – if you leave Sysorex for any reason, mid-quarter, you will not be eligible for any portion of the Quarterly Gross Profit % Bonus for that quarter. In addition, Sysorex reserves the right to adjust the quarterly goals and rates in its discretion, on written notice to you.

Quarterly Revenue Bonus

Your Quarterly Revenue Bonus is based upon Sysorex USA's Net Revenues (excluding Shoom and SGS) as reported on the Company's Financial Statements.

Quarterly Net Revenue	Quarterly Bonus Amount
$19,750,000	$10,000

Sysorex reserves the right to adjust the quarterly goals and bonus amounts at its discretion upon written notice to you.

Quarterly Shoom Revenue Bonus

Your Quarterly Shoom Revenue Bonus is based upon the Shoom's Net Revenues as reported on the Company's Financial Statements.

Shoom Quarterly Net Revenue	Quarterly Bonus Amount
$1,000,000	$5,000

Sysorex reserves the right to adjust the quarterly goals and bonus amounts at its discretion upon written notice to you.

Quarterly Sysorex Government Services Revenue Bonus

Your Quarterly Sysorex Government Services (SGS) Revenue Bonus is based upon the Sysorex USA's Net Revenues as reported on the Company's Financial Statements. For 2016 the quarterly Net Revenue Goal for SGS is $750,000.

% of SGS Revenue Goal	Quarterly Bonus
< 80%	$0
80%	$2,100
100%	$6,300
115%	$8,400
130%	$10,500

Sysorex reserves the right to adjust the quarterly goals and bonus amounts at its discretion upon written notice to you.

Recoverable Draw

We will pay you $10,000 per month as a recoverable draw against current and future Quarterly Sales Commission, Quarterly PSG Bonus, and Quarterly Gross Profit % Bonus for this year.

Bonus Eligibility

Quarterly Commissions and Bonuses are payable within 60 days following the end of the calendar quarter – for example, Q1 Bonus (Jan - Mar) will be paid by the end of May. These bonuses will not be prorated for a partial calendar quarter of employment – if you leave Sysorex for any reason, mid-quarter, you will not receive any portion of any Quarterly Commission or Bonus for that quarter.

In order to be eligible to receive any commissions or bonuses, the following conditions must be met:

- You must be compliant with the current Sysorex USA Timesheet Policy
- You must be compliant with the current Sysorex USA Employee Expense Policy
- You must be actively employed by Sysorex at the time any bonuses are paid in order to be eligible to receive them.

Auto Allowance

Auto allowance is $585.00 per month, payable $292.50 semi-monthly. In order to receive auto allowance you must have a valid driver's license, a vehicle in good working order, and proof of insurance. If any of these conditions are not met (including your vehicle being inoperable for more than ten days) you must notify your supervisor and human resources immediately. Failure to meet these conditions will result in suspension of auto allowance payments.

Expected Earnings

Here are your Expected Earnings under this compensation plan:

Compensation / Benefit	Baseline	On Target Earnings	130% of Goal
Base Salary	$180,000	$180,000	$180,000
Commission Draw	$120,000	$0	$0
Quarterly Sales Commission - Resale	$0	$175,000	$364,000
Quarterly Sales Commission – AP/LMA	$0	$85,800	$111,540
Quarterly PSG Bonus	$0	$72,000	$120,000
Quarterly Gross Profit % Bonus	$0	$64,500	$106,250
Quarterly Revenue Bonus	$0	$40,000	$40,000
Quarterly Shoom Revenue Bonus	$0	$20,000	$20,000
Quarterly SGS Revenue Bonus	$0	$25,200	$42,000
Auto Allowance	$7,020	$7,020	$7,020
Total Annual Compensation	**$307,020**	**$669,520**	**$990,810**

Please contact me if you have any questions about this plan.

We truly value you as a member of our team and look forward to a long mutually prosperous relationship.

Acknowledged and agreed,

DocuSigned by:
Nadir Ali
D2F2F099FFE94CD...

Nadir Ali
CEO

DocuSigned by:
Bret Osborn
D4B4CECEE1644B...

Bret Osborn 6/7/2016
Date

Exhibit 21

INPIXON

List of Subsidiaries

Name of Subsidiary	State of Jurisdiction of Incorporation	Fictitious Name (if any)
Inpixon USA	California	None
Inpixon Federal, Inc.	Virginia	None
Inpixon Canada, Inc.	Canada	None
Sysorex Arabia LLC	Saudi Arabia	None

Exhibit 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Inpixon on Form S-8 [FILE NO. 333-216295], Form S-8 [FILE NO. 333-195655] and Form S-3 [FILE NO. 333-204159] of our report dated April 17, 2017, which includes an explanatory paragraph as to the Company's ability to continue as a going concern, with respect to our audits of the consolidated financial statements of Inpixon and Subsidiaries (formerly known as Sysorex Global and Subsidiaries) as of December 31, 2016 and 2015 and for the years ended December 31, 2016 and 2015, which report is included in this Annual Report on Form 10-K of Inpixon for the year ended December 31, 2016.

/s/ Marcum llp

Marcum llp
New York, NY
April 17, 2017

Exhibit 24.1

INPIXON
ANNUAL REPORT ON FORM 10-K
POWER OF ATTORNEY

Each undersigned officer and/or director of Inpixon, *f/k/a* Sysorex Global, a Nevada corporation (the "Company"), does hereby make, constitute and appoint Nadir Ali, Chief Executive Officer of the Company, and Kevin Harris, Chief Financial Officer of the Company, and any other person holding the position of Chief Executive Officer or Chief Financial Officer of the Company from time to time, or any one of them and each acting alone, as attorney-in-fact and agent of the undersigned, each with full power of substitution and resubstitution, with the full power to execute, on behalf of the undersigned and to file with the Securities and Exchange Commission in accordance with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder:

(i) the Annual Report on Form 10-K (the "Form 10-K") with respect to the fiscal year ended December 31, 2016;

(ii) any and all amendments and exhibits to the Form 10-K, including this power of attorney; and

(iii) any and all other documents to be filed with the Securities and Exchange Commission or any state securities commission or other regulatory authority, including any applicable securities exchange or securities self-regulatory body, with respect to the Form 10-K,

with full power and authority to do and perform any and all acts and things whatsoever necessary, appropriate or desirable to be done in the premises, or in the name, place and stead of the said director and/or officer, hereby ratifying and approving the acts of said attorney.

[Signature page follows]

IN WITNESS WHEREOF, the undersigned have subscribed to the above as of April 17, 2017.

Signature	Title
/s/ Nadir Ali Nadir Ali	CEO (Principal Executive Officer) and Director
/s/ Kevin R. Harris Kevin R. Harris	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Len Oppenheim Len Oppenheim	Director
/s/ Kareem Irfan Kareem Irfan	Director
/s/ Tanveer Khader Tanveer Khader	Director

Exhibit 31.1

CERTIFICATION

I, Nadir Ali, certify that:

1. I have reviewed this Annual Report on Form 10-K of Inpixon;

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 15-d-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 any consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   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; and

   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: April 17, 2017

/s/ Nadir Ali
Nadir Ali
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Kevin R. Harris, certify that:

1. I have reviewed this Annual Report on Form 10-K of Inpixon;

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 15-d-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 any consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   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; and

   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: April 17, 2017

/s/ Kevin R. Harris
Kevin R. Harris
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION

In connection with the Annual Report of Inpixon (the "Company") on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), we, Nadir Ali, Chief Executive Officer (Principal Executive Officer) and Kevin R. Harris, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: April 17, 2017

/s/ Nadir Ali
Nadir Ali
Chief Executive Officer
(Principal Executive Officer)

/s/ Kevin R. Harris
Kevin R. Harris
Chief Financial Officer
(Principal Financial and Accounting Officer)